

Introduction to the Company

Dialog Telekom PLC operates Sri Lanka's largest and fastest growing mobile telecommunications network - Dialog GSM. The company is also the largest listed company on the Colombo Stock Exchange in terms of market capitalisation (USD 1.62 Bn. as of 31 December 2007), representing 20 per cent of the market capitalisation of the Colombo Stock Exchange.

Dialog Telekom PLC is a subsidiary of the Telekom Malaysia International SDN BHD. Dialog has spear-headed 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 2.5G, 3G and 3.5G mobile services, supporting the very latest in multimedia and mobile internet services as well as international roaming in over 190 countries. Dialog Telekom accounts for approximately 57 per cent of mobile subscribers in Sri Lanka and for 45 per cent of the telecommunications sector overall.

In addition to its core mobile telephony business, the Company operates a wide portfolio of international telecommunications services, including but not limited to retail and wholesale international voice and data services, based on leading edge International Gateway Infrastructure. The Company is also a provider of internet services through Dialog Internet – a fully-fledged Internet Service Provider. Dialog Telekom also operates Dialog SAT, a mobile satellite service.

Dialog Broadband Networks Pvt Ltd (DBN) is a fully owned subsidiary of Dialog Telekom PLC, and is a key player in Sri Lanka's ICT infrastructure sector, providing backbone and transmission infrastructure facilities and data communication services. Dialog Broadband also operates a fixed wireless telephony service based on CDMA technology. DBN was also the first service provider to introduce high-speed broadband internet to Sri Lanka based on WiMAX technology.

Dialog Television (Private) Limited, a subsidiary of Dialog Telekom PLC, operates Dialog Satellite TV, a Direct to Home (DTH) Digital Satellite TV service. Dialog TV supports a broad array of international and local content including CNN, BBC, HBO, Cinemax, AXN, ESPN, Ten Sports, Discovery Channel, MTV (Music Television) and Cartoon Network and a wide portfolio of Sri Lankan television channels.



A thin green line starts at the top left, goes right, then down, then right again, framing the top and left sides of the page.

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 the team spirit.



Dialog
TELEKOM



CONTENTS

Corporate Information	01	Group Management Team	11
Board of Directors	02	Message from the Chairman	14
Milestones in 2007	03	Group Chief Executive's Review of Operations	17
Achievements and Recognition	04	Business Review	23
Profile of Board of Directors	05	Corporate Responsibility	40
Group Senior Management	09	Management Discussion & Analysis	65



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

CORPORATE

Statement of Corporate Governance	86	Five Year Summary	147
Report of the Audit Committee	93	Sri Lanka – An Economic Overview	148
Enterprise Risk Management	98	Notice of Annual General Meeting	149
Financial Statements	102	Form of Proxy	150
US Dollar Financial Statements	144		
Group Value Added Statement	146		

VALUES



Corporate Information

NAME OF COMPANY

Dialog Telekom PLC

COMPANY REGISTRATION NO.

PQ 38

LEGAL FORM

A public quoted company with limited liability. Incorporated as a private limited liability company on 27 August 1993 and subsequently converted to a public limited liability company on 26 May 2005. Listed on the Colombo Stock Exchange in July 2005.

STOCK EXCHANGE LISTING

Ordinary Shares of the Company listed on the Colombo Stock Exchange of Sri Lanka

BOARD OF DIRECTORS

- Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor - Chairman
- Dr. Shridhir Sariputta Hansa Wijayasuriya – Group Chief Executive Officer
- Ir. Prabahar N.K. Singam
- Mr. Moksevi Rasingh Prelis
- Dato' Yusof Annuar bin Yaacob
- Dato' Sri Mohammed Shazalli bin Ramly
- Mr. Mohamed Vazir Muhsin
- Mr. Jayantha Dhanapala

AUDIT COMMITTEE

Mr. Moksevi Rasingh Prelis - Chairman

Ir. Prabahar N.K. Singam

Dato' Yusof Annuar bin Yaacob

Mr. Mohamed Vazir Muhsin

Dato' Lim Kheng Guan (Resigned w.e.f. 31 December 2007)

Mr. Jayantha Dhanapala (Appointed w.e.f. 06 February 2008)

NOMINATING & REMUNERATION COMMITTEE

Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor - Chairman

Ir. Prabahar N.K. Singam

Mr. Moksevi Rasingh Prelis

COMPANY SECRETARY

Mrs. Anoja J. Obeyesekere

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place,
Colombo 02,
Sri Lanka.

BANKERS

Bank of Ceylon
Citibank, N.A.
Commercial Bank of Ceylon PLC
Deutsche Bank AG
DFCC Bank
Hatton National Bank PLC
Hong Kong & Shanghai Banking Corporation Limited
Indian Overseas Bank
NDB Bank
Nations Trust Bank PLC
Pan Asia Banking Corporation PLC
People's Bank
Public Bank Berhad
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank
Union Bank of Colombo Ltd.

REGISTERED ADDRESS

475, Union Place
Colombo 02,
Sri Lanka.

Telephone : +94777 678700
+94112678700

Website : www.dialogtelekom.com

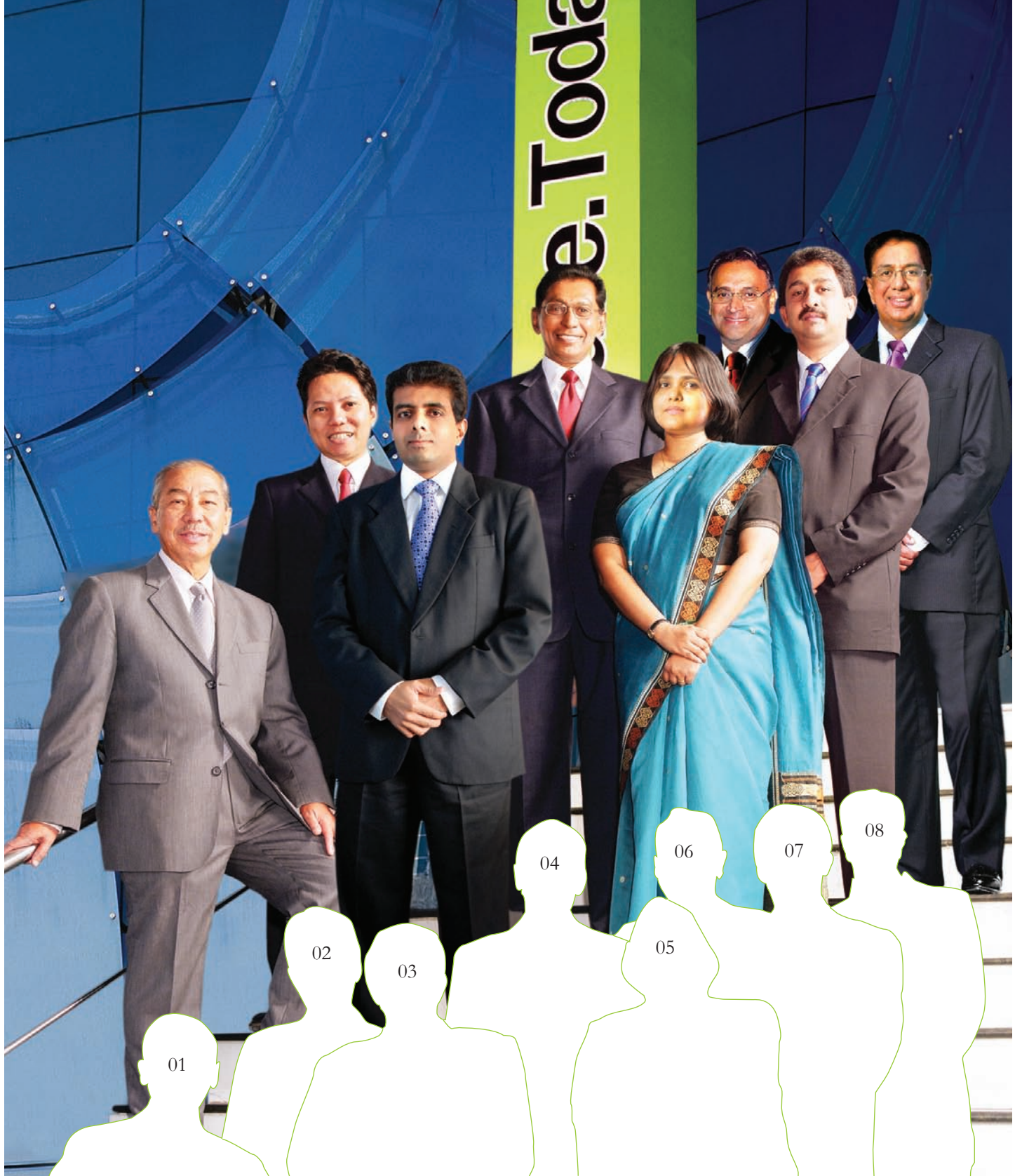
INVESTOR RELATIONS

Telephone : +94777 081304
E-mail : ir@dialog.lk

SHAREHOLDER SERVICES

Group Corporate Services
Dialog Telekom PLC
No. 475, Union Place,
Colombo 2, Sri Lanka.

Telephone : +94773908929, +94777 081471
Fax : +94112690229
E-mail : cosecunit@dialog.lk



BOARD OF DIRECTORS

- 01 **Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor** (Chairman)
- 02 **Dato' Yusof Annuar bin Yaacob**
- 03 **Dr. Shridhir Sariputta Hansa Wijayasuriya** (Group Chief Executive)
- 04 **Mr. Moksevi Rasingh Prelis**
- 05 **Mrs. Anoja Obeyesekere** (Company Secretary)
- 06 **Mr. Jayantha Dhanapala**
- 07 **Ir. Prabahar s/o Nagalingam Kirupalasingam**
- 08 **Mr. Mohaned Vazir Muhsin**
- * **Dato' Sri Mohammed Shazalli bin Ramly** (Not pictured)

Milestones in 2007

(JANUARY) DIALOG TELEKOM APPOINTED TO THE SRI LANKA STEERING COMMITTEE OF THE UN GLOBAL COMPACT

In 2007 Dialog Telekom was appointed to the Sri Lanka Steering Committee to drive and champion the UN Global Compact principles within Sri Lanka's Corporate Sector. The Company was also awarded membership of the UN Global Compact – the worlds largest CR network with 4,400 organisations, in 2006.

(FEBRUARY) LAUNCH OF DIALOG SATELLITE TV LAUNCHED

Dialog Television Pvt Ltd (a subsidiary of Dialog Telekom PLC), launched Dialog Satellite TV - a Direct to Home satellite-based pay television service in February 2007. Dialog Satellite TV features world class entertainment and a wide spectrum of channels with a special focus on News, Entertainment and Knowledge-based programming.

(MAY) RIGHTS ISSUE

Dialog Telekom successfully executed Sri Lanka's largest ever Rights Issue of Rs. 15.5 billion in May 2007. The Dialog rights issue represented the single largest equity raising exercise to be executed on the Sri Lankan capital market.

(JUNE) DIALOG AND BOI ENTER INTO INVESTMENT AGREEMENT

Dialog Telekom entered into a landmark investment agreement with the Board of Investment of Sri Lanka (BoI) to invest a further Rs. 33 Billion (USD 300 Million) in the country's Telecommunications and Media sectors within the next 2 years. With this agreement, Dialog's total commitment to the Telco sector in Sri Lanka totals USD 800 Million.

(JULY) FIXED LINE TELEPHONY

Commencement of fixed Telephony Services In July 2007 Dialog Broadband Networks launched its fixed line operations based on CDMA WLL technology. With its entrance into the fixed line sector, the Dialog Telekom Group secured the position of being a 'total' connectivity solution provider, encompassing the multiple dimensions of mobile and fixed telephony, broadband and media.

(AUGUST) M-COMMERCE INITIATIVE

Dialog Telekom, together with NDB Bank, unveiled eZ Pay, South Asia's first mCommerce (Mobile Commerce) initiative in August 2007. eZpay is a revolutionary service that allows consumers to purchase goods, pay bills, transfer money and perform banking transactions via their mobile phones.

(SEPTEMBER) BPO OPERATIONS

Dialog Telekom announced its entry in to the sphere of Business Process Outsourcing services with the launch of Dialog ECM. Dialog ECM (Enterprise Contact Management) is based on Sri Lanka's largest and most modern multi modal contact centre, operated by Dialog Telekom PLC.

(OCTOBER) A DECADE OF ROAMING

Dialog Telekom, the pioneer in International Roaming in the South Asian region, celebrated ten years of roaming excellence in October 2007. Over a decade, the company has created one of the most comprehensive roaming services in the region encompassing over 200 countries and destinations, 400 partner operators, 206 Data Roaming partners and 43 3G Roaming partners.

(OCTOBER) 4 MILLION SUBSCRIBERS

Dialog Telekom PLC surpassed the milestone of 4 million subscribers in October 2007 further strengthening its market position as the undisputed leader in the telecommunications industry in Sri Lanka.

(OCTOBER) PREFERENCE SHARE ISSUE

Dialog Telekom successfully executed the country's largest ever preference share issue drawing the support of several major banks and finance institutions in Sri Lanka. The preference share issue raised Rs. 5 billion towards infrastructure investments of the company.

(NOVEMBER) LAUNCH OF WIMAX SERVICE

Dialog Broadband Networks became the first operator in Sri Lanka to introduce WiMAX based Broadband Wireless Access services in November 2007.

(DECEMBER) 75TH CUSTOMER SERVICE POINT

In December 2007, Dialog Telekom unveiled its 63rd franchise service point at Kotahena.

(DECEMBER) 1000TH BASE STATION

Dialog Telekom unveiled its 1000th base station at Yodakandiya in the Southern Province of Sri Lanka. The largest and fastest growing cellular network in the country, Dialog Telekom's domestic coverage spans all provinces of Sri Lanka.

Achievements and Recognition



COMMENDATION - GSM WORLD AWARDS 2007

Dialog Telekom together with technology partners Microimage, and the Dialog - University of Moratuwa Mobile Communications Research Laboratory, received a commendation at the GSM World Awards 2007 held in Barcelona, for the 'Best Use of Mobile for Social & Economic Development'. The commendation was received for GSM based Disaster and Emergency Warning Network (DEWN).

APCSC CUSTOMER RELATIONSHIP EXCELLENCE AWARD

Dialog Telekom was adjudged the Winner of the Asia Pacific Customer Service Consortium (APCSC) "Outstanding Achievement Award" at the Customer Relationship Excellence (CRE) awards held in Hong Kong. Dialog Telekom became the first Telecommunications Operator in South Asia to receive this Asia Pacific wide recognition for excellence in Customer Service and Relationship Management.



GOLD AWARD - INNOVATIVE TECHNOLOGY OF THE YEAR AT APCSC CUSTOMER RELATIONSHIP AWARDS

Dialog Telekom received international recognition for pioneering and operating the "e channeling via mobile" service in Sri Lanka in association with eChannelling Limited. The solution was adjudged the winner in the Innovative Technology of the Year category at the prestigious Customer Relationship Excellence (CRE) Awards held in Hong Kong.

BUSINESS TODAY TOP 10

Dialog Telekom was placed No 3 in the Business Today Top 10 for 2005-2006. The Business Today Top 10 ranks listed companies based on metrics derived from financial performance and growth indicators.



DIALOG TELEKOM CO-WINNER OF BEST OPERATING COMPANY AT TM GROUP AWARDS 2006

Dialog Telekom was the joint winner of the coveted Best Operating Company Award at the TM Group Awards 2006 .

LMD MOST RESPECTED ENTITIES IN SRI LANKA

Dialog Telekom was ranked No. 2 in the 2007 line up of the 'Most Respected' entities in Sri Lanka. The ranking is derived from a focused research exercise with respondents being drawn from the readership of the LMD (Lanka Monthly Digest).



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 (TM) and also the Chairman of Celcom (Malaysia) Berhad, a wholly owned company of TM.

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 December 1986, and upon the corporatisation of the Department, he served TM from January 1987 until July 1996 as a Senior Member of 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) 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 Co-Chairman of Malaysia Industry Government Group on High Technology (MIGHT) and Board Member of Multimedia Development Corporation (MDeC)



DR. SHRIDHIR SARIPUTTA HANSA WIJAYASURIYA

Group 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.

DATO' YUSOF ANNUAR BINYAACOB

Non-Independent, Non-Executive Director

Appointed to the Board of Dialog Telekom on 9 September 2005, Dato' Yusof Annuar is currently the Chief Executive Officer of TM International Berhad and a member of the Board of Celcom (Malaysia) Berhad, both wholly owned companies of Telekom Malaysia Berhad. Dato' 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, Dato' Yusof joined ING Barings Securities in Singapore on the Equity Sales and Trading desk. He joined Merrill Lynch & Co. (Singapore) in 1997. Before joining TM International Berhad, he was an Executive Director of OCB Berhad and a number of other public listed companies in Malaysia. He presently serves as a member of the Board of several public listed international subsidiaries of the TM Group, which includes PT Excelcomindo Pratama Tbk., Spice Communications Limited, MobileOne Limited, Samart Corporation Public Company Limited and Samart I-Mobile Public Company Limited.



DATO' SRI MOHAMMED SHAZALLI BIN RAMLY

Non-Independent, Non-Executive Director

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

Dato' Sri 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 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 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).

Dato' Sri Shazalli currently serves as a member of the Board of several companies, which includes C-Mobile Sdn Bhd, Celcom Mobile Sdn Bhd, Technology Resources Industries Berhad and TM Cellular Holdings Sdn Bhd.



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.

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. MOHAMEDVAZIR 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.



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.



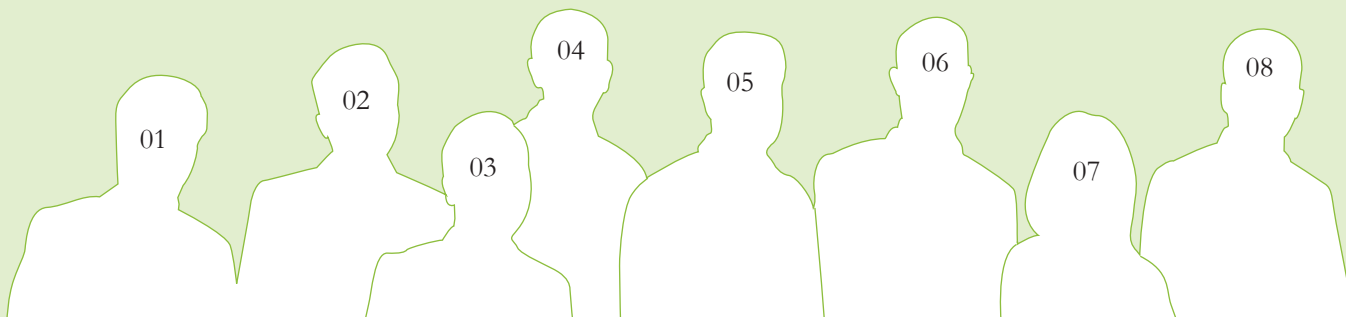
MR. JAYANTHA DHANAPALA

Independent, Non-Executive Director

Appointed to the Board of Dialog Telekom on 3 August 2007, Mr. Dhanapala was a career diplomat in the Sri Lanka Foreign Service and the United Nations (“UN”). He was Ambassador of Sri Lanka and Permanent Representative to the UN in Geneva (1984-87), Ambassador of Sri Lanka to the USA (1995-97) and UN Under-Secretary-General (1998-2003). The current Chairman of the UN University Council, he sits on the Governing Board of the Stockholm International Peace Research Institute and other international institutes. Mr. Dhanapala was named ‘Sri Lankan of the Year 2006’ by Sri Lanka’s premier business magazine, the Lanka Monthly Digest (LMD).

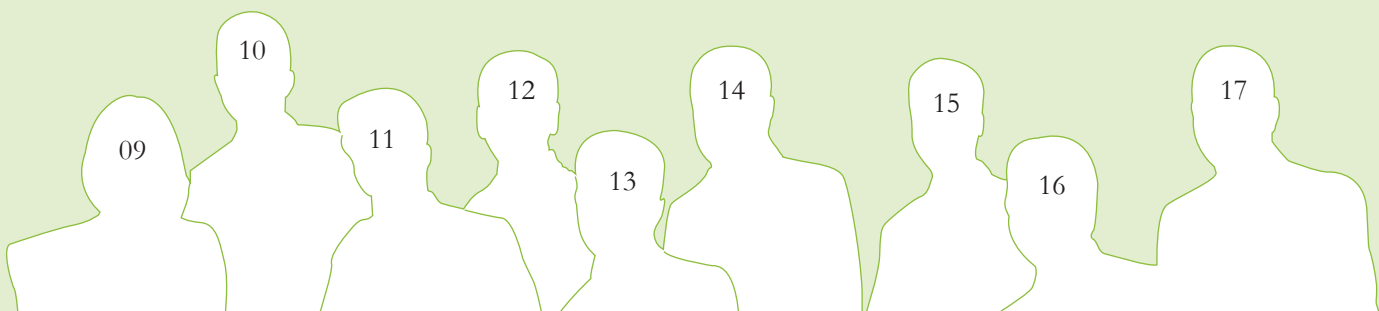
Mr. Dhanapala was awarded a Bachelor of Arts (Honours) degree majoring in English Literature with French from the University of Peradeniya Sri Lanka, and a Master of Arts degree in International Studies from the American University in Washington. Mr. Dhanapala holds the degree of Doctor of Letters (honoris causa) from the Universities of Peradeniya and Sabaragamuwa Sri Lanka, and an honorary degree of Doctor of Humane Letters from the Monterey Institute of International Studies. He was also awarded an honorary degree of Doctor of Sciences from the University of Southampton UK.

Group Senior Management



GROUP SENIOR MANAGEMENT

01	Mr. Lalith Fernando	-	Group Chief Internal Auditor
02	Mr. Chaminda Ranasinghe	-	Group Senior Vice President - Information Technology & Charging Systems
03	Mr. Mothilal De Silva	-	Group Chief Corporate Officer
04	Mr. Shayam Majeed	-	Group Senior Vice President - Access Networks & Technology Resource Planning
05	Mr. Ranjeewa Kulatunga	-	Group Senior Vice President - Human Resources & Facilities Management
06	Mr. Upali Gajanaike	-	Chief Executive Officer – Dialog Tele-Infrastructure
07	Ms. Sandra De Zoysa	-	Group Senior Vice President - Service Delivery & Enterprise Contact Management
08	Mr. Nushad Perera	-	Group Chief Marketing Officer & Chief Executive Officer - Dialog TV



09	Ms. Anoja Obeyesekere	- Group Chief Legal Officer & Chief Executive Officer - Dialog Global
10	Mr. Supun Weerasinghe	- Chief Operating Officer - Dialog Mobile
11	Mr. Pradeep de Almeida	- Group Senior Vice President - Network Operations, Core Networks & New Technology
12	Mr. Vajira Jayasinghe	- Chief Technology Officer – DBN
13	Mr. Wan Zaidan Wan Mahyudin	- Group Chief Financial Officer
14	Mr. Mohan Villavarayan	- Chief Financial Officer - DBN & Chief Operating Officer - Fixed Telephony & Data Services
15	Mr. Thivanka Rangala	- Group Senior Vice President - Commercial & Investor Relations
16	Mr. Mohd Rosman Mat Ali	- Group Chief Technology Officer
17	Mr. Kavan Ratnayaka	- Chief Executive Officer – Dialog Broadband Networks

Dialog Telekom PLC

Group Management Team



Viraj Devapriya B.Sc. Eng.
Senior General Manager - Engineering
Dialog Tele-Infrastructures



Udaya De Silva B.Sc. Eng.
Senior General Manager Networks
Dialog Fixed Telephony and Data Services



Shahey Faleel MIMS, MBA
Senior General Manager - Sales



Chaminda Hewamallika IMCIM
Senior General Manager - Group Marketing
Channels and Publication Services



Lalith Imbulana B.Sc. Eng.
Senior General Manager - Group Core Networks
and New Technology



Pradeep Keerthiratne ACIM
Senior General Manager - Distribution Services



Zarina Rahim
Chief Corporate Liaison / Senior General Manager
Group Key Client Services



Jude Tissera CIM, MBA
Senior General Manager Retail and Channel Sales
Fixed Telephony and Broadband Services



Dharmakeerthi Eldeniya MBA
Lead Consultant - Group Network
Development Services



Dinesh Arunatileka MBA
Head of Marketing
Fixed Telephony & Broadband Services



Ramanan Devid MBA
General Manager - Group Key
Accounts and Market Development



Rifcky Jabbar MBA
General Manager - Group Core Network
Development Services



Asela Perera B.Sc, MBA
General Manager - Group Charging Systems



Ahamed Shihan Sideek B.Sc. IT
General Manager - Group Access
Network Development Services



Indika Walpitage B.Sc. Eng, MBA
General Manager - Technical
Dialog Mobile



Bandara Attanayake B.Sc. Eng
Head of Engineering, Dialog TV



Muksalmina Bin Jaffar B.Sc.
Head of International Network Planning
and Operations - Dialog Global



Pradeep Durairaj M.Sc.
Head of Sales
Dialog TV

Dialog Telekom PLC Group Management Team

intro



Shanaka Goonatilake MBA
Head of Group Facilities and Project Management



Damian Hay Dip. Mgmt
Head of Group Billing and Revenue Fulfillment Services



Damith Hettihewa MBA
Head of Sales & Marketing Dialog Enterprise Solutions



Aruna Nair Karunaratne BA
Head of Enterprise Contact Management



Methsiri Kumara B.Sc Eng
Head of Converged Products & Services Dialog Fixed Telephony & Data Services

business



Chanaka Liyanage B.Sc Eng, MBA
Head of Broadband Wireless Access Dialog Fixed Telephony & Data Services



Hasrath Munasinghe MCIM, MBA
Head of Marketing Dialog Mobile



Shankari Paul ACMA
Head of Finance, Billing and Facilities Dialog TV



Leilamani Pereira MBA, ACMA
Head of Group Financial Accounting and Reporting



Navin Pieris MIS, MBA
Head of Commercial Dialog Global

responsibility



Chinthaka Premaratne
Head of Group Human Resource Development Services



Quaizaar Rehmanjee ACMA, ACIM
Head of Group Finance & Revenue Operations



Kapil Sharma
Head of Group Service Delivery Management & Front-line Service Delivery



Orville Symons
Head of Group Facilities and Support Services



Lasantha Theverapperuma ACA
Head of Finance - Dialog Mobile

discussion



Jey Vijayakumar MBA
Head of Group Business Control & Compliance Assurance



Shiran Weerakone
Head of Group Human Resources Operations Management



Apsara Wijayawardene B.Sc
Head of Group Supply Chain Management



Kumudu Wasantha B.Sc Eng
Head of Customer Operations - Fixed Telephony & Broadband Services



Nazly Yoosooof MBA
Head of Product Development Fixed Telephony & Broadband Services

governance



Ravi Abeysekere B.Sc Eng
Chief Manager - Mobile Commerce



Iqbal Cassim B.Sc Eng, MBA
Chief Manager - Group Access Planning



Indunil De Silva B.Sc Eng
Chief Manager - Packet Switch Planning and Operations - Dialog Mobile



Laksiri De Silva M.I.E.T
Chief Manager - Group Field Support Services



Nirusha Dissanayake B.Sc Eng
Chief Manager - Group ERP Services

financials

outro

Dialog Telekom PLC Management Team

intro

business

responsibility

discussion

governance

financials

outro



Samantha Epa B.Sc Eng, MIET
Chief Manager - Group Core Network Planning



Janak Fernando B.Sc Eng
Chief Manager - Access Network Operations



Chamila Fernando
Chief Manager - Transmission Operations



Yoshan Fernando ACMA, FSCMA
Chief Manager - Commercial Dialog Tele-Infrastructures



Trinesh Fernando Attorney-At-Law
Chief Manager - Group Legal Services



Gayantha Mendis B.Sc Eng, MBA
Chief Manager - Group IT Infrastructure Management



Balarathnarajah Mohankumar MBA
Chief Manager - Group Charging System Operations



Kulendran Nallathamby
Chief Manager - Marketing Channel Operations



Suresh Penumasta MBA, PMP
Chief Manager - Group Enterprise Programme Assurance and Reporting



P.G.R. Prasad B.Sc Eng
Chief Manager - Power System Operations



Ravi Sivasithamparam
Chief Manager - Corporate Sales Dialog Mobile



Zainul Abdeen B.Sc Mgmt
Senior Manager - Revenue Assurance Fixed Telephony & Broadband Services



Channa Amarasekara MBA,
Senior Manager Sales Dialog Enterprise Solutions



Lalith Chandra Dip. Eng
Senior Manager Site Acquisition Dialog Tele-Infrastructures



Dimuthu Cooray MBA, PMP
Senior Manager - Group Enterprise Programme Planning & Management



Michael De Soyoza MPhil (Envrn Mgmt)
Senior Manager - Group Public Policy & Corporate Responsibility



Chirantha de Zoysa B.Sc
Senior Manager - Group Marketing Promotions & Sports Marketing



Muditha Gunasekera B.Sc Eng
Senior Manager VAS Planning and Operations - Dialog Mobile



Navin Perera
Barrister at Law (Middle Temple), LLB
Senior Manager - Group Legal Strategy & Operations



Asanga Priyadarshana
B.Sc Eng, MIET, ACIM, ACMA, ACCA, PNA, MBA, PMP
Senior Manager - Group Corporate Planning, Performance Management and Business Consultancy



Shanaka Rabel ACMA, MBA
Senior Manager - Group IS Strategy and Business Intelligence



Dinesh Sattrukalsinghe MBA, MCS
Senior Manager - Group Learning & Development



Aroshan Seresinhe ACMA, ASCMA
Senior Manager - Corporate Planning Fixed Telephony & Broadband Services



Ravikeerthi Wellalage BCCS-BCMI
Senior Manager - Premises Management Services

Message from the Chairman

Staying on Top

It is indeed a pleasure to report another good year for Dialog, in what was also a significant period for the country's telecommunication sector. Dialog's core (mobile) business recorded a 37 per cent growth in subscribers, 27 per cent YoY revenue increase and delivered a 1 per cent increase in PAT YoY notwithstanding challenging macro-environmental conditions. Despite an 11 per cent drop in post-tax profits to Rs.8.97 billion at Group level post consolidation of subsidiary performance, we are pleased with the early stage performance of our nascent fixed line, broadband and television businesses. Overall, group revenue increased by 11% per cent to Rs.32.5 billion, and the Compounded Annual Growth Rate (CAGR) in revenue was up to 54 per cent. A further 1.1 million customers subscribed to Dialog in 2007, a clear demonstration of Sri Lankans' confidence in the Company. With a further tariff reduction implemented in the fourth quarter, Dialog's commitment to affordability enhancement has successfully driven national mobile penetration levels to 38 per cent per capita, while energising fixed, broadband and digital television markets through an aggressive entry in to the respective sectors.

Shareholders' Focus

The directors and I are pleased to propose a tax exempted final dividend of Rs.0.55 per share for 2007, subject to shareholders' approval. This represents a total dividend payout of Rs.4.48 billion or a dividend payout ratio of 44 per cent. Stated Capital grew by 161 per cent to Rs.33.1 billion as at 31 December, following the 1:10 rights issue and Rs.5 billion preference share issue in the second quarter. This was the largest ever equity investment raised by a public company and accounted for 36 per cent of the funds raised through the Colombo Stock Exchange (CSE) in 2007. Yet, Dialog's share price dipped 25 per cent

and underperformed the two main indices of the CSE on average, due largely to retail selling in a high interest rate scenario. We note that Dialog's market capitalisation dipped 25 per cent to Rs.163 billion, which nevertheless accounts for 20 per cent of total market capitalisation.



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

Beyond Mobile

Dialog's quadruple play strategy and its growing embodiment and success is a demonstration of the company's objective to empower and enrich Sri Lankans' lives through quality mobile, broadband internet, fixed-line telephony and digital television services. The company launched Dialog Satellite TV during Q1 2007, bringing with it Direct To Home pay television, based on DVB-S digital broadcasting infrastructure. As at December 2007, Dialog TV reached out to over 55,000 Sri Lankan homes. Dialog Broadband Networks introduced CDMA-based fixed line services under the Dialog brand name as well as high speed Broadband Wireless Access services using cutting-edge WiMAX technology. Innovative and contextual use of modern technology has consistently been Dialog's forte; Dialog has the distinction of being South Asia's first commercial 3G operator. The Company is consistent in its thrust to push the boundaries of its service portfolio and recently introduced eZ Pay, South Asia's first-ever m-Commerce initiative enabling mobile-based banking, payments and financial transactions.

We will continue to make optimum use of emerging opportunities in technology and media convergence to deliver a superior portfolio of multi-sensory products and services. After careful consideration, the Board of Directors' together with senior management have implemented a new operating structure across the organisation, which we firmly believe would maximise the group's operational efficiency, profitability and service to customers.

Industry Evolution

The Sri Lankan telecommunications industry grew exponentially during the year and it is probably the country's best performing sector. With a growth rate of 25 per cent which equates to 20 per cent of national GDP growth, half of Sri Lanka's population is now connected through some mode of telecommunication. With 1.5 million new subscribers, translating to 48 per cent growth, the mobile sector is showing immense potential, fuelled by increased competition on tariffs, connectivity, technology and lifestyle.

Customers have benefited immensely from these industry developments, and again Dialog is proud to be at the forefront of driving that progressive change in the country. The Company has expanded its footprint across Sri Lanka with over 1,000 base stations within its GSM network. It also fast-tracked the expansion of its 3G network, adding 400 base stations soon after the launch of the commercial

network. Given the take-up of technology lead services, and the progress of the sectors in which we participate, we see abundant growth opportunities for 2008 and thereon. Dialog would continue to lead the way, not just in Sri Lanka, but also the region.

Multi-Sensory Connectivity

Dialog is not just a company anymore, its connectivity paradigm is fast becoming a Sri Lankan lifestyle. Our business reaches out to customers without discrimination or boundaries; touching and enlivening almost every human sensory connector. This is the new era and paradigm of connectivity we promised our stakeholders last year. As I alluded to earlier, the opportunities are abundant and exciting and would no doubt usher in a new vibrant chapter of the Dialog story, characterised by new and multifarious growth tracks over the next few years.

Best in Class Customer Relationships

Customer service excellence has always been Dialog's strong point with the receipt of five international excellence awards. This is clearly apparent in customer service delivery and management. Dialog came out tops at the Asia-Pacific Customer Service Consortium's Customer Relationship Excellence awards, bagging the Outstanding Achievement Award in addition to four other accolades. Dialog became the first Telecommunications Operator in South Asia to receive this Asia Pacific-wide recognition.

These achievements clearly demonstrate the Company's commitment to enriching customer experience and satisfaction through the synergy of human and technology-based elements. In tandem with service excellence, Dialog took the top spot in the Brand Finance Index as Sri Lanka's most valuable brand. Given an 'AA' brand strength rating, the Dialog brand was valued at over Rs.12 billion. Despite these successes, Dialog will not be complacent and rest on its laurels, but strive to better its accomplishments.

The Bigger Picture

In 2007, we continued to reach out to the less-privileged segments of Sri Lankan society. Dialog's Corporate Responsibility (CR) initiatives revolve around a philosophy of 'inclusion' – to consider all legitimate stakeholders' impacts. Our CR paradigm equips the Company to deliver consistently and equally across all stakeholders' communes. This ultimately supports sustainable economic and social environmental performance. Dialog is strongly committed

to support national development goals. Our commercial insight has also helped us to ensure that the outreach element of our social responsibility is strongly sustainable through the integration of all aspects of the programme into our daily operations and on-going planning and development activities. We regularly change the way we do business to complement our environment, and to ensure we are in alignment with the nation's goals.

Governance and Integrity

Dialog is committed to maintaining the highest standards of corporate governance. I reiterate our belief that business integrity, professionalism and ethical values are a reflection of good corporate governance. Our beliefs are spelled out in a code of corporate governance for purpose of clarity and focus. Our code would be reviewed regularly and updated to maintain its alignment to local operating contexts and international best practices. The Board acknowledges its overall responsibility for maintaining a sound system of internal controls to safeguard shareholders' investments and the Company's assets. Whilst adopting and effectively implementing our own Code of Corporate Governance, we turn to independent verification to safeguard the integrity of reporting. Dialog is keen to have regular and proactive communication with its investors and shareholders', respecting their every right, and providing ready access to balanced information.

Changes to the Board

On behalf of the Company, I warmly welcome Mr. Jayantha Dhanapala to the Board. We are indeed proud to have a gentleman of his stature amongst us. His vast and decorated experience as a career diplomat would be invaluable in guiding the Company in the future. His presence as an Independent Non-Executive Director will strengthen the Board's independence.

Our Gratitude

I would also like to take this opportunity to acknowledge the efforts of the Dialog team. Led with flair by the Group CEO, Dr. Hans Wijayasuriya, 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 appreciation goes out to every member on the Board for their advice during the past year. I would also like to thank the Government, the Regulatory authorities, our customers and business partners for their continued support and guidance towards

the company's success. I am confident that the Company will define a new era of connectivity for all Sri Lankans in the coming year.



TAN SRI DATO' IR MUHAMMAD RADZI BIN HAJI MANSOR

Chairman

31 March 2008

Group Chief Executive's Review of Operations

Exigencies presented by the multiple environments impacting businesses and their consumers dominate a cursory retro-glance at 2007. World energy prices escalated 72 per cent and mature global economies experienced significant and in most cases recessive dynamics in capital, commodity and employment markets. In combine these externalities had their requisite downstream impact on our island nation and its economy. In the sequel, several Asian economies including Sri Lanka delivered aggressive economic growth. The effects of global macro-environmental turbulence, combined with disturbances to the security situation domestically, were to manifest in tourism contraction, currency devaluation, inflation and an escalation in the cost of capital.

The latter is but the perception from a cursory glance at our environment – valid in its entirety to the short term, but certainly not reflective of the potential of the country, its economy and markets in the medium term. Significantly the Sri Lankan economy continued to grow at 7 per cent in 2007, and the focus of the Government of Sri Lanka on the long term and permanent eradication of terrorism, resulted in the liberation of the Eastern Province of Sri Lanka laying the foundation for potential economic resurgence arising from the empowerment and invigoration of 34 per cent of the country's coastline, 15 per cent of landmass and 8 per cent of its population. The GoSL also spent Rs.300 Billion on Infrastructure development (9.3 per cent of GDP) and Rs 155 Billion on education and health (5.5 per cent of GDP).

CONFIDENCE IN OUR COUNTRY

The Year 2007 was hence one during which prima facie the macro environment beckoned holding strategies with respect to investment and expansion. We believe however that the potential of the country and economy for long term growth lies below the superficial. While drawing confidence from the future facing economic indicators alluded to above, we continue to see phenomenal potential in the business of 'connectivity'. We believe this potential will deliver in terms of direct returns to our shareholders

as well as through the direct and indirect contribution our business makes to the national economy.

In my Year 2006 review (last year), I took the liberty of describing Dialog as a “high performing, profitable and technologically supreme company” and my team as one which stands out as a “supreme manifestation of the art of the possible”. I also held out that Dialog was poised “not only to revolutionize communications and information technology application, but also to empower our people (the nation) through a holistic rendition of connectivity”.

We remain convinced that such a company should be steadfast in its vision to make long term change, and to meet



DR. HANS WIJAYASURIYA
Group Chief Executive Officer

uncertainty with the supreme confidence that building for the consumer, unperturbed by the fluctuating environments of the present, will recursively create foundations of certainty for growth and prosperity in the longer term.

In 2007, Dialog took quantum steps towards the realisation of its vision to be a leader in multi-sensory connectivity as manifested in a quadruple play business and technology formulation. Dialog and its subsidiaries during 2007, built CDMA fixed telephony, WiMAX and 3.5G HSPA Broadband Wireless Access, Fibre Optic and 3rd Generation networks and infrastructures, while aggressively commercialising digital pay television service and commencing the roll-out of the country's first digital terrestrial television infrastructure.

Efficient and concerted infrastructure project execution was supported by an investment of Rs 25.7 Billion (USD 237 Million) evidencing our aggression with respect to the execution of our roadmap for connectivity infrastructure deployment and the realisation of our corporate vision. Our bullishness with respect to the potential of the Sri Lankan market in terms of medium and long term growth realizable through "connecting" people, was shared by our shareholders and institutional investment partners who drove to fruition Sri Lanka's largest ever Rights Issue (Rs 15.54 Billion) and Preference share issue (Rs. 5 Billion). Significantly our principal investor Telekom Malaysia supported the rights issue with a direct investment of USD 120.55 Million and the company also received the endorsement and support of the International Finance Corporation (IFC) in the form of Rs 10.83 Billion (USD 100 Mn) debt and equity participation.

THE POTENTIAL OF OUR MARKET

Our capacity building strategies in 2007 have been closely aligned to the forward potential of the markets in which we operate.

Sri Lanka's mobile sector garnered 8 Million subscribers at year end 2007, representing a national per-capita penetration of 38.2 per cent. Penetration levels in India, Pakistan and Bangladesh stand at 19.95 per cent, 48.96 per cent and 23.13 per cent respectively, while Asia Pacific Parallels such as Malaysia, Thailand and the Philippines exhibit penetration levels of 80.8, 77.6 and 60 per cent respectively. Penetration growth rates are strongly correlated with National GDP growth rates as well as incumbent GDP levels. It follows that the mobile industry has the potential for substantial forward growth in synchronization with economic development and the enhancement of socio economic indices.

The fixed line sector exhibits a penetration level of 13.1 per cent and 60.93 per cent on a per-capita and per-household basis respectively. We believe there is substantial residual opportunity in this sector in terms of base penetration at national level as well as in terms of integrated communications services for enterprises. In combine, the mobile and fixed telephony sectors exhibit a per capita penetration level of 51.4 per cent which rates well against regional and Asia Pacific peers.

In contrast with the mobile and fixed telephony sectors, broadband services depict gross under-penetration at 0.1 per cent on per capita basis. Similarly Pay Television services account for 1 per cent penetration relative to the number of television owning households in Sri Lanka. In both these sectors, Sri Lanka lags regional neighbor India notwithstanding the larger population base and landmass. Accordingly we see tremendous potential for growth in these (the 3rd and 4th dimensions of our Quad-play strategy) sectors going forward.

THE 2007 CHAPTER

The 2007 chapter of the Dialog story is hence one of resilience and multi-faceted capacity building on the backdrop of the impacts and outcomes of volatile and unfavorable externalities. The Year 2007 is further characterized by an aggressive focus on the growth of our core mobile subscriber base, the building and execution phase of a challenging transformation from a "mobile only" to quadruple play business and service formulation, and the creation of infrastructures for future growth across multiple service dimensions and markets, emboldened by the forward potential and resilience of the Sri Lankan economy.

MOBILE BUSINESS CONTINUES TO GROW

Our mobile business delivered robust subscriber growth during 2007. A 37 per cent increase in mobile subscribers taking the cumulative subscriber base to 4.3 Million, fuelled revenue growth of 24 per cent YoY. We are of the opinion that more favorable macro conditions in terms of the enablement of undisrupted services in the Northern and Eastern provinces, and positive conditions with respect to tourist arrivals, would have enabled our mobile business to perform significantly better during 2007. Our International Telecommunications Services business centered on our International Gateway and Global connectivity via the SeMeWe4 submarine cable continued to deliver robust growth, accounting for 17 per cent of the company's revenue.

Downstream of global energy cost dynamics and inflation

we experienced significant cost expansion during the second half of the year, which diluted revenue growth achieved to 24 per cent YoY at EBIDTA level. An EBIDTA of Rs 14.33 Billion (132,370 USD) was proven to be modest relative to the company's infrastructure depreciation charges and financing costs, on the backdrop of the 2007 interest rate and currency depreciation environment, resulting in a NPAT of Rs 10.13 Billion (USD 93,550) representing a marginal growth of 1 per cent at NPAT level YoY.

In the mobile telecommunications sector and market, Dialog continued to be an undisputed leader notwithstanding aggressive competition from peer operators, closing the year with a market share of 53 per cent. Dialog alone accounts for close to 20 per cent per capita mobile phone usage, while Sri Lanka's mobile telecommunications sector continues to lead the region with a national penetration figure of 38.2 per cent.

We invested aggressively in our mobile business, with the objective of growing its coverage and capacity. While accommodating a near 40 per cent increment in mobile subscribers and usage, the company extended its coverage to the furthest parts of the country during 2007 including several new coverage areas in the eastern province. Mobile network investments also fuelled the growth of the regions first 3rd Generation network which now provides 3G Mobile and 3.5 G HSPA Wireless Broadband services across most key towns and population centres in Sri Lanka.

Technology leadership and supremacy in the Value Added Services space continued to be cornerstone of Dialog's service proposition. Our value added service portfolio matches that of global operators in terms of depth, utility and technology advancement, and has regularly placed Sri Lanka ahead of regional peers in terms of sophistication and per-capita penetration.

MOBILE AND SOCIETY

Technology advancement and adaptation continues to multiply the dimensions along which a mobile telephone delivers empowerment to citizens. Accordingly the interplay between mobile phone and society at large is subject to continuous transformation and value addition across multiple layers of the economic pyramid. We are acutely aware that bringing mobile telephony within reach of each and every Sri Lankan puts in place a vehicle of digital empowerment, which would facilitate the empowerment and enrichment of lives.

Mobile telephony will play an increasingly important role in the pluralisation of access to commerce and infotainment.

With respect to commerce, the mobile phone and its embedded technology and ubiquitous connectivity is set to democratize access to electronic commerce and payments – banking in particular. Consumer hardship arising from the polarisation of banking infrastructures within relatively opulent population centres, will be alleviated going forward with secure electronic banking and payment facilitation being placed literally in the palm of the citizen. Dialog partnered NDB Bank in architecting and launching the regions first mobile phone based electronic banking and payment facilitation network – eZpay, during the course of 2007.

The mobile telephone will continue to connect people to information, entertainment and collaboration, the end user experience pertaining to which is fast being enriched by means of successive developments in embedded computing power, mobile data speeds and device and screen ergonomics. Mobile TV is set to be a compelling service embraced by consumers from across multiple segments, going forward. Likewise the 'video dimension' is set to pervade peer to peer communications and collaboration. The emergence of Internet based phenomena such as You-Tube and Facebook will set the pace for video based interactivity from mobile devices in passive as well as active context. Dialog has spearheaded Mobile TV and mobile video infotainment in Sri Lanka in terms of technology innovation, experience enrichment and content portfolio development. We will continue to lead the mobile revolution in Sri Lanka leveraging the knowledge, innovativeness and skill of the Dialog team to deliver social and economic dividends to our stakeholders and the nation.

OUR SUBSIDIARIES AND THE BIRTHING OF NEW BUSINESSES

Our new businesses albeit being in nascent formulation in 2007, represent a quantum leap in our "capability" to deliver multiple but related services to our customers. While our thrust in terms of 3G services and 3.5G HSPA Broadband services are spear headed by Dialog Telekom, several of our new businesses have been birthed by our subsidiaries Dialog Broadband Networks (DBN) and Dialog Television (DTV). These companies which were acquired during the period 2005-6 as a part of a strategically architected plan to gap fill the Group's license and capability portfolio, are now fully integrated Dialog entities operating under extensions to the vibrant Dialog brand in the consumer space.

The Dialog Telekom Group (comprising the Company its subsidiaries) recorded 27 per cent Revenue Growth Year on Year. The dilutive effect of nascent business in their capacity building phase have resulted in a marginally negative growth of 0.03 per cent at consolidated Group

EBIDTA level and negative growth of 11 per cent with respect to Group PAT.

FIXED LINE AND BROADBAND

Dialog Broadband Networks (DBN) played a lead role in the “capability” extension alluded to above by launching two wireless access networks architected to deliver fixed line and BWA services. DBN Launched CDMA fixed line, and WiMAX Broadband Networks respectively, generating immediate revenue growth of 42 and 36 per cent on adjacent QoQ and YoY basis respectively.

DBN also made concerted investments in consolidating its incumbent businesses in the spheres of IP-MPLS based enterprise data networks, telecommunication infrastructure services and fibre optic backbone transmission services. Overall, DBN recorded a revenue growth of 36 per cent YoY, notwithstanding the nascent phase of its new businesses. The contribution of the company to the group’s PAT was however dilutive at negative Rs. 317.96 Mn. We are confident that DBN is well on the way to turn-around with strong consumer acceptance of its new services and the resultant potential to eclipse capacity building costs with aggressive revenue growth.

DIGITAL TELEVISION

Entering the market in 2007 with a Satellite based Pay Television Service, Dialog Television (DTV) has made substantial inroads with respect to the establishment of a Pay TV category on the Sri Lankan ICT and infotainment landscape. DTV acquired 50,000 subscribers during the course of the year fuelling revenue growth of 40 per cent on adjacent QoQ basis.

Dialog TV recorded a revenue of Rs. 722.45 Mn. Overall, the Company recorded a net loss of Rs. 788.53 Mn during 2007, as characteristic of a Satellite Television operation in start up phase. The achievement of a break-even volume of subscribers and operating revenues will see the Company in a position to override its fixed cost base, leading thereafter to positive bottom line contribution.

AFFORDABILITY ENHANCEMENT

Affordability enhancement is central to our vision of delivering multi-sensory connectivity and continues to challenge Dialog’s innovators. A majority of our product development and innovation efforts are directed at exploiting the prowess of modern technologies to deliver more value and utility at lower cost – thereby facilitating more people to experience, and be empowered by our services. The de-escalation of the Minimum Cost of Ownership (MCO) is an indicator which plays an increasingly significant role in

our planning and development agendas.

During the latter part of 2007, Dialog delivered an aggressive and over-arching tariff reduction across our 4 million strong subscriber base, discounting key tariff dimensions up to 50 per cent and resulting in an overall increase in affordability by over 35 per cent. The leveraging of efficiencies delivered by advanced technologies to enhance affordability was evidenced in our 3G service offering featuring a maximum tariff of Rs 3/- per minute on the company’s rapidly expanding 3rd Generation network.

Our focus on affordability enhancement has been extended to encompass our new businesses. A Rs. 100/- (USD 1) per month entry level plan for Pay Television, has opened this nationwide service for wider consumption and corresponding subscribed growth, through the reduction in the associated MCO.

We also successfully attacked the MCO of retail broadband services leveraging dual infrastructure platforms based on 3.5G HSPA and WiMAX Broadband Wireless Access (BWA) technologies setting the pace for an enhanced growth gradient in this relatively under-penetrated sector.

Entering the Fixed Wireless sector as a fourth entrant, Dialog succeeded in revolutionizing the tariff regimes prevalent in the industry - again addressing MCO dimensions such as call set up charges and monthly fees.

CONVERGED INFRASTRUCTURE

A concerted focus on infrastructure remains central to our development strategy. The rationale for capital investment in 2007 and going forward is fuelled by the downstream consumer potential of not one (with reference to our previously mobile-only formulation) but four connectivity related business sectors, each at diverse points in their respect to industry development life cycles.

Accordingly we have been and will continue to be aggressive, in establishing a nationwide footprint in terms of fundamental infrastructures such as telecommunications towers, Fibre Optic Transmission networks and Microwave Backbone radio connectivity. Technology advancements in core network infrastructure and the overarching transition to common Internet Protocol (IP) based transport architectures, make it increasingly feasible to deploy common base infrastructures across multiple access (last mile) technologies such as GSM, 3G, HSPA, WiMAX, and Digital Video Broadcast (DVB), which in turn will deliver a quad-play based portfolio of services to the end consumer.

We are confident that today, we possess the widest telecommunications footprint in Sri Lanka and are also the fastest growing in terms of capital deployment and network expansion. While mobile services will lead to short cycle returns on investment, the incremental investments required, to garner returns from lucrative future growth segments spanning fixed line, broadband and Media, will be relatively marginal in nature.

A SERVICE BRAND THAT DELIVERS

We continued to grow and transform our brand asset in 2007. Evaluated to be the most valuable brand in Sri Lanka (valued at Rs.12.324 million) during the course of 2006 by Brand Finance, 'Dialog' has now evolved to encompass its extensions in the Broadband, fixed telephony and Digital Television sectors. We are cognizant of the fact that the value of our brand is a manifestation of the service promise we extend to and deliver upon for, our customers.

In 2007, we matched our focus on base infrastructure development, with that on the expansion of our service and customer support network. Our internationally recognized customer service offering was extended across our infrastructure footprint through the deployment of a network of service centres capable of meeting consumer support needs across our multiple service and technology dimensions. Distributed presence was also matched by investment in the development of centralized infrastructures including but not limited to our cutting edge contact centre and customer relationship management systems.

During the course of 2007, we also applied focus to the establishment of a robust network of sales and distribution channels. Our business partners continue to be a source of indelible strength to us and the process of expanding their business thrust to encompass multiple service offerings has met with resounding success.

CORPORATE TRANSFORMATION

The organic transformation dimensions, required to achieve a quad-play formulation, and a least cost position in the longer term, necessarily extends to the very heart and nerve centre of the business and its management. The Year 2007 featured the progressive layering and focusing of the company and the group along three principal dimensions – specifically Business Unit Management, Shared Services Provision and the leverage of specific expertise and accumulated organizational knowledge to deliver Group-wide Functional Overview.

We are confident that the organizational framework we have created during the course of 2007, in combine with the

unmatched prowess and potential of our people represents a powerful infrastructure in the context of future growth.

GOVERNANCE AND PERFORMANCE MANAGEMENT

Corporate Transformation additionally incorporated the institution of governance constructs requisite with the complexity and diversity of our operations. While the fundamental constructs pertaining to internal control assurance centered on the Independent Internal Audit function, were strengthened in terms of depth, expertise and rigor, the company also invested in the institution of robust practices with respect to the group-wide overview, of Enterprise Risk Management and Corporate Governance.

Dialog's robust portfolio of leading edge management practices and constructs were supplemented with an Enterprise Programme Management (EPM) function and a suite of performance management frameworks and monitoring systems. The company also continues its investments in the development of incumbent ISO 9001 based quality management systems and CSQS (Customer Service Quality Standards) based Service Delivery Excellence frameworks.

Overall we are confident that the commitment to Governance, Internal Control, Performance Management and Quality will serve to consolidate our expansive foray in to multiple businesses and markets.

INVESTMENT IN SOCIETY - CR

We are committed to interpret and deliver our vision with respect to multi-sensory connectivity, empowerment and enrichment in its widest context. Our Corporate Responsibility (CR) initiatives seek to identify and fill gaps at multiple levels of society – thereby literally “connecting” the marginalized to otherwise un-accessible opportunity, in a manner that empowers and enriches the nation as a whole.

The Year 2007 saw the initiation and development of a wide spectrum of CR activities spanning ICT for Development (ICT4D) initiatives, humanitarian interventions and large scale empowerment, particularly in the area of distance education leveraging the quadruple play technologies operated by the group. In keeping with its commitment to connectivity based empowerment, the company launched the Ratmalana Audiology Centre for early diagnosis of hearing impairment in collaboration with the School for the Deaf and Blind during the course of 2007.

We also recognize that sport is a powerful 'connector' and accordingly Dialog has been instrumental in the resurgence

of community level sports development most significantly with respect to volleyball and football at village, district and regional level. Dialog continues to be the anchor sponsor of sports for the differently-abled.

Additionally the Company also supported a large number of initiatives focused on marginalised communities such as the differently-abled, hearing and sight impaired, and internally displaced persons. We also initiated the Vyapara Diriya program to empower small and medium businesses through the delivery of training focusing practical entrepreneurial skills.

We also challenged ourselves with respect to the environmental impact of our operations. In particular, the M-Waste initiative collects and recycles used handsets, batteries and accessories. We are proud to be a signatory to the United Nations Global Compact, accentuating responsible corporate action with respect to all aspects of our business.

ADDING VALUE TO THE NATION

We are proud that the combine of our Team, Shareholders, Partners and Consumers have consistently delivered real value to the Sri Lankan people and nation. As of 2007 Dialog makes a direct contribution of over 1 per cent to the GDP of the country. We believe our indirect economic contribution, delivered through direct and indirect employment, business generation down multiple value and supply chains, and citizen level productivity delivered via empowerment through connectivity, is manifold our direct contribution, making Dialog and its ecosystem a significant stakeholder of the national economy.

THE DIALOG TEAM

The Dialog team is an embodiment of the vision, execution capability, and commitment which underlies the company's story of growth and expansion. Guided by our best in class management team, Dialog's human capital is I believe second to none in the region.

We have invested in our people and continue to seek avenues to empower and enrich their futures. The freshness of 'The Future Today' will continue to emanate from the resonant energy of our young, dynamic, professional and innovative work force.

CONCLUSION

In conclusion I look back on 2007 as an year in which Dialog executed a fundamental self transformation in to becoming the regions' first quadruple play connectivity provider. We built upon and expanded our capabilities and

I believe created the foundations for multifaceted growth going forward. Integrating our new and existing businesses into a vision of holistic connectivity has demanded formidable entrepreneurship, management and innovation from the Dialog Team. We are committed to transiting our new businesses from nascent to growth trajectories going forward. Our robust technology and human infrastructures will be shared across our multiple businesses, and when combined with the overriding trends of technology and service convergence, will empower us to deliver growing returns on investment going forward.

We have been singularly confident of the resilience of the Sri Lankan economy in the long term. As such we have made forward investments in line with our Vision to be a total connectivity provider, and a significant stakeholder in the national economy with respect to empowerment and enrichment of lives and enterprises. In the short term we have held our ground in terms of financial performance on the backdrop of unfavorable externalities and the demands for capital and operational outlays arising from the expansion of operations.

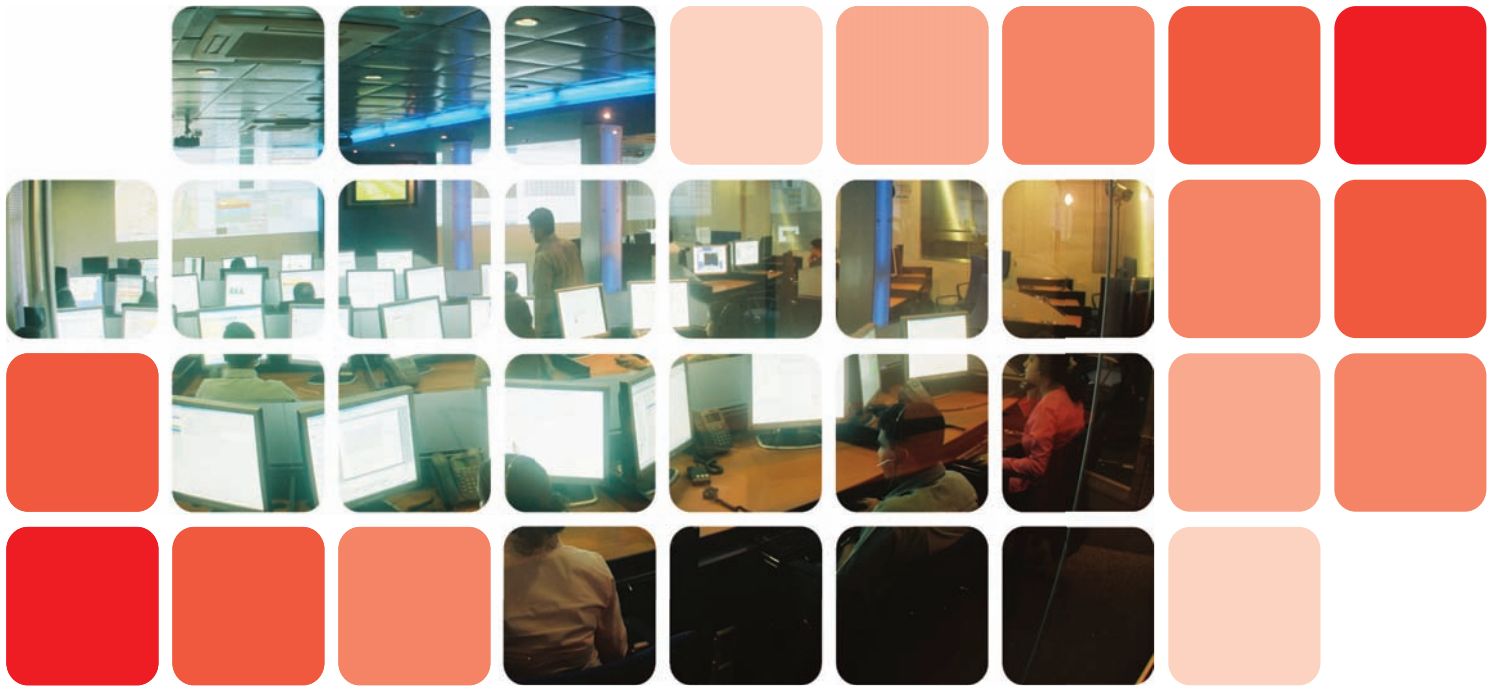
Many of the achievements of Dialog would not be possible without the continued support and encouragement of the Government of Sri Lanka, especially the Telecommunications Regulatory Commission of Sri Lanka, the Board of Investment of Sri Lanka, the Ministry of Mass Media and Information and the Ministry of Posts and Telecommunications.

I would like to thank my fellow Board members for their counsel and strategic direction. Their encouragement and the steadfast support of our principal investor Telekom Malaysia Bhd., has made our continued growth and success possible.

Finally, I would like to thank my team. Their creativity, dedication and togetherness have made all I have described in this review possible. In combine they have transformed a broad vision into an increasingly tangible reality thereby bringing empowerment, through parity access to connectivity in its broadest interpretation, to citizens across Sri Lanka.



DR. HANS WIJAYASURIYA
Group Chief Executive Officer
31 March 2008



BUSINESS REVIEW

In the space of one year Dialog has transformed itself from being a mobile-centric service provider to becoming the first quadruple play operator in Sri Lanka and the region.

The Dialog Telekom Group in 2007 developed robust service offering spanning the multiple connectivity sectors of fixed line telephony, digital satellite television, broadband internet, and 3rd Generation mobile telephony. While being firmly committed to its journey towards delivering a converged and integrated connectivity experience to Sri Lankan consumers, Dialog remains focused on growing the mobile market and strengthening its leadership position in the sector.

Dialog continues to invest heavily in the mobile market in terms of infrastructure expansion, technology innovation and the enhancement of delivery standards across a wide spectrum of service dimensions. Dialog's 4 Million strong (and growing) subscriber base continues to enjoy a plethora of basic and value added offerings from Dialog, which are aggressively and competitively priced and supported by excellent customer service.

MOBILE BUSINESS INDUSTRY PERFORMANCE

The Sri Lankan Telecommunication sector has performed exceptionally well and has been instrumental in driving the economic development of the country, growing approximately 25 per cent in 2007 and contributing over 20 per cent to GDP growth. Total tele-density in Sri Lanka saw a sharp increase with approximately 50 per cent of the population owning some mode of telecommunication (combination of fixed & mobile telephony penetration). Contributing to a major portion of this growth, the mobile industry soared to reach 7.9 Million users relative to 5.4 Million in 2006, representing a 48 per cent growth in mobile telephony ownership YoY.

The industry growth was fuelled by aggressively competitive market conditions and requisite investments in the expansion of reach and capacity. Focused approaches to the reduction

of the Minimum Cost of Ownership (MCO) continued to grow penetration levels in 2007, albeit comprising ARPU levels as segments with successively lower spending power entered the market space for mobile communications.

The mobile market made concerted advances towards the adoption of 3rd Generation mobile services. Dialog's 3G network witnessed rapid growth in network usage in tandem with all Dialog subscribers being empowered with 3G subscriptions at no additional cost. Growing traffic volumes bear evidence of the increasing proliferation of 3G handsets in the market place along with the adoption of 3G value added services such as video calling. The second 3G operator launched services in the 3rd Quarter of 2007, signaling the advent of greater competition in the 3G arena. Mobile Broadband services based on HSPA technology were also evidenced to gain in consumer popularity – deriving further potential for the growth of traffic on 3G infrastructure going forward.

The industry continued to be a key contributor and growth driver of the national economy. It is estimated that the mobile sector accounts for over 5,000 direct employment opportunities (Dialog employs 4,000 – 80%). Indirect employment generated by the industry supports over 50,000 individuals and establishments of varying size. Indirect enrichment driven by the industry spans across the software development, civil construction, Distribution and SME retail sectors.

MOBILE – AN YEAR OF GROWTH

Dialog Telekom has played a lead role in revolutionising Sri Lankan life styles reaching out to and connecting Sri Lankan citizens and enterprises across the country. Dialog Mobile has achieved unprecedented growth during the year with its

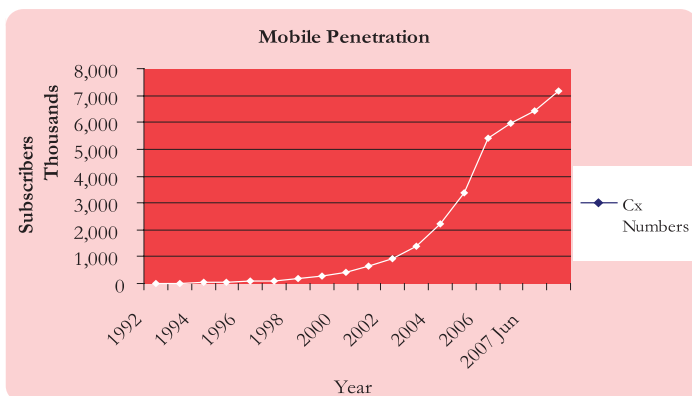
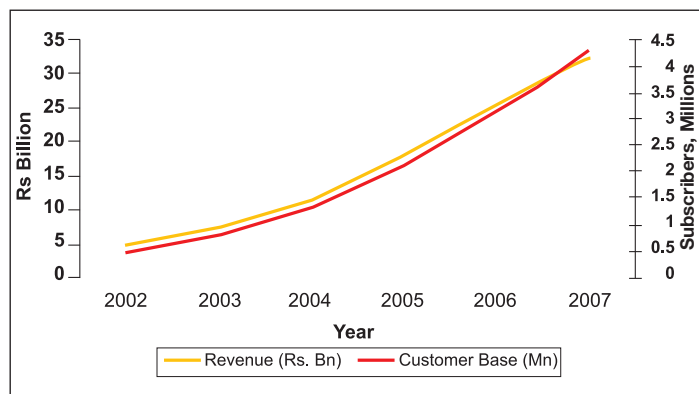


Figure 1: Mobile Penetration

Revenue	Growth of 54% (CAGR) Revenue Share of 65%
Subscribers	4.2 Million (53% Market Share)
Network	Over 1000 GSM base stations Over 300 3G base stations
Corporate	Robust Performance Management & Quality System

customer base expanding by over 1.1 million. This was primarily due to affordable pricing, strong distribution and radio network coverage achieved through aggressive investments on network infrastructure. The revenue potential of Dialog Mobile was diluted to some extent by intermittent disruptions to services in the Northern and Eastern provinces of Sri Lanka during the first half of 2007.

Indicator	2002	2003	2004	2005	2006	2007	CAGR
Revenue (Rs.Bn)	4.59	7.48	11.41	18.03	25.69	32.5	48%
Net Profit (Rs.Bn)	1.08	2.86	4.1	7.01	10.1	8.9	52%
Customer Base (Mn)	0.49	0.83	1.36	2.12	3.1	4.25	54%
Base Stations	280	370	460	575	850	1032	30%



3G REVOLUTION



During the year Dialog provided its 4 Million strong customer base with automatic 3G registration at no cost. The latter strategy has reduced the entry barrier to the adoption of 3G services to that of obtaining a 3G compatible handset. The market also witnessed

a large scale de-escalation in 3G handset prices bringing the facilities and features of 3rd generation voice, data and multimedia services within reach of a growing population of mobile users. A 3G service which has evidenced growing adoption levels is Video Calling, the facility to view ones correspondent over video during the course of conversation is a basic differentiator of 3G services. Dialog's 3G service facilitates video calling across its domestic 3G coverage as well as to 22 countries at competitive rates.



GROUP MULTIFACTED LEADERSHIP



MUSIC DOWNLOADS

The high data speeds supported on the 3G network (further supplemented by HSPA capability) enables subscribers to download music via their mobile phones. The growing trend of device level convergence (in terms of multi-functional devices providing video/audio telephony, and music station features) is likely to drive the usage of download services.



line provides network access exclusively to the 3G network supported by discounted rates. The SIM card also contains a primary line (Line1) which provides seamless access to the combined reach of the 2G and 3G networks.



MOBILE TV



Mobile TV is billed to be the most accessed video service enabled by 3rd Generation networks, Dialog's Mobile TV service (branded MyTV) is configured to operate on a wide range of GPRS/EDGE and 3G handsets. The richness of the mobile TV viewing experience is enhanced with the data speed supported by the network -leading to superlative user experience on 3G and HSPA networks. Dialog's strengths in the digital television arena have provided synergistic impetus to the Mobile TV offering, with a wide range of International and local channels being available for viewing at affordable rates. Mobile Games 3rd Generation data speeds, advanced mobile phone screens and user interfaces have combined with the global growth in gaming content to drive single user as well as multi-user (networked) gaming over mobile networks. Dialog provides its subscribers with a wide choice in gaming content and user experiences over its 3G network.



VIDEO CONFERENCE

Video conferencing over the 3G network is an extended facility of the video calling feature. The services enables multi-party video conferencing via a 3G mobile phone. 3G Superline Dialog's 3G Superline product seeks to provide a direct translation of 3G network efficiencies to provide cost savings to mobile consumers. The 3G SuperLine is the second line (Line 2) on a dual subscription SIM card. The 3G super-

2007 Product Introductions and Value Additions

Product	Description
Colour SMS and SMS Morphing	Dialog partnered with Micro image, ORG Telecom and Mobile Fusion to pioneer Colour SMS and SMS morphing in the Sri Lankan mobile market.
Breaking News Alerts	Dialog customers are provided with the opportunity to receive 'Ada Derana' SMS news alerts from Derana (News Channel), 
mTicket	mTicket – a pioneering service from Dialog is set to revolutionise electronic booking and ticket delivery in Sri Lanka. mTicket enables Dialog subscribers to book movie and other tickets using their mobile phone and receive confirmation in the form of SMS m-tickets.
SMS Divert	Dialog was the first operator in Sri Lanka to launch SMS divert services, delivering the convenience of 'forwarding and redirection' features to SMS usage..
Mobile TV	Dialog embarked on another first offering subscribers the opportunity to view their favourite tv programmes on their mobile phone. This was possible through a strategic partnership with Turner Broadcasting Systems. Dialog Telekom gives viewers access to CNN's award-winning news stories as they happen directly on their mobile phones, plus, Cartoon Network, Channel E, Crazy, Joke TV, Bollywood and popular local broadcast Channel C, Derana, Rupavahini, Channel Eye, TNL, Max and CitiHitz. 
D2DShare Credit	Dialog's share-credit facility enables subscribers to transfer airtime credit between mobile connections in a convenient manner.
Push Mail – Connect	Push Mail extends the experience of instant (push) email delivery to a wide range of mobile handsets. The service (an entry level alternative to more sophisticated push mail solutions such as Blackberry) supplements Blackberry and Blackberry Connect professional email and personal information management services, within the company's comprehensive portfolio of mobile email services.

SEGMENT SPECIFIC OFFERINGS

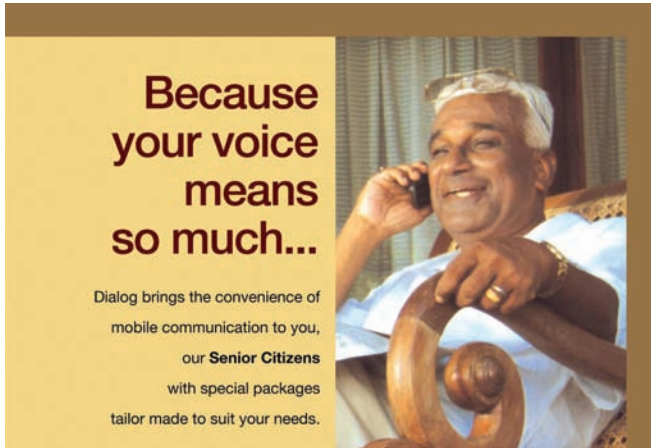
Dialog continued to extend its 'total connectivity' paradigm to the dimension of architecting connectivity solutions for specific and identifiable segments of society. The crafting of such segment specific solutions has enabled the company to drive increasing levels of inclusion with respect to the empowerment delivered through access to communication.

PUBLIC SERVICE

During the course of 2007, Dialog launched a range of tariff offerings specifically designed for the Public Service Sector. The tariff offerings were structured to meet the specific communication needs of multiple layers of the public sector ranging from work related usage by senior officials to personal and family usage across the spectrum.

SENIOR CITIZENS

Dialog also designed and introduced a tariff and handset ownership scheme for Senior Citizens. The communication



offering was specifically designed to meet 'affordable and occasional usage' needs of Senior Citizens.

Content based Services

DOWNLOAD ZONE

Dialog's Download Zone enables Customers to download mobile content (Wall papers, animated greetings, Themes, Ring tones, Video tones, Games) to compatible handsets. The download zone, which employs cutting edge browsing Technologies add convenience and excitement to the experience of selecting and downloading mobile content.

COLOMBO CITY GUIDE

The Colombo City Guide enables Dialog customers to retrieve Colombo city information via the wap site <http://www.colombocity.mobi>. The site provides up to date information with respect to the City of Colombo such as hot spots, attractions and other relevant information.



TECHNOLOGY INVESTMENTS

Dialog's commitment towards the development of the nation's telecommunications infrastructure is underpinned by an unwavering commitment towards Capacity Building based upon aggressive re-investment. During 2007, Dialog continued to forge an ever-expanding network footprint across Sri Lanka and increase the number of base stations deployed to a total of over 1000. Dialog also fast tracked the

expansion of its 3G network during 2007. In the latter part of 2006, Dialog achieved the milestone of launching South Asia's first commercial 3G network. In addition to voice, video and mobile internet services, Dialog's 3G network infrastructure supports high speed broadband services based on 3.5G HSPA technology.

HSPA technology supports download speeds of up to 14.4 Mbps and upload speeds of up to 1.9 Mbps, subject to network enablement, broadband device capabilities and the level of cumulative subscriber usage at a particular location (base station). HSPA greatly reduces the cost of access with respect to high speed broadband services, signaling the advent of a retail broadband product with high affordability and availability.

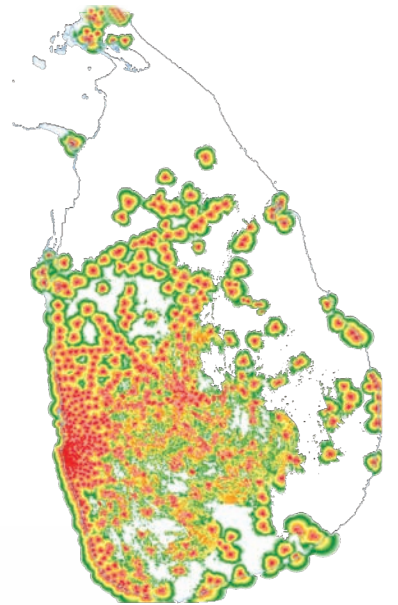


Figure 9: GSM Coverage

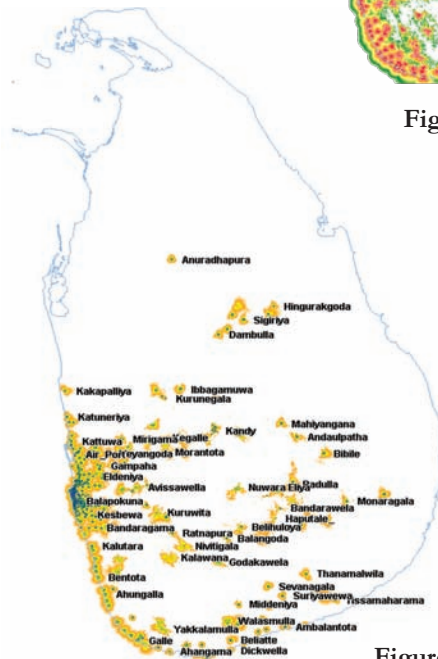


Figure 10: 3G Coverage 2008

Affordability Enhancement

Affordability enhancement is a principal tenet of Dialog's drive to deliver inclusive connectivity. Dialog has placed consistent confidence in the potential of the middle and bottom segments of the economic pyramid. This confidence has emboldened aggressive infrastructure and technology investments aimed at providing connectivity on an inclusive basis.

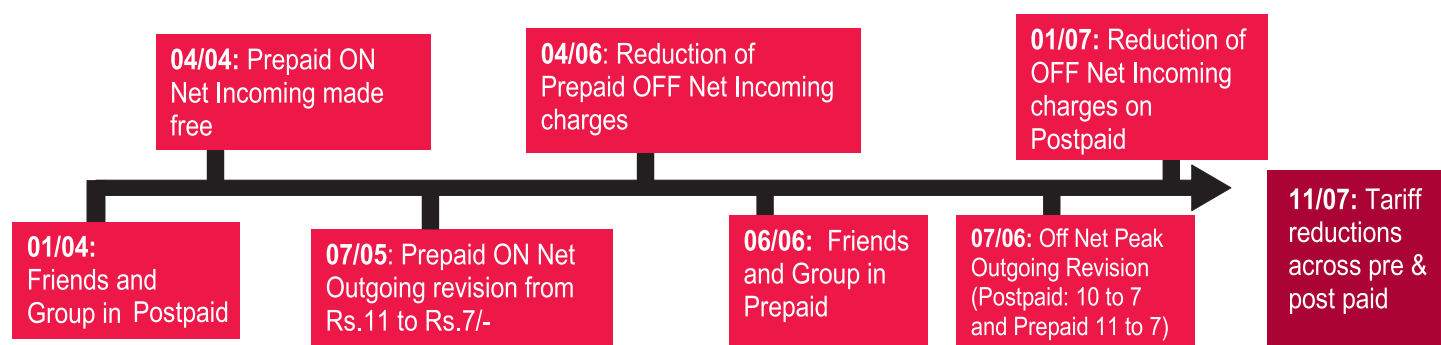
Dialog believes that affordability (from the point of view of adoption and inclusion) is reflected in the Minimum Cost of Ownership (MCO) as applicable to individual communities and segments of society. The MCO is broadly determined by the cost of entry (affordability of a handset or device) and the cost of ongoing usage as determined by tariffs, monthly charges, and usage level dictates such as minimum usage commitments and minimum reload (top-up) values.

Principally, Dialog has sought to deliver affordability enhancement through leveraging technology innovation towards architecting communication solutions, which attack the MCO on a per-segment basis, while re-engineering its internal processes, cost structures and value chains to drive down the unit costs of service provision.

The combine of cutting edge technology innovation and continuous business re-engineering has enabled Dialog to deliver a synergistic combination of value and functionality on a nation and society-wide basis.

During 2007, Dialog leveraged the following products, features and pricing strategies in order to enhance the affordability of its services.

3G Super Line	Provide users with to the cheapest call rates within 3G Network area
Home Zone	Subscribers within the same geographical area could enjoy lower tariffs
Tariff Reduction	During the year Dialog slashed rates in all post paid and pre paid segment
SMSHome	Enable Dialog roamers to send SMS's to Sri Lanka at a cheaper rate
ezBuddy	Another m-commerce based initiative to empower rural youth to set up self employment using mobile phones
MobileTV	Subscribers get the opportunity to watch TV on their mobiles at standard rates,
Broadband	High-speed internet for the office and home for the best rates.



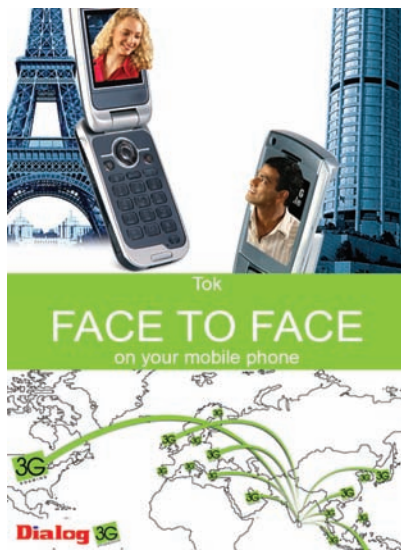
Dialog's commitment towards affordability enhancement has played centre stage across all dimensions of the Group's connectivity business. As in the case of the mobile sector, the Group is incessant in its objective of attacking and reducing MCO parameters applicable to Fixed Line, Broadband, Infrastructure and Digital Television services.

International Business into New Heights



Building on its distinctive position as South Asia's first International Roaming provider (as far back as 1997) Dialog reinforced its regional leadership in the area of International Roaming through the launch of 3G (video, data and high speed broadband) roaming in 2007.

Dialog also continued to enhance the breadth and depth (in terms of services) of its GSM and GPRS/EDGE roaming network. The Year 2007 witnessed a 10 per cent expansion in GSM/GPRS/EDGE roaming reaching a network size in excess of 200 countries with a choice of over 400 partner operators. The 3G Roaming Network spans 25 countries with a choice of 32 partner operators.



Segment	Countries	Operators
GSM	200	400
GPRS	115	200
3G	22	32
CAMEL	46	61

Table 4 : Roaming Operators

Dialog Global plays a lead role in Sri Lanka's international Bandwidth market, with direct access to SEA-ME-WE3 and SEA-ME-WE4 submarine bandwidth. The Group'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.

Dialog Global continues to exhibit aggressive growth with revenue growth of 51 per cent YoY and contributions of 12 and 6 per cent to the Group's revenue and bottom lines respectively. A reduction in tourist arrivals which in turn diluted International Roaming Revenues was an external factor of significance that restricted the growth of inbound roaming usage relative to its full potential.

Global Reach through Partnerships



Dialog's partnership with Vodafone - the world's leading mobile operator - has enabled the company to draw on a large range of benefits in terms of global reach, technology and costs. Dialog has regularly drawn on Vodafone's product and service strengths to launch successively advanced releases of Blackberry devices and 3G/HSPA wireless broadband products. The partnership also allows Dialog subscribers to access Vodafone networks across a wider range of countries along with a seamless experience in terms of voice, data and value added service availability.

The partnership with Vodafone enables Dialog to draw on a plethora of cutting edge industry expertise and best practices. Vodafone's operating experience across a large number of developed and emerging markets provides Dialog with a window to the very latest in advanced mobile communications technologies and their application.

Fixed & Broadband Sector

INDUSTRY PERFORMANCE

The fixed line sector also witnessed aggressive growth in 2007 with over 0.9 Million additions and 30 per cent growth. Growth was driven in the main by CDMA technology enabled Wireless Local Loop (WLL) subscriptions. CDMA services have been observed to exhibit increasing levels of adoption in the budget and value conscious market for basic voice services.



Figure 2: Fixed Line Sector Performance (Source Sri Lankan Telekom Regulatory)

It forms a major portion of the total fixed line market with a penetration rate of 54 per cent (1.2 Mn subscribers). Dialog's CDMA service (operated by Dialog Broadband Networks) was the fourth entrant to Sri Lanka's WLL market in 2007. The service (branded Dialog7- CDMA) experienced increasing levels of adoption and consumer acceptance in tandem with the coverage of the network been expanded to encompass a majority of Sri Lanka's key cities and towns as at the end of 2007.

In contrast to the fixed line and mobile sectors, Internet usage is observed to be at a relatively low level. Internet penetration in Sri Lanka stands close to 2.2 per cent as at the end of 2007. It should be noted however that Internet penetration in Sri Lanka grew by 24% to reach around 0.16 Million as at the end of 2007.

The entry of Dialog Broadband Networks and other broadband service providers into the Broadband and Internet market has been observed to have set the stage for a competitive market for broadband going forward. It is expected that the increased levels of competition in the broadband space would result in a rapid escalation of penetration levels and internet usage. Broadband technologies deployed in the Sri Lankan

market include WiMax (by Dialog Broadband Networks) and 3G based Broadband Wireless Access (BWA) technologies such as HSPA. It is expected that going forward, consumers would be benefited through the availability and presence of multiple technologies and operators in the broadband sector.

GROWTH OF DIALOG BROADBAND

During the Year 2007, Dialog Broadband Networks (Pvt) Limited (DBN), principally focused on the building and launching of two new network infrastructures and service lines. The company built out a CDMA-based WLL network as well as a WiMax-based BWA network during the period under review. Network development efforts have been followed up with an aggressive marketing thrust with respect to the company's recently introduced fixed line and broadband internet service lines with requisite results and acceptance in the marketplace.

In addition to the launching of new networks and businesses, DBN also made significant strides in terms of consolidating its data communications business and its transmission and tower infrastructure operations. DBN remains a key contender in the data communications sector with a client base featuring a large number of institutional clients. DBN's transmission and infrastructure services are actively patronised by broadcasters and telecommunications operators alike.

Data Communications

- During 2007 the company applied concerted focus to the increasing of data communication services clientele. As at the end of 2007, DBN's data communications business had grown by 29 per cent relative to the previous year.

As depicted in the figure below, DBN offers a range of data speeds on its Domestic leased line/IP MPLS connectivity solutions.

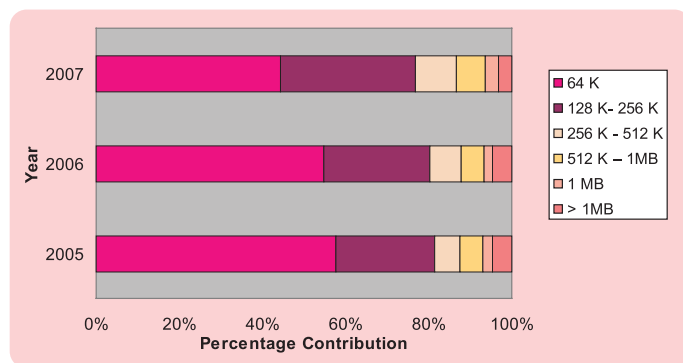


Table 5: Link sales capacity wise

Voice Business

The Dialog 7 (CDMA voice) business of DBN was launched in July. The initial launch network encompassed only 6 out of the 25 districts of Sri Lanka. The ensuing months leading up to Year-End 2007, saw the deployment of CDMA in 17 Districts (with 121 base stations). Fixed-line sales have exhibited steady growth since Q3 2007 in tandem with the expansion of marketing channels and distribution facilities across multiple districts. Advertising and promotions at regional as well as community level have served to increase the acceptance of the new service (4th entrant to the WLL sector). During the year, DBN added in excess of 30,000 customers, a majority of whom had opted for a prepaid subscription.

DBN's thrust towards establishing itself as a mainstream and leading fixed line provider has encompassed the provision of advanced corporate voice solutions. Going forward DBN sees significant potential in the leverage of advanced IP technologies towards the delivery of enterprise as well as retail voice services at the quality and price levels desired by the respective consumer segments.

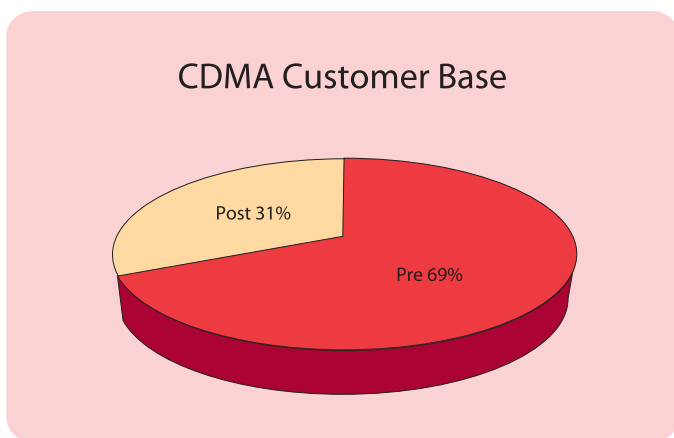
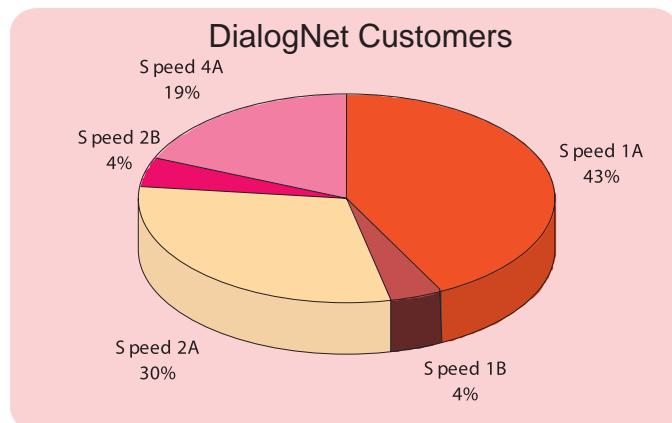


Figure 9: CDMA Subscriber Composition

ISP/ Broadband Business

Commercial operations of DialogNet – the Group's Broadband internet service based on WiMAX access technology, commenced in November 2007. The launch of the BWA network and the DialogNet retail end-user service represents a significant broad basing of DBN's operations which were traditionally focused on enterprise data services as opposed to retail services. With a manifold expansion of the WiMax infrastructure in terms of capacity and reach. DBN's WiMax covers approximately 30 per cent of the country's landmass with 40% population coverage.



TECHNOLOGY INVESTMENTS

During 2007, DBN launched its Fixed Wireless network based on CDMA technology. As at the end of 2007, the Company operated a network of 121 Base stations spread across 7 provinces covering 50 per cent of the country's landmass.

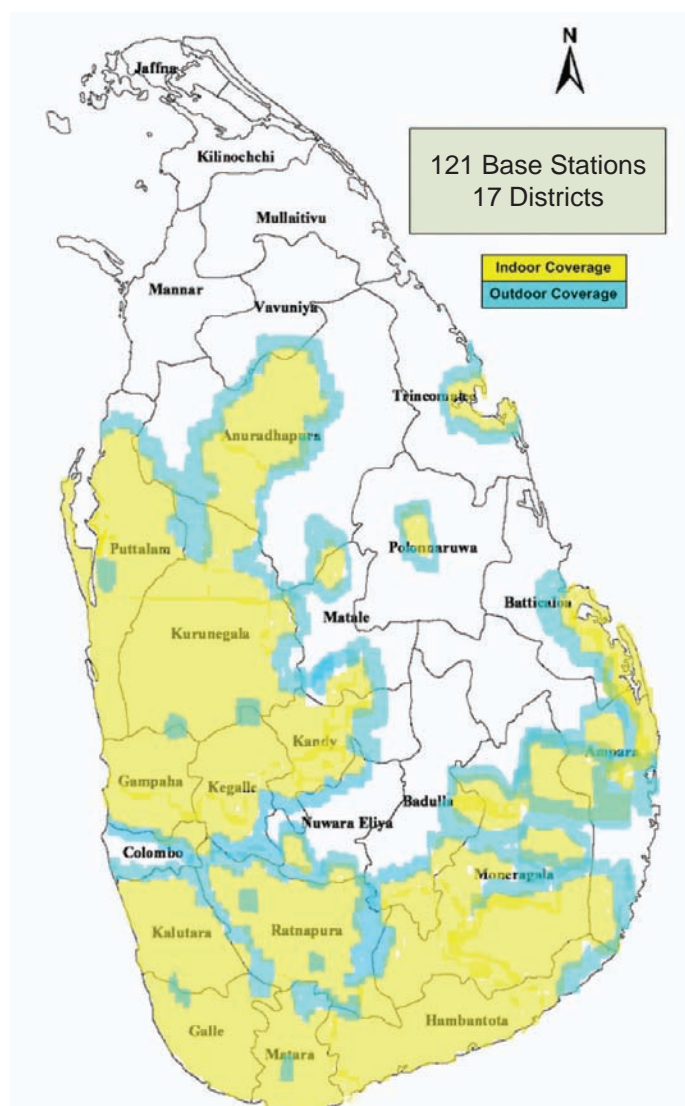


Figure 10 : CDMA Coverage

DBN's IP-VPN services provides the platform for customers to enjoy value-added service such as IP telephony, Video Conferencing, and support services such as Network based Firewalls and Internet Offload capabilities. DBN's MPLS based IP-VPN network is the largest such network in Sri Lanka and enjoys the support of a large and loyal subscriber base.



As alluded to above, DBN remains the preferred ‘operators operator’ in the country. Infrastructure services provided include Tower Space, equipment management and premises management. The company’s microwave backbone transmission network is also patronized by a large number of peer operators.



Figure 11 : Map of DBN's MPLS

In line with the growing need for backhaul transmission capacity, DBN has initiated a large scale investment project to build a nationwide fibre optic network. The company will build on extending the Colombo City metro fibre network (already in commercial service) of the Dialog group to reach the furthestmost regions of the country.

During the year, Dialog launched its fiber rollout plan which will be completed in 2 phases. It is expected that Phase I of the National Fiber Backbone, connecting Southern, Central, North Western and North Central Provinces will be completed by end 2008.

Media Sector

INDUSTRY PERFORMANCE

The Pay TV industry saw modest growth (in terms of absolute numbers) during the Year 2007. Growth expressed in relative terms (per centage) was however impressive given the fledgling nature of the sector. It is observed that absolute growth was not commensurate with the full potential of the business and sector mainly due to an erosion of consumer spending power in the light of macro-inflation. The grossly under-penetrated (less than 1.5% of TV owning households have adopted Pay-TV) nature of the market however augurs well for increased aggressive growth levels going forward.

DIALOG TV - FIRST YEAR OF OPERATIONS

In the first year of post acquisition operations, Dialog Television (Private) Limited (DTV), recorded 40 per cent (adjacent) QoQ subscriber growth and revenues of Rs.722.45 Million as at year end. Operating Dialog Satellite TV, a direct-to-home TV satellite service Dialog TV has been aggressive in its service expansion drive enabling the company to reach 55,000 Sri Lankan homes as at the end of 2007.

Revenue	Revenue of Rs. 727 Million
Subscribers	Over 70% Market Share
Network	Island wide Coverage First to Introduce DVB-T technology in Sri Lanka
Product	World's lowest monthly fee package for \$1

TECHNOLOGICAL LEADERSHIP

In line with the technology leadership paradigm of the Dialog Group, DTV established a significant milestone in the Television industry in Sri Lanka by commissioning the country's first Terrestrial Digital Television broadcast. The pioneering broadcast by the countries digital television leader is expected to herald an all new era of terrestrial television in Sri Lanka encompassing the technology and consumer based advantages of digital broadcast technology.



DTV's pilot broadcast based on DVB-T (Digital Video Broadcast – Terrestrial) technology covers the City of Colombo and accommodates nine television channels on a single UHF frequency (channel), demonstrating a nine-fold enhancement in spectrum utilization efficiency. The DVB-T is a variant of the DVB-S (Satellite) based digital broadcast standard already deployed by Dialog TV. The converged broadcasting core established by the company will enable broadcasts via the multiple variants of the DVB standards (T-Terrestrial, H-Handheld and S-Satellite). This DVB-T broadcast standard enables digital broadcasts over standard UHF broadcast spectrum (airwaves), giving viewers' access to digital broadcasts, via a DVB-T access device (Set Top Box) interfaced to standard analogue television receivers and UHF residential antennae. The digital broadcast is also available on vehicle mounted devices and via DVB-H technology (a variant of the DVB-T standard for Handhelds) on advanced GSM/3G handsets.

It is the vision of DTV that digital broadcast technology would also facilitate wider channel and content availability across all regions of Sri Lanka, especially in areas where economic constraints inhibit the expansion of incumbent Analogue infrastructure. DVB-T provides the consumer with Digital quality video, electronic programme guides multi-lingual audio and subtitling capabilities as well as advanced Dolby Digital 5.1 audio enhancements.

DIGITAL TELEVISION - PRODUCT & QUALITY LEADERSHIP

During the course of 2007, DTV applied aggressive focus to the development of its product offering in terms of the breadth and quality of programming and content. DTV currently offers consumers a range of packages to suit lifestyles and budgets. The content acquisition strategy employed during the year focused equally on international as well as segment specific local content.



The entry level package is supplemented by a range of 'SET Plans' which provide consumers with a wide choice of bite size content add-on options, SET plans enable subscribers to design their own bouquet of channels ensuring value and choice to the consumer. 19 SET plans were introduced in 2007 with a rentals ranging from Rs. 50/- (less than 50 US Cents).





The entry level package is supplemented by a range of 'SET Plans' which provide consumers with a wide choice of bite size content add-on options, SET plans enable subscribers to design their own bouquet of channels ensuring value and choice to the consumer. 19 SET plans were introduced in 2007 with a rentals ranging from Rs 50/- (less than 50 US Cents).

CONTENT INNOVATION

DTV's product development focus extended beyond technology and packaging to the catalyzing of local content development specifically focused on the PayTV industry. In the first of such initiatives, DTV partnered with OnAir World (a leading Sri Lankan content developer) to launch Sri Lanka's first uninterrupted 24 hour Sinhala film and tele-drama channel. Citi Hitz features a unique blend of Sinhala films and tele-dramas, including exclusive Director's Cut editions, stories behind making of popular movies and exclusive interviews with popular artistes, catering to the increasing demand for Sinhala language-based entertainment. Citi Hitz is set to provide a robust platform for the forward development of Sri Lanka's indigenous movie and teledrama industry with commensurate benefits to producers, artistes and viewers alike.



DIALOG TELEKOM – THE NO 1 BRAND IN SRI LANKA

The Year 2007 witnessed Dialog Telekom storming to the top spot in the Brand Finance Brand Index as Sri Lanka's Most Valuable Brand. Based on an independent valuation of Sri Lankan Brands by Brand Finance Lanka, a subsidiary of Brand Finance UK PLC., Dialog's brand was valued to be

worth over Rs.12.4 Billion and rated the most valued brand in Sri Lanka with the highest brand strength rating of AA.



DIALOG TRANSFORMATION

The organisational evolution from being a mobile service provider to a total connectivity provider operating a Quadruple Play business formulation has necessitated the transformation of the company and its internal structures and processes. The restructured Dialog Group is founded on three classes of organisational entities-specifically Strategic Business Units (SBU)s, Shared Services Units (SSUs) and Group Functions (GF).

A collection of Strategic Business Units (SBUs) constitute the business thrust of the Group. The Six SBUs operating as at end 2007 were focused on Mobile, Fixed & Data, Broadband, International, Tele-Infrastructures and Media respectively. SBUs of the group are lead by CEOs and COOs charged with the responsibility of delivering business and market results across the wide spectrum of businesses operated by the Group.

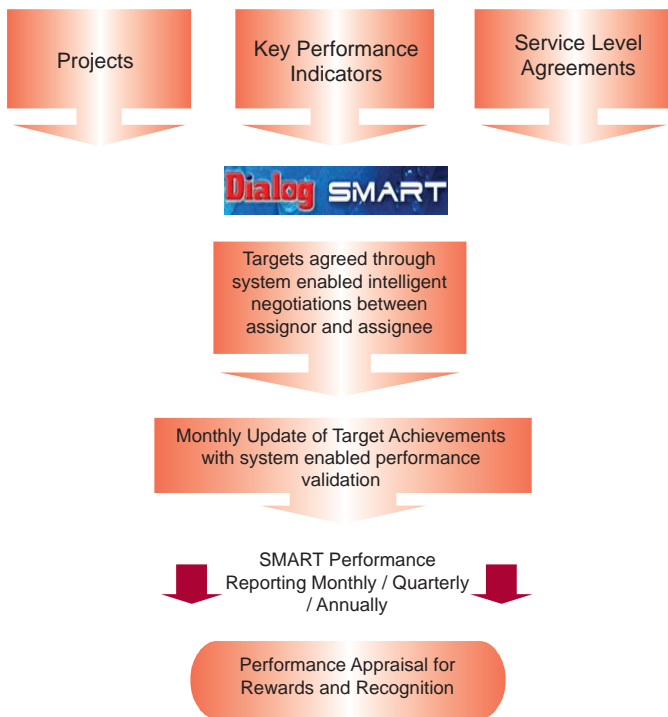
Group Functions within the Dialog Group organisational formulation represent the core functional expertise and control process infrastructure of the Group. Key Group functions include but are not limited to Marketing, Service Delivery, Human Resources and Facilities, and are the designated custodians and development drivers of tangible and intangible assets of the group,

Group Functions are also charged with maintaining and operating a family of Shared Service Units (SSUs) which provide services corresponding to their respective functional areas to SBUs and other entities within the organisation. Key SSUs of the group include Dialog's Contact Centre and Engineering Services operations.

The restructured Dialog Group is ideally positioned to maximise the output derived from Human, Technology and Infrastructure resources on the backdrop of a converging technology and service delivery environments.

PERFORMANCE MANAGEMENT AT DIALOG

Dialog is strongly focused on Performance Management, and has invested significantly in multiple constructs and processes related to the alignment of organisational performance to the business objective of the group. Project Outcomes, Key Performance Indicators, and Service Level Agreement conformance are just a few of the objective level outcomes regularly monitored and tracked by the Group's performance management framework. Performance Management processes are further focused on multiple layers of the organisational construct with monitoring mechanisms being installed at individual, team and process tiers.



The Dialog Navigator (Balanced Scorecard), Internal Quality Audit programmes, and Service Level Management constructs are designed to maintain the highest standards of corporate performance and governance.

Dialog has also installed international best practices in terms of Project Execution through the institution of a Group-Wide Enterprise Programme Management Office (EPMO). The EPMO is the principal driver of project outcomes pertaining to development activities carried out by the various components of the Groups' business.

The EPMO is also a lead catalyst for astute planning and the alignment of corporate strategies with program/project initiatives & objectives.

SERVICE EXCELLENCE

Dialog Telekom prides itself with its consistent performance with respect to the provision of excellent customer service to more than 4 Million Sri Lankan consumers.

Subscribers	4.2 Million
Calls to Contact Centre	1.6 per month
New Connection	
GSM	100,000 per month
CDMA	4000 per month
DTV	3000 per month
Data	44 Links per Month
Service Portfolio	100 +
Geographic Presence	Branches : 8 Arcades : 7 Franchise Outlets : 63

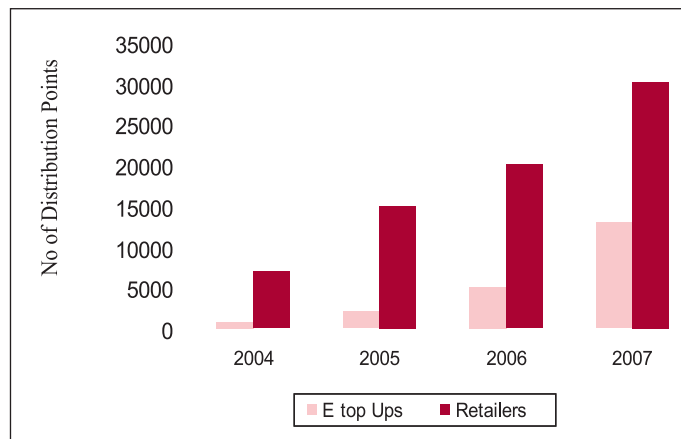
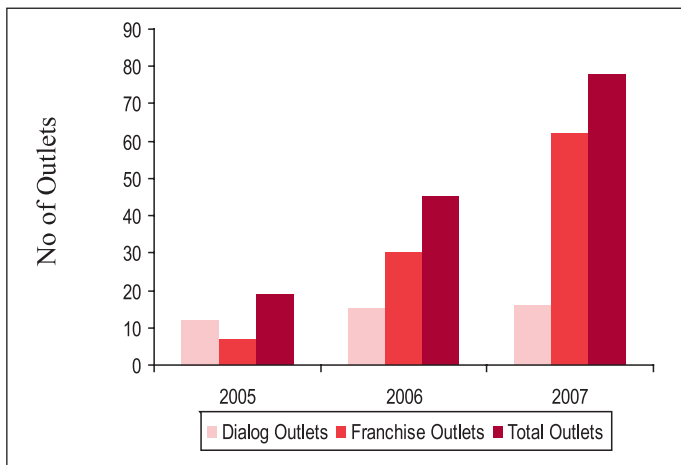
Dialog Telekom has the honour of being the first company in South Asia to be awarded the Customer Service Quality Standard (CSQS) certification by the Asia Pacific Customer Service Consortium (APCSC) in addition to CSQS Level III standard certification in Contact Management during 2007. During the Year 2007, the Dialog Service team won international recognition at the APCSC Customer Relationship Excellence Awards, held in Hong Kong receiving the most number of awards including the overall pinnacle award for Outstanding Achievement in Customer Relationship Excellence.

The Group's Contact Centre operation functions on a 24x7 basis and is one of the most advanced in the country. This flagship installation, which has set the pace for contact centre technology deployment in Sri Lanka, is manned by a 500 strong highly trained workforce. Dialog's service offering is tri-lingual with specialised support being available in sign language for the hearing impaired and in foreign languages for international roaming clients. Service delivery initiatives for the differently able also encompasses the provision of braille bills and disabled parking and access facilities.



Nationwide Customer Support Infrastructure

The Group's network of service outlets was subject to aggressive growth during 2007. Service network expansion was facilitated through a combine of Dialog owned and Business Partner operated service centres.



DIALOG ENTERPRISE SOLUTIONS



The Enterprise Solutions (ES) unit of the Group 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 quipped with highly qualified solutions development and sales team with diverse functional expertise. The ES team possesses technical know-how and exposure in multiple areas of cutting edge technology application and innovative service creation, spanning mobile, multimedia, broadband and media environment.

New Business Development

DIALOG TELEKOM ENTERPRISE CONTACT MANAGEMENT (ECM)



Dialog Telekom Enterprise Contact Management (ECM) Centre signals the company's entry in to the lucrative arena of Business Process Outsourcing (BPO). Dialog ECM extends unmatched outsourcing flexibility through a choice of engagement models that are adjusted to client's specific business needs. Dialog's Business Process Outsourcing (BPO) services for Sri Lankan and Global Enterprises draws upon the Group's inherent strengths of multi-modal contact centers, rich human skills and experience to create a new revenue stream for the company.

DIALOG'S EXCLUSIVE SALES AND DISTRIBUTION NETWORK

Dialog takes pride in its highly competent and loyal business partner network. The business partner network accounts for an unmatched and nationwide reach in terms of points of presence and customer facing infrastructure.

The Dialog Sales and Distribution network is believed to have created in excess of 10,000 employment opportunities across the country.

DISTRIBUTION NETWORK

In terms of Distribution of reload vouchers and electronic top-up, the Dialog Group and its business partners has established a network of over 30,000 touch points across Sri Lanka,

COLLECTION NETWORK

The Dialog Group provides customers with the convenience of over 1,000 payment points across the country. ATMs, Tele Banking, Internet and the use of prepaid vouchers (paper based and electronic) provides an added dimension to this facility that has grown in terms of reach and customer convenience dimensions during the year under review.

Dialog ECM is a fully integrated multi-channel Contact Centre handling customer interactions via Web Chat, E-mail, Fax, SMS, Voice, 3G Video & IVR.

Dialog ECM's global client proposition is backed by Dialog Global's IPLC and VPN services. Best -in-class global connectivity services based on SeaMeWe3 and SeaMeWe4 submarine connectivity - and the global footprint of Telekom Malaysia's international infrastructure, provides Dialog ECM with Points of Presence (PoPs) in most key cities across the globe.

MPowering A New Economy

Dialog signaled the pioneering of Mobile Payments and Banking technology in the region with the introduction of eZ Pay, South Asia's First mCommerce initiative. This service allows the consumer to purchase goods, pay bills, transfer money and perform banking transactions via the mobile phone. eZ pay has added a revolutionary and consumer centric dimension to telecommunications and banking services in Sri Lanka. Mobile telephone technology has facilitated the empowerment of a larger cross section of Sri Lanka's retail sector to accept electronic payment and to participate in a wide spectrum of electronic transaction classes. The empowerment delivered through eZpay in particular and m-commerce infrastructure in general, is expected to create a new (grass root) tier of banking infrastructure, driving

commensurate pluralisation with respect to the proliferation and availability of banking services.



HUMAN CAPITAL

The Group's dynamic and youthful workforce is the key to its continued success in adapting to the rapidly changing technology and competitive environments. Dialog continues to contribute to the country's employment market and employs close to 4000 Sri Lankans. The Group provides an empowering and invigorating environment for employees to unleash full potential, and provides unmatched career development opportunities to its workforce. The Group follows an 'Internal First' approach in providing career progression and development opportunities to its staff.

Growing business volume and expansion of the scope of activities of the Group has created substantial a number of job enrichment opportunities for existing employees. As a result of the Group's expansion in terms of subscriber base, service portfolio and nationwide reach, the direct employee base has grown by 46% during the year 2007. A major part of staff growth has been in the area of customer facing operations such as service delivery and customer relationship management. The company continues to maintain healthy talent retention levels across all its operational and business focus organisational entities.

Description	2003	2004	2005	2006	2007
Staff Strength	926	1217	1706	2290	4008
Staff Retention	87%	90%	88%	92%	88%
Staff Growth %	32%	31%	40%	34%	46%
Productivity (customers/employee)	897	1118	1244	1356	1047

Table 6 : Key HR Indicators

The Group maintains and grows staff skills and job motivation through the commissioning of a wide variety of structured training programs. These Training sessions are conducted by a faculty of internal as well as external trainers inclusive of international subject matter experts as applicable to the business challenge at hand.

Dialog's flexibility to change and aggressiveness is strategy execution. As depicted in the table below 74% of the work force are in Generation Y category drawn from the below 30 age group.

Age	Year Range	Employees as at 31 December 2007		%
60-64	1942-1946	Veterans	4	0.10%
41-59	1947-1965	Boomers	91	2.27%
29-40	1966-1977	Generation X	971	24.23%
<29	>1977	Generation Y	2942	73.40%
Total			4008	100.00%

Table 7 : Employee Age Profile

Employee Productivity and human capital investment indicators are established, monitored and regularly aligned within the corporate leadership dimension of the Group's corporate plan. This dynamic and contextual approach adopted by the company has delivered tangible results in terms of market and financial performance. Table 8 depicts the key financial indicators with respect to the Group's human resources.

Indicator	2003	2004	2005	2006	2007
Profit per employee (Rs. Mn)	3.4	2.9	4.1	4.4	5.9
Revenue per employee (Rs. Mn)	9.9	7.9	10.5	10.20	6.9

Table 8 : HR Performance Indicators



CORPORATE RESPONSIBILITY

Corporate Responsibility

intro

business

responsibility

discussion

governance

financials

outro



DIALOG TELEKOM PLC FURTHER STRENGTHENED ITS BUSINESS CASE WITHIN THE NASCENT FIELD OF CORPORATE RESPONSIBILITY (CR) IN 2007, BACKED BY 'INTEGRAL' INITIATIVES THAT STRENGTHENED CR COMPETENCIES ACROSS ALL LEVELS OF THE ORGANISATION, AS WELL AS THROUGH SUSTAINABLE 'OUTREACH' PROGRAMMES THAT SUPPORTED NATIONAL AND MILLENNIUM DEVELOPMENT GOALS AIMED AT ENRICHING SRI LANKAN LIVES.

Our approach and business case

The domain of Corporate Responsibility (CR¹) at Dialog is based on 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 equips Dialog to deliver consistently as a responsible telecommunication services operator and as a responsible corporate citizen, ultimately feeding into a process that supports and upholds sustainable economic, social and environmental performance. Dialog accredits its enabling and positive impact on society primarily through its core 'integral operations' or business footprint and secondly through its ability to 'reach out' to national development goals through its role as a corporate citizen. These two underlying features of

our application of CR across Dialog frame our dual pronged approach. The first stresses inward on 'how we do business' as a responsible organization and permeates into our business 'operations', which we term business integral CR. The second looks outward and supports national development goals through strategic community investments, which we term outreach CR. Our commercial insight has also helped us to recognise that the outreach constituent of our CR programme has limited sustainability unless we ensure that the integral CR aspects are weighed into our daily operations. The continuing appeal for Dialog's integral CR programme is to therefore inform and nurture an organizational culture that cares and respects the rights of society and those of future generations, which we acknowledge as a means to an end resulting in sustainable development.

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

OPERATIONAL - Integral CR

Embedding CR

Business decision making that factors stakeholder impact and brings society to the decision making table. Business integral CSR implies that all Dialog's investment decisions, business planning and processes that have a bearing on the fundamental goals and objectives of the organization are whetted and challenged against a CSR agenda

Q-play for CR

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 CR

Strategic Community Investments

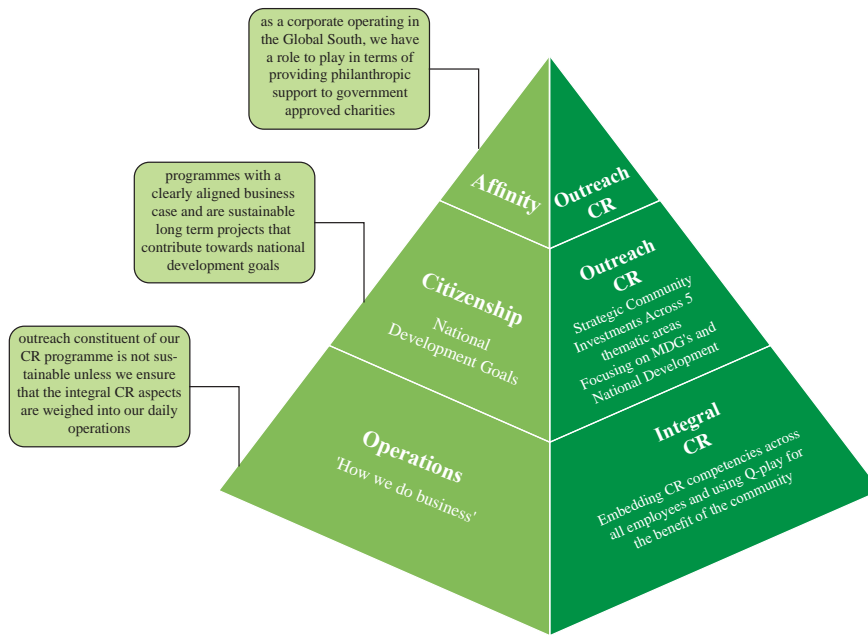
Strategic Community Investment (SCI) is sustainable long term investments in communities we operate and are closely aligned with a clear business case at Dialog Telekom.

Philanthropy

Dialog has recognized 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.



Dialogs Approach to Corporate Responsibility

This implies that our commercial enterprise must not directly or indirectly endanger 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 a competency attribute required among all employees, who understand and uphold the principles of sustainable development. Dialog uses integral CR as a management tool to measure fundamental aspects of our performance, targeting material sustainability issue management that have a significant business case. In 2007 we reviewed our positioning of the integral CR function within the organization that hitherto observed a

siloed approach which had a detrimental impact on providing management and the BoD with a holistic view of CR issues facing Dialog Telekom. The siloed structure was seen to overlap with other similar business management aspects of the company that led to potential duplication of work, mixed messages resulting in reduced buy-in and the lack of clear lines of responsibility/ accountability for certain risks among others. The new structure adopted by Dialog in 2007 promotes an 'integrated framework' that enables the company to factor CR within business processes more effectively and efficiently, proactively.

A unique feature of Dialog's integral approach is the company's ability to innovate and focus its core competencies on developing services and products with high social value. This unwavering focus on **'innovation for inclusion'** resulted in the distinction of being the only mobile operator in the World to win three consecutive World GSM awards for **'leveraging GSM technologies for the benefit of society'**. In 2007 Dialog continued to build on this successful track record and invested resources in further enhancing rural service offerings under its eZ portfolio. This extended parity access to services that were hitherto unaffordable to the bottom of the pyramid user segment. The eZinsurance micro insurance scheme and 'EasySeva' shared rural service kiosks are powerful illustrations of these developments during the year, whereby technology was used to bridge disparity across essential services that have 'relevance to local communities' resulting in improved access to information and enabling services. Dialog also extended its efforts to establish an online learning management network to bridge disparity in access to quality education for all children in the island and worked closely with relevant government authorities to roll out the country's first disaster and emergency warning network.

Dialog recognizes 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. Dialog's outreach CR efforts are entwined by a common purpose since all initiatives stem from a need to address fundamental human needs and national development goals that colligate 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 crisis's due to manmade and natural disasters and emergency situations. At Dialog we term this **'action oriented CR'**. In order to manage these types of philanthropic activities Dialog established the Change Trust Fund² in 1999. Over the past few years the Change Trust fund has supported numerous charitable initiatives and touched the lives of those marginalized in Sri Lanka, equitably.

Dialog Telekom defines Strategic Community Investments as 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 ICT for development

(ICT4D), empowering differently-able individuals, youth & education, environment and humanitarian. Dialogs flagship projects that were initiated and/or continued in 2007 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, Disaster and Emergency Warning Network and the Mobile Environmental Education Programme. Many of these initiatives have been conferred national significance and are implemented in collaboration with the respective Government Ministries.

2007 also saw Dialog reiterate its commitment to the United Nations Global Compact in support of the UN Millennium Development Goals when it was appointed to the UNGC local network steering committee as the representative of the communications sector in Sri Lanka. 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 and the UN Global Compact Principles.

FOR MORE INFORMATION PLEASE VISIT:

² <http://www.dialog.lk/change>

CR achievements and recognition

“DEWN IS A TRULY INSPIRING INITIATIVE TO UTILIZE MOBILE TECHNOLOGY FOR SOCIAL AND ECONOMIC DEVELOPMENT”
GSM WORLD MOBILE AWARDS 2007.



In 2007 Dialog built on its impressive track record when it received a commendation at the World Mobile Awards in Barcelona Spain for its cutting edge R&D efforts to develop socially inclusive services and products that help bridge the digital divide. As a result of a unique partnership with its technology partners the Dialog - University of Moratuwa Mobile Communications Research Laboratory and Microimage (Pvt) Ltd, Dialog was commended at the GSM World Mobile Awards 2007, for its collaborative non commercial research and development efforts in developing Sri Lanka's first multi modal mass 'Disaster and Emergency Warning Network' (DEWN) in the 'Best Use of Mobile for Social & Economic Development' category.

Over the last decade Dialog Telekom has been recognized, consistently, 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 GSMA world awards for leveraging GSM technology for the betterment of society and the communities we live in.

○ GSM World Award 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 per cent (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 Award 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 Award 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

○ National Best Quality Software Awards – 2006

Gold Award in the Research and Development Category

○ The National Awards for Science and Technology – 2006

Award for Excellence in Multidisciplinary Research & Development

○ GSM Asia Mobile Innovation Awards 2006

Short-listed for Innovative Technology Development Award

○ Vodafone 'World Around Us' Workshop in Cairo – 2006

Overall Commendation for 'Leveraging GSM in the Community'

Integral CR



The Dialog internal CR newsletter “Connect” is a key element of communication with employees on sustainability issues

“THE MYRIAD EFFORTS TO EMBED CR, ACROSS EVERY EMPLOYEE’S WORK ETHIC, HINGES ON OUR BELIEF THAT SUSTAINED CR PERFORMANCE IS DEPENDENT ON THE COLLECTIVE UNDERSTANDING OF THE PRINCIPLES OF CR BY ALL OUR EMPLOYEES”

Development of ‘CR’ competency across Dialog Telekom

In 2007 Dialog focused on scaling up CR competency levels through several general awareness programmes for all employees across the company as well as sensitizing strategic business unit managers on CR matters, through iterative meetings. The myriad efforts to embed CR further, within every employee’s work ethic, hinges on our belief that sustained CR performance is dependent on the collective intellect of the principles of CR by all our employees.

To this end a monthly internal CR Newsletter was initiated and an electronic version of this attractive and informative document was made available in Sinhala, Tamil and English languages, to all staff, with compelling competitions to enhance readership and readability. Back editions of the newsletter are made available on the company intranet for easy reference and access to all staff in all three languages. Going forward, the CR newsletter will be developed as a key vehicle to create a shared mindset, on our collective commitment to CR performance, across all levels of employment at Dialog.

Following Dialog Telekom’s successful membership bid to join the UN Global Compact in 2006 – the Worlds largest CR network with 4,400 organizations, the company was appointed to the Steering Committee of the UN Global Compact Local Network, in 2007, to drive the 10 UNGC principles and champion them within the communications sector in Sri Lanka. Following this privileged appointment, Dialogs CR attributes were featured in a booklet titled ‘Positioning Sri Lanaka’s Best’ that was launched at the Annual UN Global Compact Local Networks meeting in Monterrey, in recognition of its unfeigned efforts to champion the principles espoused by the Global Compact.

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.



Dialog also made steady progress in the incremental uptake of factoring and monitoring key performance indicators based on the Global Reporting Initiatives, G3 guidelines. A formal Corporate Responsibility Operations Committee (CROC) was appointed in 2007 to provide strategic relevance to the integral CR roadmap while processes were established to handle CR matters proactively, further strengthening the integral CR thrust. Data aggregation across relevant G3 indicators were consolidated during the year and used to further improve the overall triple bottom line of the company. Dialog also

strengthened resources in the operational sphere of integral CR in 2007, reiterating the company's commitment to go beyond rhetoric and begin performance related management of Corporate Responsibility, thereby ensuring that Corporate Responsibility becomes a management competency as opposed to a function limited to a siloed operation. In the next year, Dialogs integral CR efforts will be optimized to deliver on the commitment made to factor the impact on societal and environmental matters with every business decision and to ensure parity dividends.

Economic

PROVIDING ACCESS

Dialog has consistently centered its resources on adapting state of the art technology to deliver the outcome of 'relevant 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 sagaciousness toward a ‘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 sensitization 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 2007 Dialog continued to build on this focus with offerings based on m-commerce technology platforms that have been successful in sustaining and developing new cost/business models to profitably enact an inclusive approach to the market place.

Case Study – eZ Insurance

“eZ INSURANCE IS A BEACHHEAD M-COMMERCE INNOVATION THAT HARNESSSES THE POTENTIAL OF GSM CONNECTIVITY TO BREAK THE NEXUS BETWEEN POVERTY AND RISK.”



INSURANCE

The SMS based electronic top-up network in Sri Lanka was adapted to enable consumers to purchase micro-insurance – personal/dismemberment cover for as little as US 4 cents per month. eZinsurance delivers a manifold reduction in the Minimum Cost of Ownership (MCO) of Insurance. This

was the first time an insurance product was sold in sachet form and made available at grass root touch points accessible by rural communities. The pluralisation of access to “instant” and ‘micro-value’ insurance was made feasible through the intrinsic cost efficiency of SMS based m-commerce technology and its inherent strengths in lending viability to small value e-transactions through a low cost mobile phone. The cover is transacted in a paperless environment through Dialog’s e-recharge platform spanning 15,000 touch points, making life insurance affordable and accessible to an incremental segment of 12.8 MN Sri Lankans previously excluded due to MCO of Insurance products.

With costs 95% lower than traditional premium values, eZinsurance makes it possible for a previously excluded segment of 3.2MN households (12.8MN Sri Lankans), living below the poverty threshold, to access personal insurance.

eZinsurance has the potential to cover 4MN Dialog subscribers in the country, representing 1 in 5 Sri Lankans. It also has the flexibility for non Dialog users to subscribe to the service by producing identification along with a Dialog users mobile number. Dialog uses its existing electronic recharge platform, which further leverages existing technologies and distribution networks thereby seamlessly integrating the new service on to the electronic top up distribution model which is self sustaining. The business model benefiting merchant, operator and insurance provider ensures that this service is not dependent on a subsidy, and is founded on an equitable and sustainable commercial business case. The solution is supported on all handsets and does not have a design bias that excludes users of low end handsets, since it relies on simple SMS based transaction. eZ insurance is an ideal solution for insurance providers seeking to tap the bottom of the pyramid, and has created an opportunity similar to the mobile sector growth story.

eZinsurance also has manifold reductions on the aggregate ecological footprint per insurance policy. The solution is based on a paperless environment and does not rely on paper based products at all. This unique feature eliminates paper and all paper based products directly and cumulatively across the paper based industry supply chain including waste streams derived through printing, inks and dye usage, transportation, power and energy. The direct reduction in consumption of paper has a positive effect on forest resources, saving one tree for every one hundred insurance policies transacted via eZinsurance. The solution also eliminates the need for insurance agents to travel to rural locations, thereby further reducing the usage of fossil fuels needed to power automobiles required to reach rural locations. Overall, the solution enables a significant reduction on the aggregated impact resulting in a reduced carbon footprint versus a traditional insurance transaction.

Easy Seva: A Last Mile Initiative (LMI)

Easy Seva is a Last Mile Initiative project initiated by USAID, to redefine the idea of the “last mile” barrier to overcome two main constraints: Geographic isolation and Socio-economic isolation. The objective of Easy Seva Centers is to develop entrepreneurs in the ICT sector in Sri Lanka by deploying HSDPA and WiMax broadband Internet access at the village level to offer affordable ICT-enabled services and content to the rural community in Sri Lanka. The Easy Seva Tele-Centers are situated in rural Sri Lanka, connected through Dialog’s cutting edge wireless broadband technology, in partnership with Synergy Strategies and QUALCOMM.



EasySeva offers not only internet search, but also VoIP telephony and printing/copying services

Currently, there are 18 Easy Seva Centers in the Western, Central and North Central provinces that have begun operations in the past three months. Another 7 Centers will be implemented by March 2008. As second stage to the project, the centers will be increased up to 50 by December 2008.

From the beginning of the project initiated in 2006 September, EasySeva has been designed to go beyond simply improving connectivity to focus on using connectivity to deliver affordable services to under-served consumers in outlying communities. Hence, EasySeva offers not only internet search, but also VoIP telephony and printing/copying services.

In addition, customers have access to high quality educational and training programs in areas such as computer skills, vocational skills and English as a Second Language (ESL). Starting in Q1 2008, EasySeva will begin piloting the delivery of financial services (in partnership with a Sri Lankan bank) such as remittance receipt, micro-insurance, micro-loans, and micro-leases through its centers. EasySeva will also be adding

a health services package at that time that will allow rural residents to access health services in district and national level hospitals over the 3G HSDPA network.

All these services are offered at prices ‘Bottom of the Pyramid’ consumers can afford.

The Centers use a unique private sector model in order to facilitate financial sustainability. Unique features of the Easy Seva entrepreneurs include:

- A profitable and sustainable business model with training and marketing support
- Required commitment and financial responsibility to repay a microfinance loan worth \$1000 to \$ 2500.
- Standardized package of equipment, software, broadband connection offered with technical training and 24/7 Help Desk

By standardizing these offerings, the franchise model will reduce barriers to entry while simultaneously reducing operating costs for the franchisees.

Easy Seva not only provides opportunities for Sri Lankans to become new business owners, but also brings affordable high-speed broadband access to communities with limited or no connectivity previously.



The Dialog Viyapara Diriya workshops empower retailers to improve their business and lives through a paradigm shift

Easy Seva's entry into the region has contributed to reducing the 'digital divide' within the respective community. Within the short five to three months of Easy Seva performance shows an impact up to 400,000 people in the respective area. Utilization rates at the Centers have exceeded initial expectations with more than 400 users per month at some centers and Utilization up to 25GB of Data a month. Franchisees report sizable queues at their Centers with customers waiting to have access to PCs and phones.

Empowering Entrepreneurship at Grassroots

The Dialog Distributor Retailer Community Network (DRCN) programme set up in 2007 is a development based business mentoring programme to develop a minimum of 1,500 retailers across Sri Lanka within one year, using Dialog's business acumen, facilitation, and social investments. This initiative spearheaded by the distribution unit of Dialog, attaches value on the downstream supply chain in terms of leveraging and empowering the Dialog retail dealership, elevating them to higher entrepreneurial positions of stability through a series of workshops and self help resource material. Better business planning, access to micro and SME credit schemes and even the delivery of social benefits to the community are also envisaged as benefits of this unique grassroots initiative.

Benefits to the nation through this unique programme include, the promotion of business and invigoration of employment opportunities, the creation of a stable and sustainable enterprise culture, improved productivity among micro and SME category retailers, and an overall reduction of 'dependency mentality' threshold levels.

The programme is promoted among retailers as 'Dialog Viyapara Diriya'. One hundred and twenty seven Dialog

Viyapara Diriya programmes were successfully completed during the year ended 2007. The programme is based on a series of workshops that aim to build positive attitudes and improve entrepreneurial skills with appropriate monitoring and follow up. Positive contributions from Dialogs distributor network and their representatives are used in the implementation of this programme spanning 10 districts across Sri Lanka. Selected retail dealers are given individual attention and empowered to improve their business and lives through a paradigm shift derived through entrepreneurial oriented attitudes.

'Dialog Viyapara Diriya' consists of three workshops, namely 'Diyunuwe Doratuwa', 'Viyapara Selasuma' and 'Jaya Temba'. Modern experimental learning methodology with business games, simulation exercises and case studies, lectures, coaching and participatory approaches are used in the mentoring series. Among the key objectives of the Dialog Viyapara Diriya programme, the 'positive thinking' attitude change in retail dealers towards a development-based entrepreneurial outlook and 'applied entrepreneurial skills development' rank among the most important. The workshops also empower retailers to create more employment opportunities within their communities through proper business planning and business growth training.

The success of the Dialog Viyapara Diriya programme was acknowledged by the International Finance Cooperation (IFC) of the World Bank in 2007. The IFC entered into a cooperation agreement with Dialog to augment the reach and effectiveness of the programme further. IFC's proposed partnership with Dialog in 2008 would be a significant boon to the 33,000 strong Dialog retailers to improve their businesses through the collaborative programme. The IFC will primarily provide technical support in addition to funding to cover a portion of operating costs attributed to the programme in 2008.

Dialog also applied a non-discriminatory approach when planning programmes for the Viyapara Diriya schedule. To this end, special workshops were held with a positive bias towards women entrepreneurs and differently able retailers, ensuring the 'philosophy of inclusion' applied equitably where possible. The programme is implemented exclusively

with the assistance of the Business Development Center (BDC) a versatile professional grassroots entrepreneurship empowerment and business development organisation. Dialogs fruitful multi stakeholder partnership with the BDC and the IFC will be strengthened in 2008 to uplift the lives and assist enterprises through this programme.

Environment

THE FUTURE. TODAY, IS GREEN

During the 12 month period ending December 2007, Dialog went beyond stipulated regulatory compliance and adopted voluntary guidelines and standards based on best practice to further improve its ecological footprint, thereby improving its impact on the environment. In pursuing its vision of being the undisputed leader in the provision of multi sensory connectivity to empower and enrich Sri Lankan lives, Dialog Telekom has always been mindful of its ecological footprint. In 2007 Dialog reviewed its adherence to the standards set out in the local laws, regulations, guidelines, and policies, as well as its detailed procedure plan that helps to mitigate and minimize the company's ecological footprint when conducting its business affairs in a transparent and accountable manner. The organisation has consistently complied with all statutory regulatory conditions related to its sphere of operation and carried this through 2007. Dialog also applies the 'precautionary principle' across all its investments, and undertakes 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 2007 Dialog had no incidents of fines or non-monetary sanctions for non-compliance with applicable environmental regulations. All engineering operations including laying of fiber optic cabling, erection of base stations, towers and conducting site acquisitions take into consideration environmental compliance. In these instances Dialog ensures compliance 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. Dialog also implemented a grievance handling

system for complaints relating to the laying of fiber networks and implemented improvement measures to enhance its performance in this regard during the year, following stakeholder feedback in 2007.

CASE STUDY - M-WASTE

In 2007 Dialog implemented the country's first Mobile waste disposal programme, based on the company's environmental management guidelines, with the support of the leading state environmental agency the Central Environmental Authority of Sri Lanka. The initiative is the first of a series of programmes aimed at mitigating our impact on the wider environment through the operation of our business.

The M-waste initiative based on the 'precautionary principle' to mitigate potential liabilities arising out of legacy waste streams is a proactive measure by Dialog to tackle electronic waste. The M-waste take-back programme ensures that Dialog upholds its undertaking towards environmental stewardship espoused in the company's environmental policy. M-waste has become an increasing concern in the country with mobile phones, batteries and their accessories becoming a large part of a growing stream of waste in Sri Lanka.

An organisation's ecological footprint adversely impacts the planet through its 'consumption' of natural resources



Old mobile phones & batteries (M-waste) can be recycled by handing in at Dialog Arcades & Customer service points

and secondly through its 'waste streams' that interact with the biophysical environment. Dialog Telekom's exponential growth, particularly during the last five years, has broadened the company's business footprint across these two aspects and thereby its potential impact on the biophysical environment. Our 'ecological footprint' constitutes the pressure exerted by our organization on the regeneration processes of the biophysical environment through its direct business operations, its dependency on energy and a growing supply chain, and through its direct and indirect waste streams.

Displaying the Company's commitment to incorporate sustainability into its operations the M-waste take back initiative aims to reduce the levels of M-waste by collecting and recycling used handsets, batteries and accessories. The objective of the initiative is to reduce hazardous M-waste reaching the environment. Dialog will ensure that all collected handsets and accessories will be exported to a recycling plant overseas that is equipped with the technology to recycle or refurbish the material.

Dialog offers consumers incentives to return used handsets and batteries and thereby reduce the number of handsets and accessories (e-waste) reaching landfill sites by 10% (collect one million handsets by 2010) or 140 tons (780 cubic meters) of hazardous waste. The organisation also will endeavour to develop a dynamic take-back channel using Dialogs established channel network and dispose of stockpiles responsibly, to selected recycling plants outside Sri Lanka, thereby eliminating hazardous waste contamination. Dialog contributes Rs.20 for every handset returned and Rs. 10 for every battery returned to the company to a social cause.

The major obstacle identified across established take-back schemes, within similar socio-economic groups and macro environments, has been educating the consumers to return end-of-life handsets for refurbishment or recycling. This phenomenon is usually attributed to cultural dissonance and socio-economic conditions of each community. The majority of consumers perceive mobile phone handsets to have 'continued value', even after they have ceased using them, and prefer to hold onto them rather than return them. This approach is partly because of the 'financial outlay' associated with the mobile phone and the logic that an old 'back-up' phone may be useful if the replacement malfunctions.

The Central Environmental Authority of Sri Lanka has licensed Dialog to collect, store and dispose all hazardous substances out of the country. Each stage of the process and its sub-processes have to be managed closely, and requires an overall license for scheduled waste management issued by the Central Environmental Authority under the National Environmental Act No.47 of 1980 (section 23 A). All shipments of hazardous substances are governed by the 'Basel Convention' that regulates transboundary movement of material deemed 'hazardous'. Mobile handsets and particularly batteries are classified as hazardous material in the EU and hence shipments to that part of the World will have to conform to these international treaties. The CEA will provide guidance to Dialog on how to adhere to the Basel Convention, since Sri Lanka is a signatory to the Basel Convention and has ratified its guidelines. Dialog has modeled its M-waste programme according to the Mobile Phone Partnership Initiative (MPPI), under the auspices of the Basel Convention.

Social

EQUAL OPPORTUNITY AND DIVERSITY AT DIALOG TELEKOM

Dialog's performance driven culture is uncompromisingly aligned to our equal and impartial employment policy. Equal opportunity within the company means recognizing and valuing the contribution that individuals from different backgrounds can make in the workplace and thereby creating an environment for them to reach their potential without negative discrimination, harassment or victimization. Dialog does not support, condone or tolerate child labour in any form. The company strictly abides by all statutory labour requirements of the land that among others prohibit the

use of minors for employment whether on a part-time basis or on the permanent cadre. All contractual service providers to Dialog are also required to enter into service level agreements with the organisation and undertake to uphold the zero tolerance levels laid down on this aspect.

At Dialog the manner in which our human resources are managed and developed within the organization reflects our understanding of the inherent potential found

within a diverse team of talented employees. The Dialog HRD unit actively promotes engagement between management and employees through well-managed programs, policies and practices, by focusing on communication, employee relations, employee wellbeing and health and safety. At Dialog we acknowledge that our greatest asset is our employees and thereby we take every opportunity to nurture and develop the exceptional team who fuel our organisation. As an equal opportunity employer we have provided employment opportunities to a wide range of talented individuals based on a transparent and competitive process thereby encouraging diversity and inclusiveness within the organization, devoid of

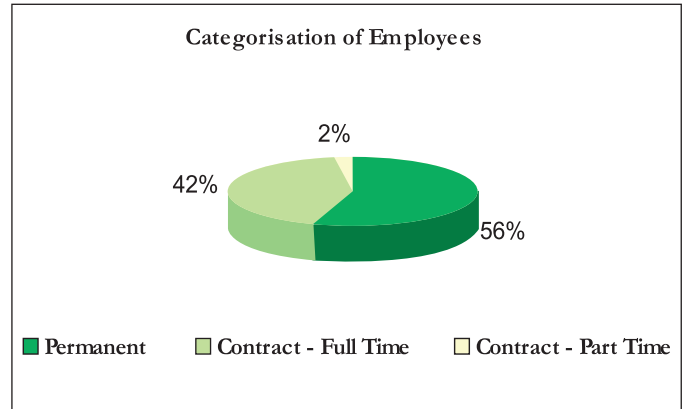


Employee engagement is facilitated through management-employee meetings arranged by the HR division

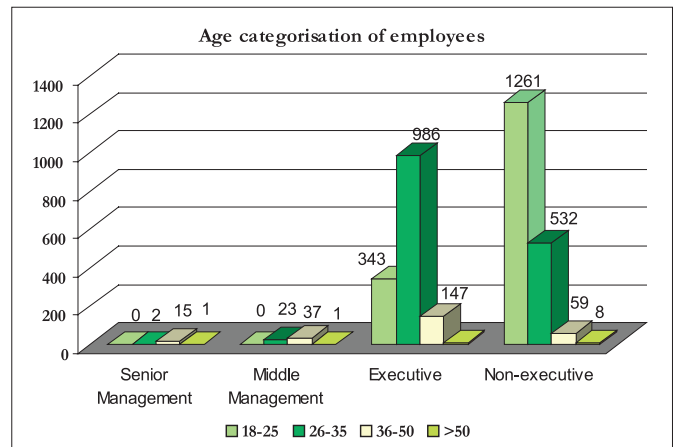
discriminatory policies and/or practices. The company aligns its strategies to be the “employer of choice” by way of remuneration, rewards, recognition, challenge and exposure. (Fig’s 2-4) illustrate the composition of employee categories within the company and demonstrates the diversity dimensions within the Dialog family.

All employees are governed by a ‘Code of Business Ethics’ (CBE) and a Non Disclosure Agreement (NDA). The code was designed to provide clarity for all employees and to deter corruption and preclude the disclosure of confidential information such as customer information to 3rd parties. Employees were also briefed comprehensively of these unequivocal guidelines and standards at their respective induction programs in 2007. Good relations between employees has been one of the cornerstones of Dialog Telekom’s success in the market to date. To this end, by recognizing its employees’ right to freedom of association, the organisation took measures to include a representative mix

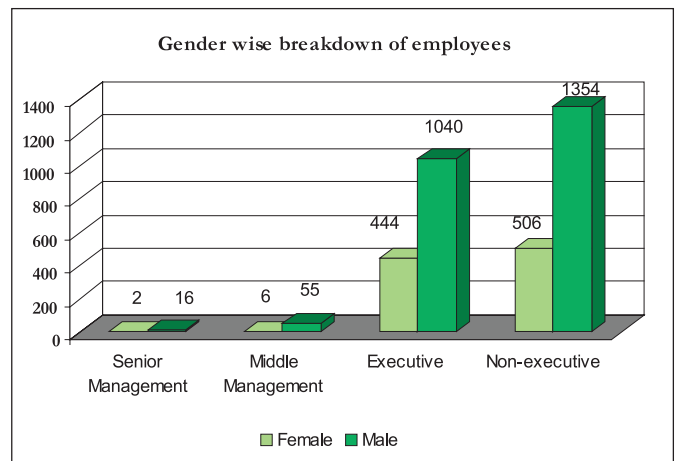
of key stakeholders across important/ relevant organizational processes in 2007.



(Fig.2 Categorization of employees)



(Fig.3 Age categorization of employees)



(Fig.4 Gender wise breakdown of employees)

Health & Safety

Dialog Telekom made appreciable progress in 2007 towards improving its 'Health and Safety' standards and processes. The company adhered to all relevant statutory provisions and all reasonable practicable measures to avoid risks to employees and communities who may be affected by our operations. All new recruits were also briefed on all important aspects detailed in the health and safety policy that covers a wide spectrum of issues related to occupational safety. This includes fitness to work on towers, manual handling/loading, posturing, working with chemicals, to maintain a consistent and high standard of awareness on health and safety practices at Dialog



New recruits are trained on Fire safety at the induction programmes

In 2007 the company built on the progress made to streamline these HSE aspects including the assessment of health and safety related risks and implementation of corrective action based on the assessment, periodic visits to the company's branches and sub locations, regular site inspections, preventive actions to reduce work related risks, facilitating the provision of safety equipment for all divisions and maintaining records and supplying of such equipments when necessary.

EMPLOYEE RELATIONS AND WELLBEING SERVICES

2007 was a period of exciting improvements in corporate responsibility competencies within group employee relations and wellbeing services at Dialog. A variety of relevant initiatives were deployed in order to enhance employees

wellbeing and to help ensure a healthy work life balance for all employees in 2007. The company's wide array of services includes the provision of medical facilities, the introduction of a corporate newsletter, psychosocial support services, recreational facilities and employee relations, health and safety and HR communication.

Town hall meetings were conducted to bridge the gap between employees and the management in 2007. Meetings were conducted between the two segments to communicate any grievances or issues related in their divisions. Through this interaction managers in the different sections were able to understand grievances raised by employees in their relevant divisions and took reasonable efforts to help in providing solutions.

Sports and recreational activities are provided to all employees with the intention of uplifting employee wellbeing, which will lead to the development of staff morale and overall health conditions. Sporting activities such as cricket, rugby, table tennis, badminton and basketball among others are available, overseen by the wellbeing service.

An online help desk was established in 2007 to provide employees with the convenience of making inquiries and information requests online. It also features a self help question & answer portal on a wide range of HR related topics. A SMS portal was also introduced in 2007 to provide employees with the convenience of checking their leave balance, assigned shift and to even request for leave, all from the convenience of their mobile phone through a simple SMS. This feature allows maximum convenience for employees as this system can be used from any location during any time of the day. Health and Insurance benefits for employees were also revised favorably in 2007.

GROUP SUPPLY CHAIN MANAGEMENT

In 2007 Dialog Telekom established guidelines to promote ethical practices and operate as a responsible citizen ensuring secure and promising working environment that is in-line with industry best practices relating to supply chain management, with all stakeholders. Dialog developed a stringent guideline for all its suppliers to ensure their business functions comply with legislative requirements, occupational health and safety practices, local and international labour regulations moral principles and environmental concerns throughout the supply chain. In order to accomplish the afore-mentioned objective, the Group Supply Chain Management team of Dialog Telekom deployed a variety of initiatives in 2007.

Supplier Guiding Principles

Dialog introduced an extensive guideline to educate both existing and potential suppliers concerning the company requirements to be certified as an approved supplier. This highlights product quality standards, cost, delivery, services, ethical practices and environmental standards. The suppliers who abide by such standards qualify to attain status as an approved supplier.

Supplier Evaluation Program

Once certified, in order to ensure the suppliers continually adhere and practice their business functions as per the expectations of the organisation Dialog introduced a periodical supplier performance evaluation survey that captures all interactions between Dialog and its supplier.

Supplier certification/award

Throughout continuous evaluations suppliers who have demonstrated exceptional performances will be awarded recognition in the Annual Vendor forum organized by Dialog. Such suppliers will be awarded as “Gold, Silver and Bronze” depending on their scores.

SCM Policy Guide

SCM policy guide was introduced to highlight ethical codes of purchasing that should be adhered and practiced by all the respective stakeholders of Dialog Telekom, including employees.

Product responsibility

MOBILE PHONE ETIQUETTE AND ETHICAL ADVERTISING

Dialog Telekom ensures that all commercial advertisements and marketing and/or promotional merchandise 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 sensitized to equally address English, Sinhala & Tamil speaking communities and have been extended even to SMS. In 2007 an internal marketing and advertising guideline was also developed following stakeholder feedback. During the year Dialog continued its efforts 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 continued its 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. Parental control on DTV offering is also a standard feature offered to all customers.



Outreach CR

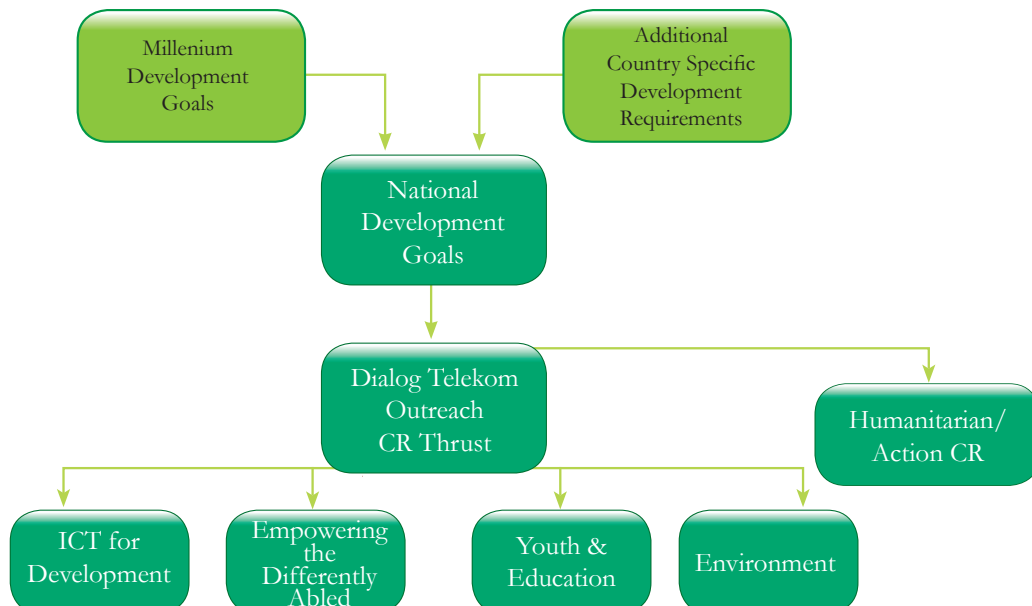
“DIALOG TELEKOM’S STRATEGIC OUTREACH INITIATIVES ARE SIGNIFICANT INVESTMENTS WE MAKE IN THE COMMUNITIES WE OPERATE IN AND REFLECT THE COMPANY’S UNFEIGNED COMMITMENT, ASSURANCE AND DESIRE TO ENRICH AND EMPOWER SRI LANKAN LIVES THROUGH SIGNIFICANT, POSITIVE ECONOMIC IMPACTS AND NATION BUILDING”

Strategic Community Investments have turned out to be an imperative component of businesses today. Throughout the world, companies have increasingly committed significant proportions of profits towards investing in non-tangible benefits conferred towards society at large or specific stakeholders in society. Whilst maintaining and abiding by pivotal values that are integrated into our business, we also believe that sustainability of our business can only be achieved if the community and environment we operate in is nurtured. Hence, a substantial amount of focus is placed on corporate responsibility outreach initiatives.

We operate our outreach initiatives with a single-minded conviction that community outreach should transcend ‘social marketing’ and altruism. In keeping with this ethos, at Dialog, we have chosen five thematic pillars, which encompass ICT for development, empowering the differently able, supporting youth and education, environmental stewardship and action oriented assistance focussed on humanitarian relief initiatives. These undertakings contribute towards nation building and are influenced by the United Nations Millennium Development Goals as well as requirements specific to Sri Lanka (See Diagram).

With the last five years seeing the emergence of the telecommunications sector as a driver of economic growth and development in Sri Lanka and various other parts of the world, we at Dialog Telekom, realize the value addition our business has towards the country’s advancement and economic growth. Therefore, strategic community investments made by using apt foresight and business strategy are crucial to us to ensure sustainability of our business and the communities and environment that we operate in.

Dialog Telekom has continuously challenged the realm of the utility of mobile and other communication technologies for communities by using our core competence toward furthering community outreach initiatives that have high social value. Providing parity dividends through our core competencies has continuously challenged the realms of communication technologies for communities but it’s a challenge we are facing with determination. We have not only utilized our in-house expertise towards these endeavours, but we have also played a leadership role in establishing multi-stakeholder partnerships to develop community focused technology solutions.



ICT for Development (ICT4D)

Information and Communication Technologies for Development (ICT4D) refers to the application of Information and Communication Technologies (ICTs) as an enabler or a catalyst within the field of socio-economic development. ICTs can be applied either in the direct sense, where its use directly benefits the disadvantaged people in Sri Lanka, or in an indirect way, where the ICTs assist governments, development organizations, or private sector institutions in order to improve socio-economic conditions within the ambit of National development.

Benefits of Dialog Telekom's ICT4D initiatives reach out to deserving communities in Sri Lanka through the dual channels, mentioned above, directly and indirectly. Dialog's e-Village project in Weeraketiya, its SMS based blood appeal with the National Blood Transfusion Service that facilitates a blood donor management system, and the SMS 118 emergency network are exemplar ICT4D projects whereby the benefits are transfer to the community directly.



The children at the Dombagoda Maha Vidyalaya, Ahungalla were among those who experienced the "gift of ICT"

Meanwhile, Dialog's collaborative Disaster and Emergency Warning Network (DEWN) with the Disaster Management Center, the Dialog Digital Bridge programme with the Ministry of Education and the National Institute of Education, and the Dialog Mobile Communications Research Laboratory with the University of Moratuwa are initiatives which empower organizations/institutes with ICTs to enable them to perform efficiently and effectively to ultimately bestow grater benefits to the people of the country. The private public partnerships Dialog Telekom has developed through its ICT4D initiatives

have assisted these public institutions through state of the art technologies and Dialog's quadruple play capabilities.

Our ICT4D initiatives complement other broader outreach themes such as education and empowering the differently abled. Projects such as the Digital Bridge, Ratmalana Audiology Center and the Listening Library and Therapeutic Center at Ranaviru Sevana at Ragama are a few examples of this feature.

Dialog believes that communication technologies can improve access to education in Sri Lanka by opening up distance learning opportunities and by giving access to up-to-date information. A number of factors contribute to this apparent divide, widely referred to as the 'Digital Divide'. Foremost among them are affordability, availability and necessary skills.

Dialog set up special focus on ICT4D in 2007, cognizant of the many challenges it would face in trying to bridge the digital divide.

DISASTER AND EMERGENCY WARNING NETWORK (DEWN)

Sri Lanka's first Mass Alert Emergency Warning Network to disseminate crucial information across the last mile, is a pioneering collaborative effort by Dialog Telekom, Microimage and the Dialog - University of Moratuwa Mobile Communications Research Laboratory in partnership with the Disaster Management Centre (DMC) under the Ministry of Human Rights and Disaster Management of Sri Lanka.



The DEWN alarm device developed by the Dialog- University of Moratuwa Mobile Communications Research Laboratory

In 2007 the Disaster Management Centre, together with Dialog Telekom Limited, has successfully concluded a pilot run of the Sri Lanka's first mass alert early warning system across five administrative districts in the country. 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 customized alerts to selected recipients instantaneously, and is compliant with the internationally accepted alerting protocol – CAP. In 2007 Dialog also provided the communication facilities to the National Building Research Organization for their landslide early warning project since NBRO is linked to the DMC to provide landslide early warning information to the Disaster Management Center. In 2007 the emergency operations centre of the Disaster Management Centre was given access to the secure DEWN alerting interface and capacity building was provided to develop requisite database and warning templates etc during the pilot. The technologies tested during the pilot included the following devices and technologies.

The Remote Alarm Device (RAD)

This is activated through SMS or Cell Broadcasting, and is designed to be fixed indoors in public buildings such as places of worship, hospitals, markets, schools, etc. It contains a loud siren, a flashing lamp, a 200-character LCD display, a call-back facility and a radio. The radio can be tuned to any frequency remotely by the DMC. The device has been developed by the Dialog- University of Moratuwa Mobile Communications Research Laboratory.

Mobile Handsets

Special phone software has developed by Microimage for Java/Symbian capable (smart) phones that causes the phone to ring continuously until acknowledged and displays the messages in all 3 local languages. DMC District Coordinators, being the first contact in each district, have been provided with such phones.

The key highlight of the year was the successful results gained through the effective usage of DEWN alarm devices at the district disaster management centers. It was decided to have remote alarm devices in all district centers of DMC and other public locations such as schools and hospitals as well.

DEWN received a commendation during the GSM Mobile Global awards in 2007.

Digital Bridge

DIALOG TO TAKE SATELLITE TECHNOLOGY TO RURAL SCHOOLS IN SRI LANKA

In an effort to bridge the rural-urban digital chasm in the education system, Dialog piloted the Digital Bridge distance learning initiative in 2007 across rural schools in partnership with the Ministry of Education. The year 2007 saw a significant learning curve across the project, and following the successful pilot, the main broadcast medium was altered from broadband technology to Satellite DVB to reach the most remote schools whilst maintaining cost efficiencies. As a holistic educational programme the Digital Bridge project has weighed all three aspects of connectivity, access and content to make it more effective.

This project launched in collaboration with the Ministry of Education is aimed at giving rural students the opportunity to engage in real-time interactive learning from experienced teachers. Going forward, lessons will be recorded at the television recording studio at the National Institute of Education (NIE), and broadcast via a dedicated channel on Dialog Satellite TV to 1000 schools connected to the network, initially. The channel will be supplemented by a Learning Management System (LMS) through which the interactive element will be facilitated. The channel used for the Digital Bridge Project will be called 'Nenasa' educational channel and will be launched in 2008 together with the Ministry of Education and the National Institute of Education. Under the Digital Bridge ambit, "Nenasa" will be completely dedicated to broadcasting educational programmes and will air educational programs catering to the Ordinary Level and Advance Level Syllabus in all three languages. The National Institute of Education (NIE) will be the content developer for this channel.



A student from Kandy asks the teacher at the Colombo hub a question in real time through the Digital Bridge

This channel is mainly to be focused on areas where there is a shortage of teachers. Dialog Telekom will also donate 900 television units and 100 projectors to selected schools around the country. The primary focus of the programmes on Nenasu will be Advanced Level and Ordinary Level subjects in Sinhala and Tamil. In addition to these, teacher training and skill development will be included in the program line-up.

Schools:

The 1000 schools for the initial phase was selected by the Ministry of Education during the year based on need and remote geographical dispersion.

Programs:

Clarity was established after the pilot, in 2007, on content scheduling. Primary focus of the lessons will be Advanced Level and Ordinary Level subjects in Sinhala and Tamil. In addition to these, teacher training and skill development will be included in the program line-up. The programs will be

produced by in-house technicians at NIE, with experienced teachers conducting the lessons. Apart from the lessons on syllabus content, documentary-type programs will also be produced with on-location filming.

LMS:

The LMS was developed by the Dialog-University of Moratuwa Mobile Communications Research Laboratory was modified after the pilot in 2007 to support timetables, lesson outlines, quizzes, etc. as well as pre-recorded lessons in audio-visual format. Voice and text chatting facility will enable teachers and students to interact.

Operations:

in 2007 a review committee was set-up to screen external programs and evaluate in-house productions. A supervisory committee comprising of senior officials from Dialog, NIE and MOE will provide high-level guidance on programme content suitability and quality.

Dialog-University of Moratuwa Mobile Communications Research Laboratory



Research Engineers create technological innovations at the Dialog- University of Moratuwa Mobile Communication Research Laboratory

The Dialog-University of Moratuwa Mobile Communications Research Lab was established under a tri-partite agreement between Dialog Telekom, the University of Moratuwa and Uni Consultancy Services. The laboratory is part of Dialog's social investment towards uplifting the R&D capability and higher learning in Sri Lanka.

The Mobile Communications Research Lab focuses on applied research and development on location-aware technologies and mobile geographical information systems, applications of short range RF technologies, interactive



Broadband and multimedia applications, telemetry, modeling of the telecom business environment, emerging applications of communications in disaster management, education, energy, health, environment etc. In less than four years the lab has performed beyond expectations and has produced several high-quality creations. Among these are products with commercial potential (such as new Fleet Management System, Timekeeper project, Positioning project), and those with value for the community (such as the improved DEWN alarm device and the Learning Management System for the Digital Bridge) were completed in 2007.

e-Village – a village in the cyber world

In 2007 Dialog launched an initiative to establish an e-Village in an attempt to empower the Medamullana village in the Hambantota district through ICTs. The e-Village concept has two key elements defined as Human (community) and Technology (ICT). Throughout the e-Village project all the activities are being carried out to develop the two elements in parallel as it is vital for the projects success. Community capacity building programmes such as computer training and English teaching, were planned in 2007 and will be carried out in partnership with the Consortium of Humanitarian Agencies. Other technological aspects such as implementing the WiMax network, Wi-Fi hotspots, etc. were completed during the year by Dialog Telekom.

Communication technology is being applied in the village for development areas like education, social, culture, economy, health, administration/government services and agriculture. A fully featured village web portal which was commissioned for development in 2007 will be developed by the Dialog - University of Moratuwa Mobile Communication Research Lab. The e-Village web portal would have different features for the listed functions/ services. The creation of new ICT based livelihoods and improving the productivity of existing livelihoods will be significant objectives under the proposed

activities in the coming year.

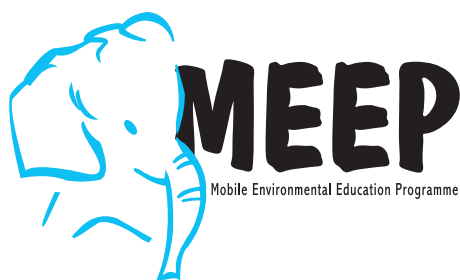
The e-Village project will be completed in three phases. The 03-month first phase was completed during the year 2007 with preliminary capacity building of all community and technological infrastructure development. Phase two will be commissioned in Q1 and Q2 2008, followed by the final phase, which will be the exit phase for Dialog after ensuring the e-Village is firmly rooted on a sustainable grassroots business entrepreneurial model.

Dialog - Blood Appeal, Matching And Donor Management Service

In 2007 Dialog revived its Award Winning Blood Appeal, Matching and Donor Management Service in collaboration with the National Blood Transfusion Service Sri Lanka, aimed at increasing donor pledges that would be useful in an emergency situation for all Sri Lankans.

Donors will be encouraged to register for this service through SMS and will be followed by the project staff at the National Blood Transfusion Service facilitating them till the point of donation. The National Blood Transfusion Service will also maintain a database of the donor's details through this service and will contact the donor when necessary.

Environment



MOBILE ENVIRONMENTAL EDUCATION PROGRAMME

The integrated nature of unsustainable consumption habits and unregulated development in Sri Lanka have the potential to affect the biodiversity of Sri Lanka's fauna and flora and invariably; thereby, impact the social and economic fabric of the nation across all sectors and communities. To this end, environmental education and awareness acts as a powerful tool that can be used to promote/ create awareness on the need to conserve our natural environment.

To this end, Dialog Telekom in collaboration with the premier environmental agencies in the country – the Central Environmental Authority (CEA), World Conservation Union (IUCN) and The Biodiversity and Elephant Conservation



MEEP aims to educate and promote environmental consciousness among youth in rural and urban areas of the country

Trust (BECT) propose to initiate, sustain and monitor an ongoing Mobile Environmental Education Programme (MEEP) to educate and promote environmental consciousness among youth in rural and urban areas of the country.

This collaborative initiative will use a motor vehicle equipped with two resource persons to promote environmental education on sustainable consumption and conservation in selected areas in the country using print and electronic multimedia educational material.

Additionally the CEA will also coordinate a weekly radio show with veteran radio broadcaster Mrs. Sumana Jayathilake on Sinhalese commercial service of SLBC which will be aired as an extension of the MEEP to children all across the island.

Humanitarian – The Change Trust Fund



The Change Trust Fund was established in 1999 by Dialog Telekom and is the company's key philanthropic outreach initiative. Over the past few years the Change Trust fund has supported numerous charitable initiatives and touched the lives of those marginalized in Sri Lanka, equitably. Dialog Telekom conceptualized an innovative locally engineered



Children the Siviraja school chat with a Dialog Change project representative during a handing over ceremony

GSM customer care, billing and relationship management system to create a unique usage based charity computation, matched 1 for 1 by the network. Under the program, post-paid subscribers are invited to donate half a per cent (0.5%) of their Dialog GSM bill to the Fund up to a maximum of Rs. 25/=, with Dialog making a matching donation.

The fund is disbursed to disadvantaged communities of society upon a needs assessment and evaluation on a case-by-case basis. Hence every Dialog GSM call can make a positive change in transforming the future, today. The projects initiated under the Change Trust Fund are dispersed impartially across the Island, to needy beneficiaries, along the five thematic areas identified by the strategic community investments.

“Participating in community service projects gives you a diversion from your busy schedules & makes you think about what life is and gives you a feeling of satisfaction which is difficult to explain. It is such that money can't buy... I think everyone should take part in this”

Hisham Abdulazzez
Manager - Sales

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 organization, and enables employees from cross-functional teams to collaborate for an altruistic cause for the greater good of a particular beneficiary.

“This was very challenging and I got a chance to move with all levels of people in the country. I felt that I helped to fulfill their needs to some extent – I could share their joy and sorrow. The project are totally different to what I do in office and I am happy that I managed to be apart of something that contributes to the betterment of the people in the country. I got that chance through 'The Change Trust Fund projects”

Sudesh Wijesinghe
Asst. Coordinator- Customer Service



An eye test is carried out on a child for the first time with the new equipment at Lady Ridgeway Children's Hospital



Transforming Their Future-Today!



The Change Trust Fund volunteers for 2007

In 2007 a high number of employees turned out to volunteer for Change projects carried out during the year. Since its inception, the Change Trust Fund has always encouraged active employee participation in Community projects. In 2007 over 120 employees from across many business units participated as volunteers, representing a 200% growth in volunteer numbers.

The volunteerism initiative also helped promote team work, enhance professional skills, prompt creative thinking, and contributed to job satisfaction as well as personal satisfaction by creating opportunities for employees to realize the importance of dedicating a few hours of their time to worthy

causes that help many needy, less privileged individuals in society.

“The community project is what I could do to go and touch the hearts of the people in the island. People out there too are very pleased to get a helping hand from us to overcome their problems. I got the chance from the company, apart from the duties that I do in the office to help these people. This is really a social responsibility”

Lakshika Sampathwaduge
Coordinator – Customer Service

The “Change” made in 2007

In the year 2007, Dialog Telekom undertook to assist 22 beneficiaries. These recipients were chosen after a detailed needs assessment was carried out by the Trust during the last quarter of 2006, and subsequently approved by the Trustees of the Change Trust Fund at the Annual General Meeting held in April 2007.

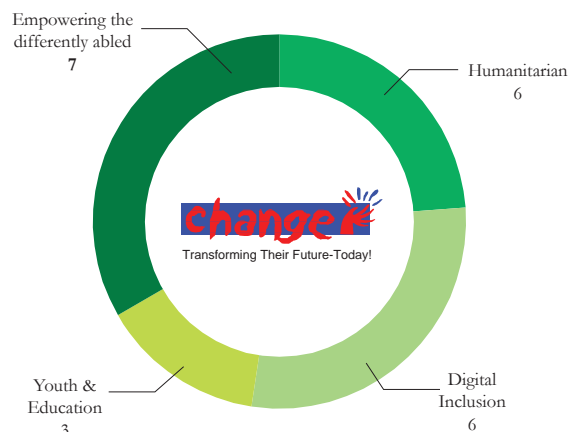
The Change Trust Fund was set up with the objective of:

- (a) Working towards uplifting the standard of living of the less privileged in society
- (b) Providing children and youth access to Information Technology
- (c) Improving quality of education for children through facilitation of resources, and training, to assist them in realizing their potential
- (d) Providing aid to victims of natural and man-made disasters
- (e) Preservation of the environment

The Change Trust Fund is a powerful reminder that

corporate organisations have a significant role to play in the development of the community and its welfare, particularly in developing countries of the Global South, through a proactive process of engagement and responsibility in the environment in which it operates.

The 22 projects undertaken in 2007 spanned four out of the five main thematic areas. The thematic segregation of projects carried out in 2007 is illustrated below.



Distribution of Change Projects in 2007

Humanitarian assistance.

- Heart surgery for children at no cost or very little cost to the patients.
- 06 television (21 inch) sets to be installed at the waiting area of the clinics.
- Donation of ophthalmic equipment.
- Brick making & Hand paper manufacturing.
- Donation for Gift of Life Sri Lanka (Digital Inclusion)

Digital Inclusion

- Computers for Maligahena Muslim MV, Beruwala.
- Sponsorship of teacher's salaries for St.Patrick's college, Jaffna.
- Computer lab for Thiththagalla Dombagoda Vidyalaya.
- Computer lab for St.Sebastian Tamil Maha Vidyalaya.
- Computer labs at 03 different locations managed by World View.
- Computer lab for a school in Yodhakandiya to mark the launch of the 1000th base station

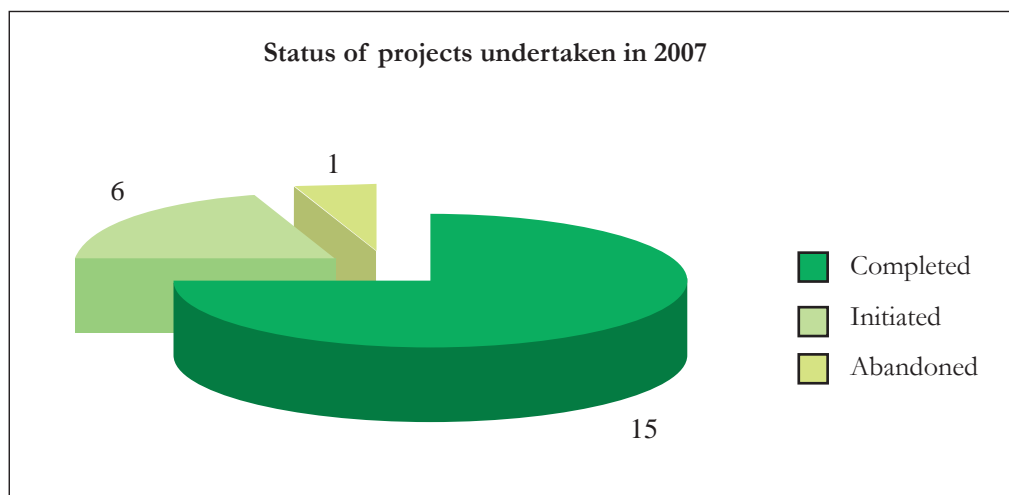
Youth & Education.

- Provide furniture & playground items for 05 pre-schools in under developed areas.
- Community & Library for Sri Lanka Navy-wounded servicemen's children.
- Community Centre and Library for children of the wounded servicemen of the Sri Lanka Navy

Empowering the differently able.

- Building up of Sensory room for children at the Senehasa Children's Resource centre in Galle.
- Funds for field trips for children at Christ King National School, Ja-Ela.
- Donation for construction of a boundary wall for Senkadagala Deaf & Blind School.
- Donation for musical instruments, multimedia projector, iron racks for the hostel, computers & computer tables.
- Donation for hearing aids at Narada Savana
- Donation for refurbishment of boy's hostel and maintenance of institution.
- Donation towards project carried out for Deaf & Blind children.

Out of the 22 approved (listed) projects for 2007, 15 initiatives were completed in 2007, one (06) is still work in progress and one project was abandoned



Education



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

Dialog Scholar Program

Dialog continued its support to improve education for Sri Lankan youth in 2007. Each year Dialog Telekom along with the Ministry of Education and the University Grants Commission in Sri Lanka identifies the best performing students in the country, at the GCE Ordinary and Advanced level examinations. These students are trained in technology management and soft skills in addition to the scholarships, to ensure that they experience holistic development not limited only to academia. Scholarships are awarded to the top 30 students who qualify to follow mathematics at secondary level, as well as the top 25 students who qualify to pursue undergraduate university degrees in the field of Engineering (Electronics, Electrical, and Computer), two of them who are sponsored to attend the prestigious Multimedia University in Malaysia. Two additional scholarships are also awarded at undergraduate level to differently able students as per the criteria laid down by the University Grants Commission.

Dialog came forward once again to award Sri Lanka's top scorers at the local Ordinary Level examinations with Dialog Merit Scholarships in November 2007, held under the distinguished patronage of the Minister of Education, Hon. Susil Premajayanth, MP. During the year three Dialog Scholars from Kurunegala, Vavuniya and Colombo, who were awarded scholarships in 2004 for outstanding performance at the Ordinary Level Examination, topped the national aggregate list at the previous years Advanced Level Examination.

This was the second year in which three out of the top five performers in the Physical Science stream were Dialog Scholars. It was also the second time that a Dialog Scholar was named the All Island Best Performer. The students who excelled in the 2006 examinations were K. Rajeevan from Vavuniya, Buddhi Wijerathna from Kurunegala and Manuda Herath from Colombo.

Dialog currently has 100 ongoing undergraduate active scholarships, 60 Advanced level scholarships and 06 International scholarships. The Dialog Scholarship alumni

currently stands at 50 Undergraduates, 100 Advanced level students and 2 International Students.

During the year, the Dialog Scholars put their engineering knowledge to practice by designing prototype vehicles using simple electrical items at the annual residential soft skills training workshop at the Pegasus Hotel, Wattala. The 3 day residential workshop, part of the Dialog scholars initiative revolved around teams of scholars developing prototype vehicles for the market as a mock exercise, which included project planning, project management and devising marketing strategies as well.

The in-tray activity allowed scholars to use their innovation skills and supported them towards experiencing enterprise in a more holistic manner, preparing the participants for the real world once they graduate from university. This group exercise was a culmination of the soft skill and managerial skill development programs conducted by Dialog for the benefit of Dialog Scholars. Dialog also conducted seven modular workshops for the scholars to enhance their skills during the year.



All-island top performing students at a Dialog Scholars induction ceremony



Dialog Scholars practice innovations and improve on soft skills at their Annual residential workshop

Empowering the Differentlyabled



THE RATMALANA AUDIOLOGY CENTRE

Dialog Telekom handed over the country's first digitally-equipped, state-of-the-art Audiology Centre to the Ceylon School for the Deaf and Blind at Ratmalana on the 21st of May, 2007.



Gifted by Dialog Telekom to the Ceylon School for the Deaf & Blind



The Ratmalana Audiology Centre features cutting edge diagnostic equipment to facilitate the early detection of hearing deficiencies



The Ratmalana Audiology Centre

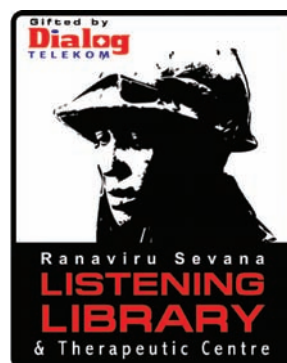
The Ratmalana Audiology Centre features cutting edge diagnostic equipment to facilitate the early detection of hearing deficiencies in children. The centre reinforces Dialog's commitment to its vision of facilitating multi-sensory connectivity for Sri Lankan citizens. The Ratmalana Audiology Centre – a gift from Dialog - accentuates the organisations commitment to extend its vision beyond the realms of our business to meet the greater challenges facing our community. Through the establishment of a cutting edge diagnostic centre, Dialog hopes to make some contribution

towards the mitigation of the incidence of hearing impairment in Sri Lanka.

The Ratmalana Audiology Centre, constructed on the premises of the Ceylon School for the Deaf and Blind started operations on the 15th June 2007. The centre consists of a clinic equipped with state-of-the-art diagnostic equipment and offers a wide range of tests including Otoacoustic Emissions Testing, Auditory Brainstem Response Testing, Behavioral Audiometry and Tympanometry. The Centre also provides management and after care services such as Speech Therapy, Counseling and a Hearing Aid Repair Unit and is staffed by a group of highly trained professionals. The centre is designed to be a one-stop diagnostic facility supplemented with post-diagnostic services.

Ranaviru Sevana Listening Library

The proposed auditory library will fill both a therapeutic as well as recreational lacuna at Ranaviru Sevana. Functionality of the center includes many pragmatic and useful extendable benefits thereby providing an opportunity for inmates to stay occupied and intellectually stimulated. The library can also be used for speech therapy purposes.




The Ranaviru Sevana Listening library & therapeutic center building work in progress

The Listening Library and Therapeutic Centre will be the first of its kind in Sri Lanka. In construction at the Ranaviru Sevana premises the Centre provides audio based knowledge and learning services for the soldiers of Ranaviru Sevana. The Centre will empower soldiers undergoing rehabilitative therapy for brain damage and visual impairment. The Centre primarily focuses on empowering its patients physically, mentally and emotionally by gradual long-term social integration. The facilities at the Centre will include audio recording facilities, an audio library for the visually challenged soldiers, a recreational area as well as physiotherapy sessions and IT training. The audio library will house wide selection of audio books ranging from current affairs and news to popular short stories and poetry, while the IT room will give access to the internet thereby providing constant intellectual stimulation.



MANAGEMENT

 DISCUSSION &
ANALYSIS

Management Discussion & Analysis

Executive Summary

A CLOSER LOOK AT OUR PERFORMANCE IN 2007

Commencing the year with a mobile subscriber base of 3.11Mn. Dialog Telekom focused 2007 plans and initiatives on continuing its aggressive growth trend with respect to mobile business while building and consolidating platforms for future growth in the form of Fixed Line, Broadband, 3G and Digital Television infrastructure. Objectives with respect to mobile growth were underpinned by a committed focus on infrastructure development in terms of enhancing the reach and capacity of the company's mobile network. Network expansion was carried out based on the objective of expanding the market space through coverage enhancement to reach an increasing portion of the country's landmass. Likewise market expansion was further extended through the enhancement of product utility through innovations in terms of Value Added Services designed to meet the extended connectivity requirements of consumers across multiple segments and demographics.

The achievement of the company's aggressive objectives were conditioned by the onset of aggressive competition and relatively harsh external environments in terms of macro-economic dynamics and the security conditions in the North and East of Sri Lanka.





2007 performance which will be elucidated in detail herein features significantly the achievement of an year end mobile subscriber base of 4.26 Mn (YoY growth of 37%) which establishes in the main the company's aggressive and competitive performance in its core business of mobile telephony, notwithstanding the perturbations arising from the external environment.

Dialog Telekom PLC will hereinafter be referred to as the "Company" and the Dialog Telekom Group (hereinafter referred to as the "Group"), will denote the "Company" and its subsidiaries Dialog Broadband Networks (Pvt) Ltd (DBN). and Dialog Television (Pvt). Ltd (DTV).

Highlights

- Dialog Telekom (the Company) Recorded 37 per cent Mobile Subscriber Growth, 24 per cent Revenue Growth, 7 per cent EBITDA Growth and 1 per cent PAT Growth during the FY 2007.
- The Board of Directors have proposed to deliver 44 per cent of 2007 earnings to shareholders through a dividend payment totalling Rs.4,479.08 Mn. and translating to 55 cents per share.
- Dialog Broadband Networks launched CDMA WLL Fixed Line, and WiMax Broadband Wireless Access, Networks during the course of 2007, delivering Revenue Growth of 42 per cent (adjacent) QoQ basis.
- Dialog Television recorded 40 per cent (adjacent) QoQ subscriber growth and achieved revenues of Rs. 722.45 Mn. during 2007 – its first Year of Post-Acquisition Operations.
- Subsidiaries of Dialog Telekom however delivered Negative PAT Contributions comprising Negative Rs. 317.96 Mn. from DBN and Negative Rs.788.53 Mn. from DTV respectively which will be explained in Section 4.
- Dialog Group recorded 27 per cent Revenue Growth, Negative 0.03 per cent EBITDA Growth and Negative 11 per cent PAT Growth post consolidation of Negative Contributions from Subsidiaries (New Businesses).
- Group-wide Infrastructure Investments in 2007 totalled to Rs. 25 Bn. (237 million USD) fuelling growth in Network Capacity and Reach of GSM, 3G/HSPA, WiMax, CDMA, Digital Television and Fibre Optic Network infrastructures.
- Ongoing and accelerated Growth of Multiple Networks/ Services will be strongly supported by robust equity and debt funding secured during 2007, featuring in the main strong shareholder support through Sri Lanka's largest Rights Issue of Rs.15.54 Bn. (including an equity infusion of Rs.13.05 Bn. by Telekom Malaysia), Institutional Support for the Company's Preference Share issue of Rs.5 Bn. and debt/equity participation by the International Finance Corporation(IFC) to the value of USD 100 Mn.

DIALOG TELEKOM PLC (“THE COMPANY”) PERFORMANCE SUMMARY

	2007	Compounded Annual Growth Rate (CAGR) % (FY 2003-2007)
Cellular Subscribers :	4.26 Mn	51 
Company Performance Revenue :	Rs. 31.13 B n	43 
Gross Margin :	Rs. 19.25 B n.	44 
EBITDA :	Rs. 14.33 B n	40 
PAT :	Rs. 10.13 B n.	37 

FINANCIAL PERFORMANCE

The Company’s Mobile Business exhibited strong growth with Mobile Revenues growing by 24 per cent YoY and totalling Rs 31.13 Bn. The Company recorded a PAT of Rs.10.13 Bn. up 1 per cent relative to the year ended 31 December 2006.

The Company’s revenue potential was diluted by intermittent disruption of services in the Northern and Eastern provinces of Sri Lanka during the first half of 2007 and a reduction in tourist arrivals which in turn diluted International Roaming

Revenues relative to their full potential. It is surmised that performance of the aforementioned revenue sources to their full potential would have had a significant impact on Revenue and PAT growth in 2007.

The Company also experienced operational and direct cost expansion during the second half of 2007 largely arising from the macro-environment as well as from the application of aggressive focus on the roll-out of multiple new services and expansion of subscriber base.

Connectivity to Deliver Empowerment & Enrichment

OUTREACH

The Company invested aggressively in network infrastructure during 2007 resulting in large scale expansion of its GSM & 3G/HSPA service coverage across the country. New coverage areas encompassed a large number of rural towns including but not limited to Deberawewa, Koslanda, Udadumbara and Diyagama, and spread across all 9 provinces of the country. The rapid and efficient deployment of investments extended strong support to a 37 per cent growth in mobile subscribers and the extensive expansion of 3G/HSPA services to cover most key cities and towns in Sri Lanka. Dialog’s 3G/HSPA network now empowers communities in most provinces with high speed broadband and other 3rd Generation Services delivering manifold enhancement to the quality and capacity of telecommunications infrastructure services available to consumers in outlying regions of the country. The Company also commissioned the first phase of its Fibre Optic Transmission network in the city of Colombo.

As more-fully described alongside subsidiary performance, the Dialog Telekom Group (encompassing subsidiaries DBN

and DTV) during the course of 2007, delivered enhanced connectivity through CDMA services (including remote Districts of Anuradhapura, Polonnaruwa, Ampara and Hambantota), WiMax Broadband Services (including outlying urban centres such as Akkareipattuwa, Ampara, Bandarawela, Batticaloa and Dambulla) and Digital Satellite Television Services (island wide footprint) to citizens across Sri Lanka.

AFFORDABILITY ENHANCEMENT

In tandem with large scale expansion to its coverage footprint and portfolio of services (including the expansion of its 3G/HSPA network and high speed broadband services), Dialog Telekom announced an aggressive tariff reduction with a view to expanding the market space and capturing an increasing proportion of incremental subscribers, through the enhancement of the affordability of its services. The tariff reduction featured discounting of key tariff dimensions by up to 50 per cent resulting in an overall increase in affordability by over 35 per cent. The Company has seen requisite results of its endeavours in terms of usage expansion and subscriber and revenue growth. Similar

enhancement of affordability was delivered with respect to International Telecommunications service enabling Sri Lankan consumers to call overseas for tariffs as low as Rs 7/- per minute. Furthermore Dialog's rapidly expanding 3G network delivered a tariff regime featuring a maximum tariff of Rs 3/- per minute and a greatly reduced cost of access with respect to high speed HSPA broadband services.

In its wider scope of operations across multiple connectivity technologies and services, the Dialog Telekom Group enhanced the affordability of WLL Fixed Line Services through a revolutionary tariff regime for CDMA services, reduction of entry barriers to fixed broadband services in tandem with the launch of WiMax services and the introduction of an entry level service plan for Digital Pay Television services featuring an unprecedented level of affordability at Rs. 100/- per month.

INNOVATIVE SERVICES

The company has been consistently aggressive in applying its innovation strengths towards enhancing the affordability and applicability of its services. The latter approach has been evidenced to have an accretive effect on the overall competitiveness of its product offerings especially when applied in tandem with the company's superlative brand

equity and unrivalled distribution network.

GROWTH IN SUBSCRIBER BASE

Dialog's inclusive approach to pluralizing access to connectivity technologies has transformed mobile telephony from its exclusive positioning in 1995 to a broad based commodity affordable and available to citizens from all walks of life. Dialog Telekom with its affordable service offering has played a significant role in the Sri Lankan mobile telecommunications Value Chain. Entry Costs are observed to have collapsed from levels in excess of Rs 15,000 to less than Rs. 3,000 (approx USD 25). Dialog has also been instrumental in driving Minimum Costs of (ongoing) Ownership to levels of less than Rs.50/- per month with the rewarding outcome of cross-segment inclusion as manifested in 90 per cent of Subscribers being drawn from segments generating less than Rs.400/- per month.

The prepaid subscriber base recorded an impressive CAGR of 57 per cent during the five year period from 2003 to 2007, representing the major thrust underpinning subscriber growth momentum. The postpaid subscriber base grew at a CAGR of 26 per cent over the same period. Overall, the total subscriber base growth over the past five years recorded a CAGR of 51 per cent as depicted in figure 1 below:

Subscribers In Thousands	2003	%	2004	%	2005	%	2006	%	2007	%	CAGR % (2003-2007)
Post-paid	228	28	329	24	441	21	484	16	569	13	26
Pre-paid	602	72	1,030	76	1,682	79	2,621	84	3,690	87	57
Total subscribers	831	100	1,359	100	2,124	100	3,106	100	4,260	100	51

Table -1: Growth of subscriber base

Figures in the table may not add up due to rounding.

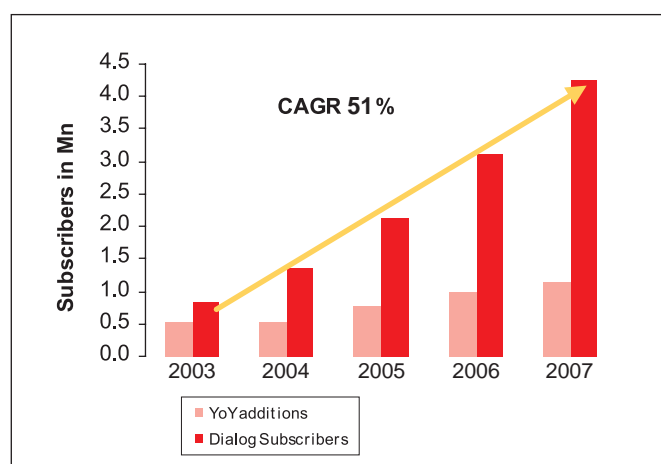


Figure -1: Growth of Subscriber base

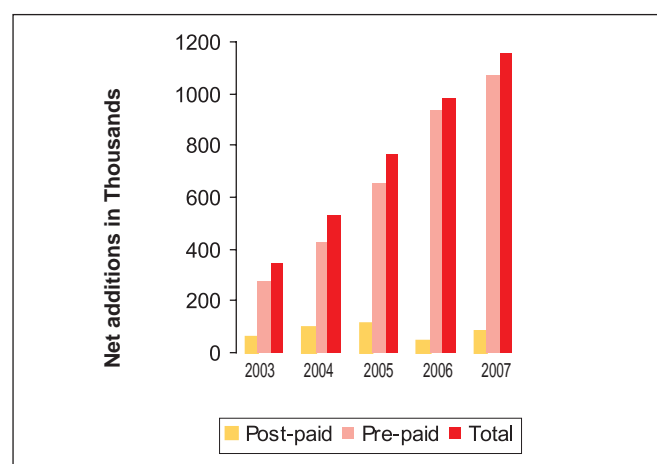


Figure- 2: Subscriber net additions

The Company added (net of churn) over 1.15Mn subscribers during the year 2007. The Company's active cellular subscriber base increased by 37 per cent to reach 4.26 Mn subscribers at the end of 2007. The prepaid subscriber base increased by 41 per cent to reach 3.69 Mn in tandem with the post paid subscriber base increasing by 18 per cent to 0.57 Mn.

Subscribers In Thousands	2006	%	2007	%	Change %
Post Paid	484	16	569	13	18
Pre Paid	2,621	84	3,690	87	41
Total subscribers	3,106	100	4,260	100	37

Table -2: Subscriber mix

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

The company's mobile subscriber base exhibited a Post-paid: Prepaid Mix of 13:87 (per cent) as at year end 2007.

USAGE AND REVENUE TRENDS

ARPU differs widely between post-paid and pre-paid segments. Post-paid ARPU was registered at Rs. 1,688 in 2007 (Rs. 1,698 registered in 2006) while Pre-paid ARPU was recorded at Rs. 412 (Rs.432 recorded in 2006). In comparison to 2006, both pre-paid & post-paid ARPUs exhibited a decline due to the acquisition of subscribers from the rural areas as well as the bottom of the pyramid.

The blended ARPU (weighted average between Post and Pre-paid) has been sustained at above Rs. 580 (USD 5) despite the implementation of substantial tariff reductions and over 90 per cent of net new additions being generated from the lower ARPU pre-paid segment. ARPU maintenance is largely attributable to competitive pricing driving escalation of MoUs in combination with the increased adoption of innovative value added services.

Figure 3 indicates the blended ARPU trend together with the growth in the per centage of pre-paid subscribers.

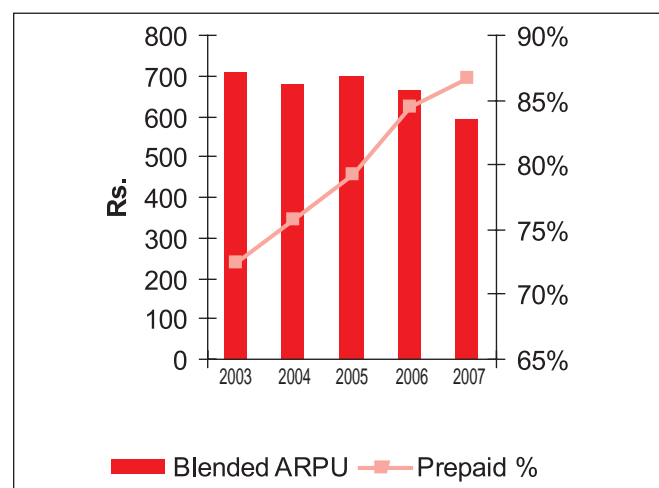


Figure-3: Blended ARPU/month

CUSTOMER RETENTION

The company has applied specific focus to the retention of customers and the achievement of above average retention levels relative to regional peers.

The churn rate for the FY 2007 was 6.32 per cent, recording an improvement in performance compared to 9.12 per cent for the FY 2006.

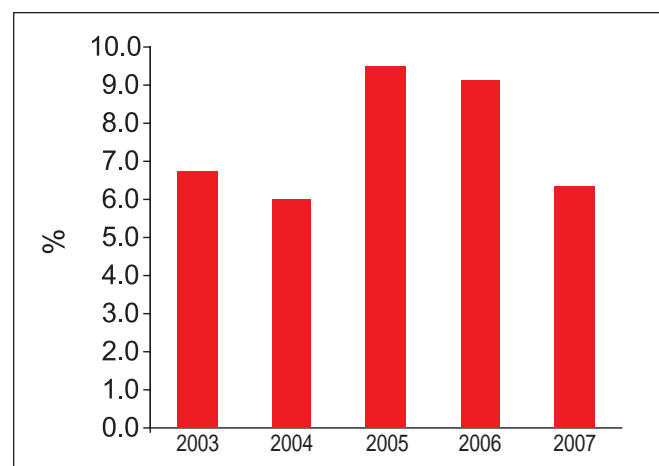


Figure - 4: Annual Churn rates

1.0 Financial Performance Review of Dialog Telekom PLC (Company)

1.1 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 2007 are given below.

The Company has delivered CAGR in excess of 35 per cent in terms of Revenue, Gross Profit, EBITDA and PAT, notwithstanding the impact of the multiple external environments impinging on the company's operations.

In tandem with aggressive tariff reductions, the Company has maintained its gross margin and PAT margin in excess of 60 per cent and 30 per cent respectively.

Figures in the Tables 3,4, and 5 may not add up due to rounding.

Income Statements

(all figures in Rs. Mn)	YEAR ENDED 31 DECEMBER					CAGR % (FY2003- 2007)
	2003	2004	2005	2006	2007	
Revenue	7,477	11,407	18,034	25,149	31,129	43
YoY %	63	53	58	39	24	
Direct Cost	2,973	3,932	6,214	8,536	11,882	41
YoY %	46	32	58	37	39	
Gross Profit	4,504	7,475	11,821	16,613	19,248	44
YoY %	76	66	58	41	16	
Gross Margin %	60	66	66	66	62	
Administration and Distribution	1,854	3,152	4,557	6,039	8,917	48
YoY %	56	70	45	33	48	
EBITDA	3,729	5,917	9,416	13,362	14,329	40
YoY %	88	59	59	42	7	
EBITDA Margin %	50	52	52	53	46	
PBT	2,414	4,140	7,054	10,105	10,172	43
YoY %	85	72	70	43	1	
PAT	2,859	4,101	7,012	10,049	10,127	37
YoY %	164	43	71	43	1	
PAT Margin %	38	36	39	40	33	

Table -3: Audited Income Statements for FY 2003-2007

Balance Sheet

(all figures in Rs.Mn)	AS AT 31 DECEMBER				
	2003	2004	2005	2006	2007
ASSETS					
Non Current Assets	10,985	13,466	21,918	31,330	49,528
Current Assets	2,332	5,688	10,469	10,466	20,379
Total Assets	13,317	19,154	32,387	41,796	69,907
EQUITY AND LIABILITIES					
Capital & Reserves	5,478	8,712	17,201	24,983	51,380
Non Current Liabilities	5,791	6,600	8,989	7,569	5,216
Current Liabilities	2,048	3,842	6,198	9,244	13,311
Total Equity and Liabilities	13,317	19,154	32,387	41,796	69,907

Table -4: Audited Balance Sheets for FY 2003-2007

Cash Flow Summary

(all figures in Rs.Mn)	YEAR ENDED 31 DECEMBER				
	2003	2004	2005	2006	2007
Net cash from Operating Activities	3,477	6,971	9,012	11,976	16,324
Net cash used in Investing Activities	(3,938)	(4,061)	(10,139)	(12,934)	(25,168)
Net cash used in Financing Activities	(308)	(255)	4,581	(3,429)	12,668
Increase/(decrease) in Cash and Cash Equivalents	(770)	2,655	3,454	(4,387)	3,825
Movement in Cash and Cash Equivalents					
At start of year	1,285	515	3,170	6,624	2,237
Increase/(decrease)	(770)	2,655	3,454	(4,387)	3,825
At end of year	515	3,170	6,624	2,237	6,062

Table -5: Audited Cash flow Statements for FY 2003-2007

1.2 Performance of Operations

1.2.1 Revenue

Total operating revenue increased by 24 per cent (relative to 2006) to total Rs. 31,129.19 Mn. Revenue growth was driven by robust growth in the cellular subscriber base, which translated to the generation of enhanced call revenues. The prepaid segment continued to contribute an increasing proportion of subscriber growth. Other factors driving revenue growth include the growth in coverage and increases in the volume of international traffic and associated revenues.

Revenue growth during the period FY 2003 to 2007 exhibits a CAGR of 43 per cent.

The growth in revenue over the five-year period 2003-2007 is depicted in figure 5.

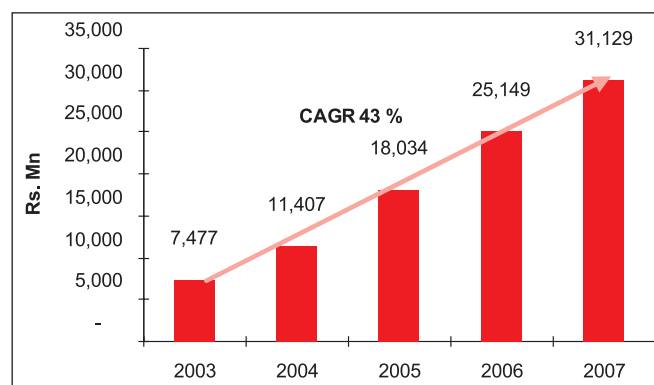


Figure-5-Revenue Growth

The revenue composition over the five-year period is depicted in figure 6.

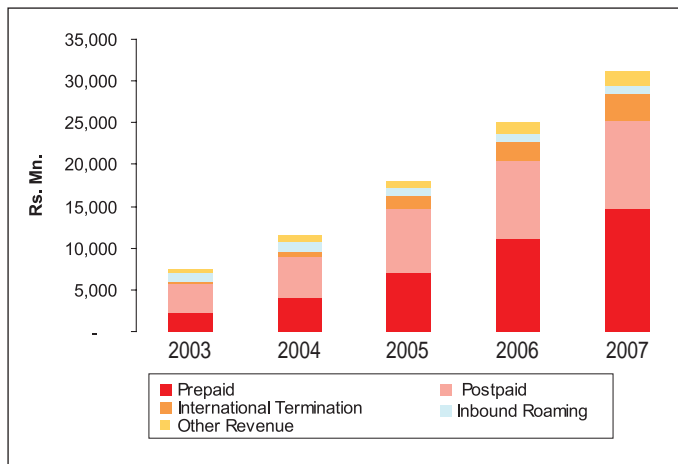


Figure-6: Revenue Composition

As depicted in the figure 6, prepaid revenue is the most significant contributor to revenue and was generated by 3.69 Mn. subscribers in the FY 2007. The postpaid segment continues to represent a steady revenue stream recording a YoY growth of 11 per cent.

Domestic revenues, which consist mainly of pre-paid and post-paid revenue, remained the dominant constituent of Company Revenue and accounted for approximately 81 per cent of total revenue in the year ended 31 December 2007. The revenue growth achieved was on the backdrop of intermittent disruption of the company's services in the Northern and Eastern Provinces of Sri Lanka during the first half of the year, and the dilution of International Roaming Revenues (correlated with Tourist arrivals) relative to the corresponding period in the previous year.

The revenue mix for the years ended 2006 and 2007 is depicted in Table 6.

(all figures in Rs. Mn.)	2006	%	2007	%	Change %
Pre-paid	10,760	43	14,811	48	38
Post-paid	9,410	37	10,439	33	11
International Termination	2,221	9	3,270	11	47
Inbound Roaming	983	4	933	3	(5)
Other Revenue	1,775	7	1,676	5	(6)
Total Revenue	25,149	100	31,129	100	24

Table-6: Revenue composition 2006 & 2007

1.2.2 Direct Costs

Direct costs for the period under review amounted to Rs. 11,881.60 Mn. compared to Rs. 8,536.15 Mn. recorded for the year ended 31 December 2006 reflecting a 39 per cent increase.

Significant components of direct costs are Network cost (31 per cent), Telecom equipment depreciation (28 per cent), International Telecommunication Levy (11 per cent), International Origination cost (10 per cent), roaming costs (7 per cent) and Lease circuit rental costs (3 per cent).

The direct cost for the years ended 2006 and 2007 is depicted in Table 7.

(all figures in Rs. Mn.)	2006	%	2007	%	Change %
Network Related Costs	7,503	87.89	10,644	89.59	42
As a % of Revenue	29.85		34.19		
Customer Related Costs	995	11.65	1,225	10.31	23
As a % of Revenue	3.96		3.94		
Others	39	0.45	12	0.10	(67)
As a % of Revenue	0.15		0.04		
Total Direct Cost	8,536	100	11,882	100	39
As a % of Revenue	34		38		

Table -7: Direct costs

The direct cost over the five-year period is depicted in figure 7.

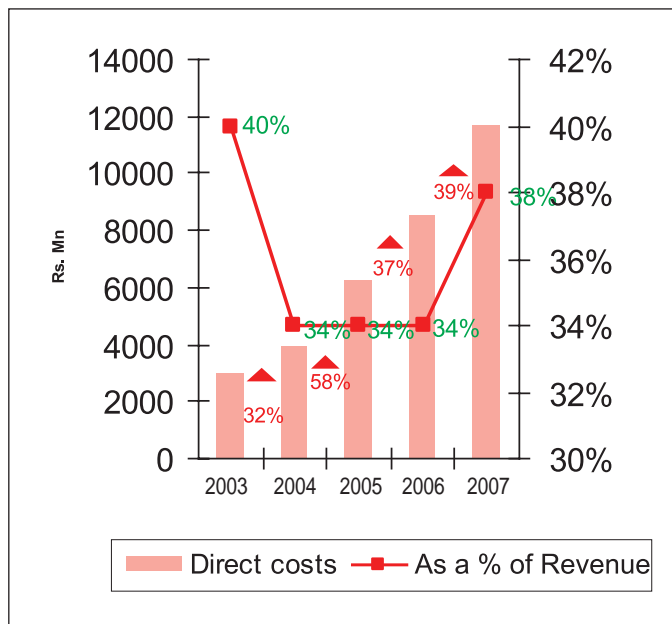


Figure –7: Direct Costs

Direct costs as a per centage of operating revenue has increased from 34 per cent during the year ended 31 December 2006 to 38 per cent during the corresponding period in 2007. Performance relative to revenue is mitigated in the main due to the company not achieving its full revenue potential due to the revenue mitigating factors related to the disruption of services in the Northern and Eastern Provinces and the dilution of international roaming revenues due to a reduction in tourist arrivals. The aforementioned externalities were compounded by a relative expansion in costs during the latter half of 2007. Cost expansion is largely attributable to the dynamics of macro-economic indices acting in tandem with the growth in scale of the company's operations during the course of the year.

1.2.3 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. 1,279.49Mn.) for the FY 2007. The levy is provided for and classified under direct costs. The PAT figures for the FY 2006 and the FY 2007 are stated after the deduction of this levy, dues pertaining to which have been settled in full for FY 2007. During the course of 2007, the Telecommunications Regulator announced that it would refund 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.

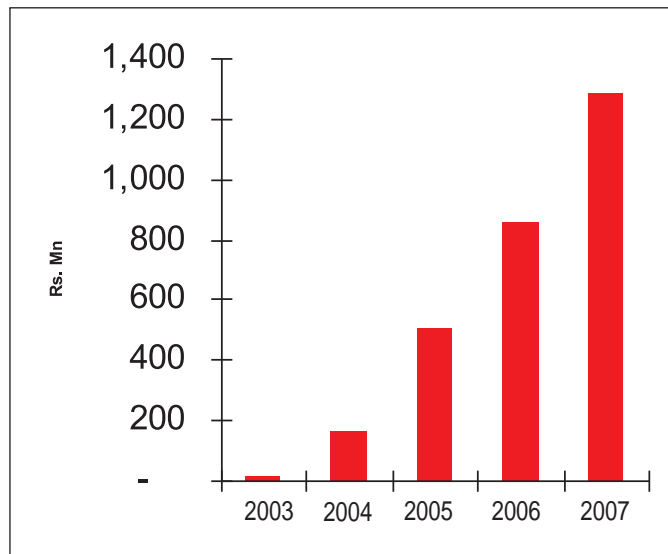


Figure –8: ITL payments

ITL payments grew in line with the growth in international traffic.

1.2.4 Operating Expenses

The Company's operating costs were recorded at Rs.8,916.58 Mn. Operating expenses expressed as a per centage of revenue has increased from 24 per cent recorded in 2006 to 29 per cent in the year ended 31 December 2007. In addition to inflationary pressure on principal cost lines, performance relative to revenue is mitigated due to the company not achieving its full revenue potential due to the revenue mitigating factors cited in the context of the direct costs analysis in section 1.2.2.

Operating costs comprise mainly of selling and distribution expenses, manpower and general administration costs. In keeping with the company's aggressive thrust towards subscriber additions and market capture (delivering 37% growth in subscriber base), selling expenses, inclusive of sales commission and advertising & promotional expenses, contributed 39 per cent of total operational expenditure.

The operating expenses over the five-year period is depicted in figure 9.

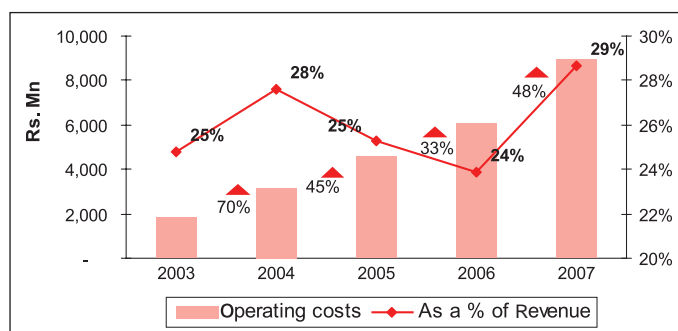


Figure –9: Operating Expenses

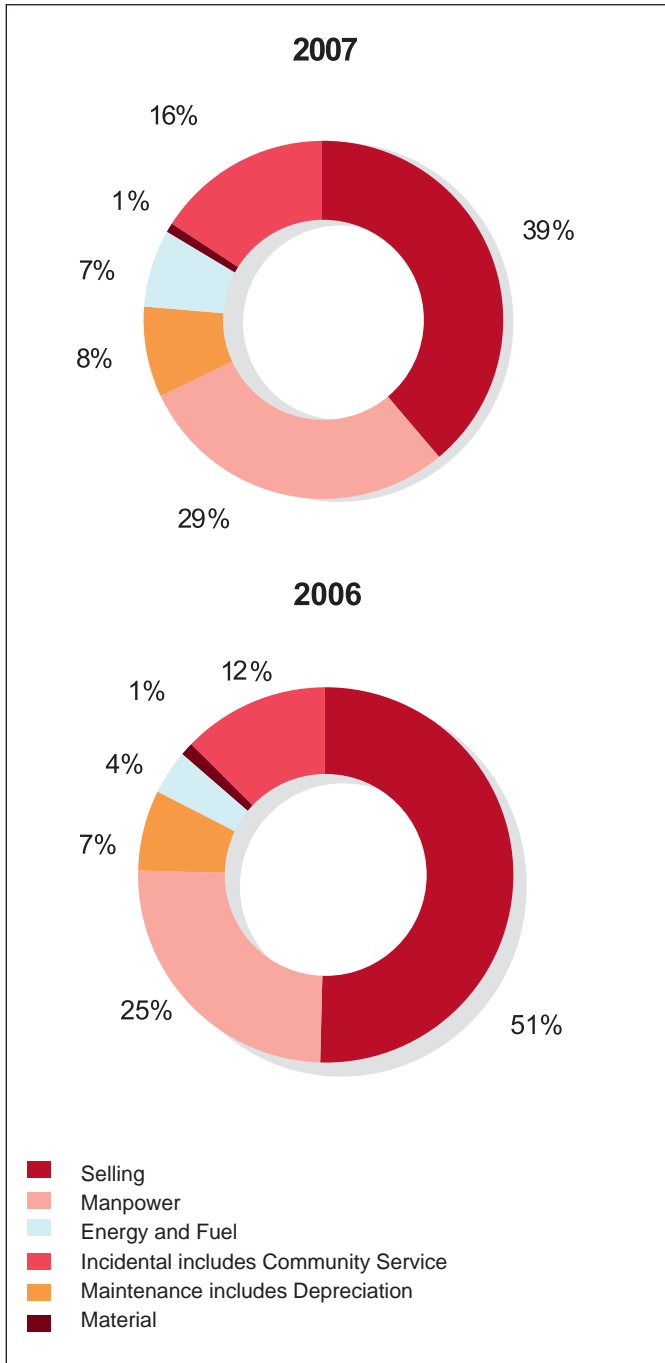


Figure -10: Composition of Operating Expenses

1.2.5 Depreciation

The Company has recorded a depreciation and amortisation charge of Rs.3,997.55 Mn for the FY 2007 against the FY 2006 figure of Rs.2,787.56 Mn, representing a 43 per cent increase YoY on the backdrop of aggressive capital expansions totalling Rs. 22,170.73 Mn.

1.2.6 Finance Costs

Dialog performed a strategic review of its borrowings portfolio during the course of 2007. The latter review was prompted by the escalation in interest rates and the requirement to adjust

component ratios (in terms of foreign and local borrowings and Debt: Equity ratios) within the debt portfolio in order to align with the dynamics of local and international debt and equity markets. In the light of the aforesaid analysis Dialog Telekom prepaid several commercial borrowing facilities during the third-quarter of 2007, which have reduced the finance costs by 12 per cent when compared to 2006.

The net finance cost for the year ended 31 December 2007 was Rs. 485.06 Mn. The composition of the net finance cost includes interest on borrowings during the period of Rs. 602.66 Mn, and interest income of Rs.151.57 Mn.

Net finance cost also includes the impact of foreign exchange losses/gains arising from the revaluation of foreign currency denominated assets and liabilities.

1.2.7 Taxation

Dialog has been granted Flagship Investor status by the Board of Investment (BoI) of Sri Lanka by virtue of the quantum of inward infrastructure investments made by Telekom Malaysia. The terms of the Flagship Investor agreement bestow a 15-year tax exemption period on the Company, which terminates in the year 2012. Upon the expiry of the tax holiday, for 15 years to follow, the Company would be liable to pay corporation tax either at a concessionary rate of 2% on revenue, or at the prevailing corporation tax rate. The Company will be required to select its preferred option at the end of the tax holiday in 2012.

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

1.2.8 Profitability

○ Gross Profit

The gross profit of Rs. 19,247.59 Mn represent an increase of 16 per cent relative to Rs. 16,613.16 Mn recorded for the FY 2006.

The variation in annual gross profit of the Company for the past five years is given in figure 11.

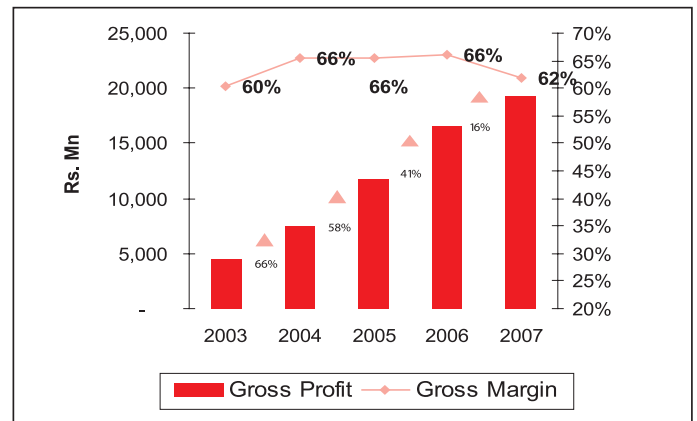


Figure-11: Gross Profit

EBITDA

EBITDA was recorded at Rs. 14,328.56 Mn. for the year ended 31 December 2007 compared to Rs. 13,361.85 Mn. for the year ended 31 December 2006 representing a growth of 7 per cent.

EBITDA growth delivered by the Company for the past five years is illustrated in figure 12.

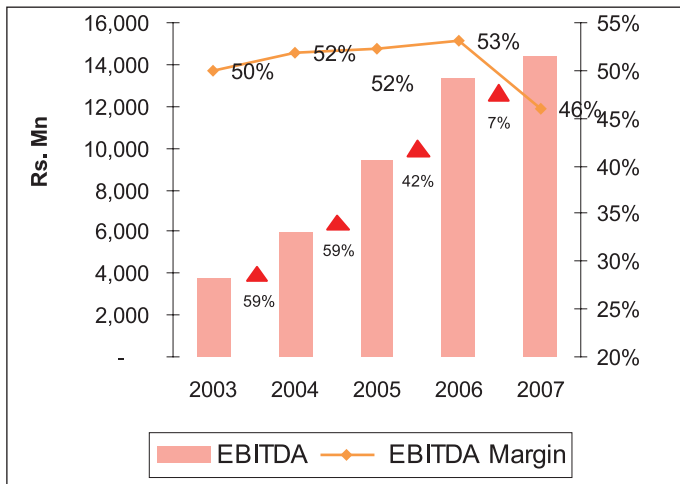


Figure -12: EBITDA

PAT

The Company recorded a PAT of Rs.10,126.51 Mn. representing a 1 per cent earnings growth relative to the figure of Rs. 10,048.67 Mn. recorded for the corresponding period in 2006.

The PAT growth delivered by the Company over the past five years is given in figure 13.

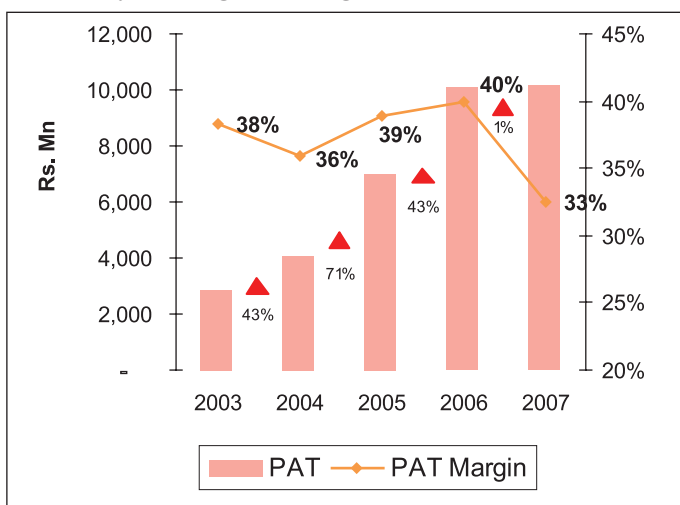


Figure - 13: Profit After Tax

Margin Analysis

Principal drivers of EBITDA and PAT margin mitigation include (external) Revenue Mitigating factors as described earlier in tandem with cost escalation arising from macro environmental factors as well as expansion of internal operations.

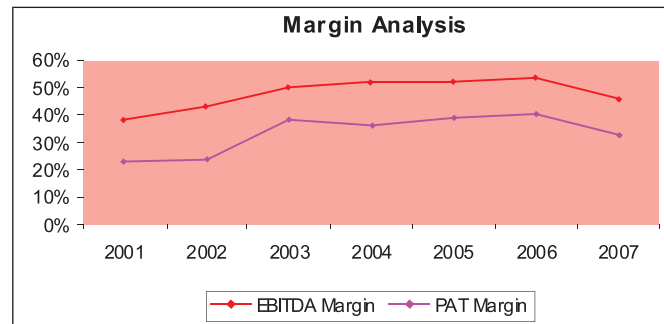


Figure - 14: Margin Analysis

2.0 Balance Sheet

2.1 Assets

Dialog Telekom's non-current assets as at 31 December 2007 stood at Rs. 49,527.59 Mn. representing an increase of 58 per cent compared to 2006. The current assets of the company were recorded at Rs. 20,379.24 Mn. as at 31 December 2007.

2.2 Liabilities

The company's loans which did not have unwinding cost were pre-paid and converted to working capital lines. The Company secured a debt facility for USD 70 Mn. from the IFC in September 2007 of which USD 25 Mn. was drawn down in November 2007. The Company has ensured that debt servicing on all its term loans is up to date and current.

2.3 Working capital

The net working capital for the Company for the FY 2007 was Rs. 7,068.42 Mn. an increase by Rs. 5,846.46 Mn. for 2006.

Short term investments, cash in hand and at bank net of bank overdrafts, as at 31 December 2007, was recorded at Rs. 6,062.16 Mn. compared to Rs. 2,237.46 Mn. as at 31 December 2006 representing an increase of Rs. 3,824.70 Mn.

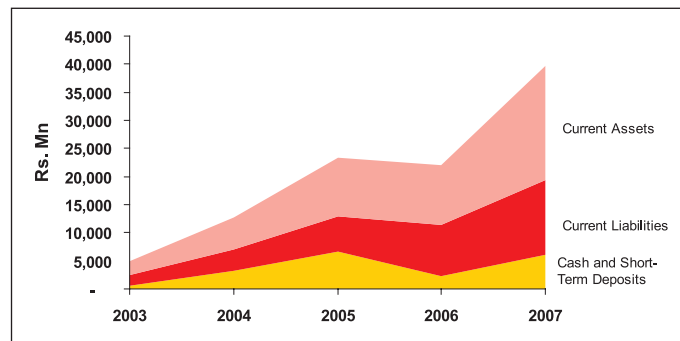


Figure-15: Working Capital Management

2.4 Shareholders Funds

Shareholders fund increased from Rs 24,982.88 Mn. to Rs. 51,379.75 Mn. The increase is fuelled primarily by the rights issue that was completed in June 2007.

2.5 Capital Structure

The total assets of the Company, as at 31 December 2007, of Rs. 69,906.83 Mn was funded by a combination of shareholders funds, long term creditors and short term creditors in the proportions of 74 per cent, 7 per cent and 19 per cent respectively. The long-term funding accounts for 81 per cent of total funding and comprises shareholder funds (91 per cent) and debt (9 per cent).

2.6 Key Indicators

KPI	Units	2006	2007
Adjusted Net asset per share	Rs.	3.07	6.30
Gearing Ratio	%	25	24
Net debt to EBITDA *	Times	0.74	0.60
Return on Equity (RoE) **	%	47.64	28.21
Return on Capital Employed (RoCE) ***	%	32.52	21.45
Current Ratio	Times	1.13	1.53
Quick Ratio	Times	1.07	1.48
Interest cover	Times	19	21

Table-8: Key Indicators

* Debt includes Preference shares

** RoE is computed as PAT/ Average Shareholder funds

*** RoCE is computed as EBIT/ Average Capital Employed

The adjusted Net asset per share for 2007 is Rs 6.30, thus reflecting an YoY increase of 105 per cent when compared with the figure of Rs. 3.07 for FY 2006. Compared to FY 2006, net assets per share have increased in FY 2007 as a result of equity infusion via rights issue.

The company's Net Debt to EBITDA ratio exhibits an YoY reduction due to the prepayment of several commercial borrowing facilities during the third-quarter of 2007 and an increase in cash position relative to the FY 2006.

Furthermore the raising of funds via the mid-year rights issue accounts for the reduction YoY in terms of the Return on Capital Employed and the Return on Equity.

The current ratio has increased from 1.13 in the FY 2006 to 1.53 in the FY 2007 mainly due to the increase in cash

position and reduction in short term debt. In parallel, the quick ratio has also exhibited a similar trend increasing from 1.07 to 1.48.

Interest cover at 21x reflects significant improvement relative to the FY 2006 arising from the prepayment of commercial debts and the resultant savings in finance costs.

3.0 Cash Flow

3.1 Operating activities

The net cash flow generated from operating activities was recorded at Rs.16,324.17 Mn in FY 2007 compared to Rs.11,975.72 Mn in FY 2006, representing an increase of 36 per cent YoY.

3.2 Investing Activities

During the year, the Company made capital investments of Rs. 25,300.27 Mn compared to the sum of Rs. 13,019.16 Mn invested in FY 2006. The 94 per cent YoY growth in the capital investment is in line with the Company's strategy of aggressive deployment of infrastructure across multiple sectors spanning mobile communications, fixed telephony, broadband, digital television and advanced value added services.

The Company invested a further Rs. 39.67 Mn. for the acquisition of the balance 10 per cent of Asset Media (Pvt) Ltd in September 2007.

The total capital expenditure for the FY 2007 is distributed across the key business lines as depicted in figure 16.

On the back drop of the aforesaid analysis the company floated a rights issue based on the view that equity holders would be afforded a significantly value added investment opportunity through the raising of additional equity during 2007 and releasing corresponding debt capacity for absorption during forward periods.

The Company's Rights issue to raise Rs. 15.54 Bn (in the proportion of one share for every ten) was successfully subscribed for by over 100%, thereby making the issue the largest ever equity raising exercise to be executed on the Sri Lankan Capital market.

The Company also ventured to raise Rs. 5.0 Bn through a hallmark preference share issue via the issuance of Rated Cumulative Redeemable Preference Shares, which were strongly supported by a large number of banks and financial institutions.

The afore-reference review of the debt portfolio precipitated the securing of lower cost debt facilities from the IFC and DFCC and the planned prepayment of older debt with the resultant impact of a reduction in overall net-financing costs.

Dialog's scheduled principal repayments and prepayments on its loans amounted to Rs 11,265.83 Mn in the FY 2007 relative to Rs. 1,057.69 Mn. in the FY 2006. Prepayments accounted for 59% and principal repayments for 41% of the total disbursement of Rs 11, 265.83 Mn during the course of 2007.

3.4 Dividends

- A final ordinary dividend of Rs 4,071.89 Mn in respect of the previous financial year was paid during the year 2007. (FY 2006 –Rs. 2,813.31 Mn)
- The Preference Dividend Entitlement for the period ending 30 November 2007 based on a floating interest rate of Average Weighted Prime Lending Rate (AWPLR) less a discount of 90 (Ninety) basis points amounted to a final preference dividend of Rs. 60,987,989/-. (Rs. 0.0122 per share) was paid in December 2007.

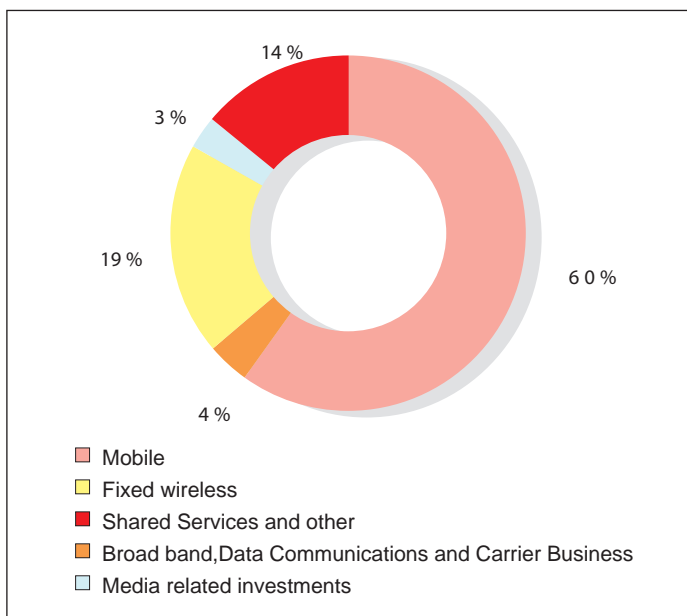


Figure-16: Capital Investments in 2007

3.3 Financing Activities

As explained in Section 1.2.6, the financing environment was characterised in the main by rising interest rates, while forward investments in telecommunications infrastructure were characterised by substantive growth potential and attractive returns.

4.0 Subsidiary Performance

4.1 Dialog Broadband Networks (Pvt) Ltd

4.1.1 Revenue

Dialog Broadband Networks Pvt Ltd (DBN) recorded a revenue of Rs. 1,052.28 Mn up 36 per cent relative to the Rs. 774.26 Mn. recorded for the year ended 31 December 2006.

Revenue components include Transmission & Infrastructure business, Fixed Telephony (CDMA WLL), data communication services, and Broadband & Internet Services.

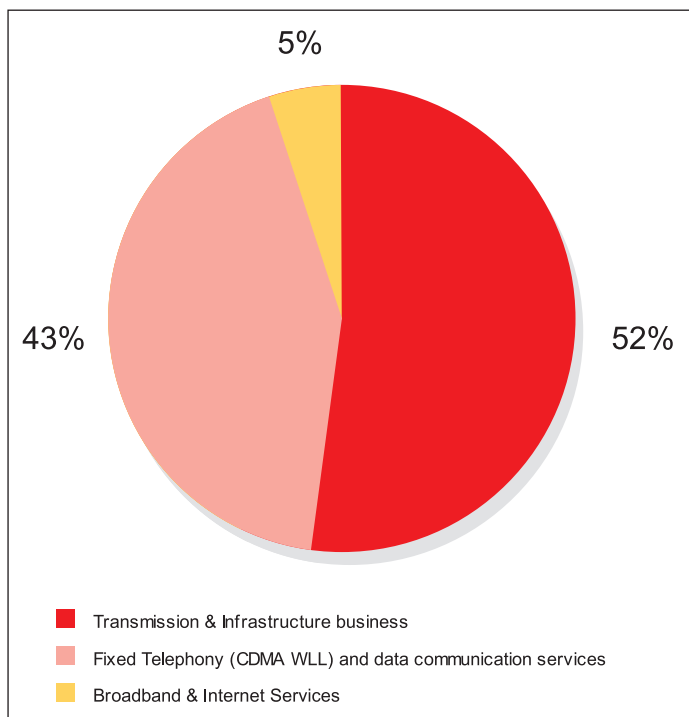


Figure-17: Dialog Broadband Revenue Mix

4.1.1.1 Subscriber Growth and Revenue Growth Potential

DBN's incumbent businesses of Data Communication services, and infrastructure leasing services continued to deliver robust growth during the course of 2007 with subscriber growth figures of 54 per cent and 24 per cent respectively.

DBN's IP MPLS managed network services remained the dominant constituent of Company revenue in 2007.

The newly commercialised services of DBN (CDMA based Fixed Line services and WiMAX based

Broadband services) have been observed to have received strong market acceptance. CDMA services were launched in 6 districts of Sri Lanka in July 2007, followed by an entry into an additional 12 districts (including Colombo) and covering 18 districts in total by the end of 2007.

WiMAX services were launched in key cities across the country during the last quarter of the year.

Strong subscriber growth in both the above referenced new businesses have resulted in robust revenue growth during the latter part of the year. DBN has delivered revenue growth of 42 per cent on (adjacent) QoQ basis during 2H 2007. DBN acquired 21,167 CDMA subscribers within the last quarter of 2007.

Top line revenues in the third and fourth quarter of 2007 include connection fees accruing from CDMA subscriber additions.

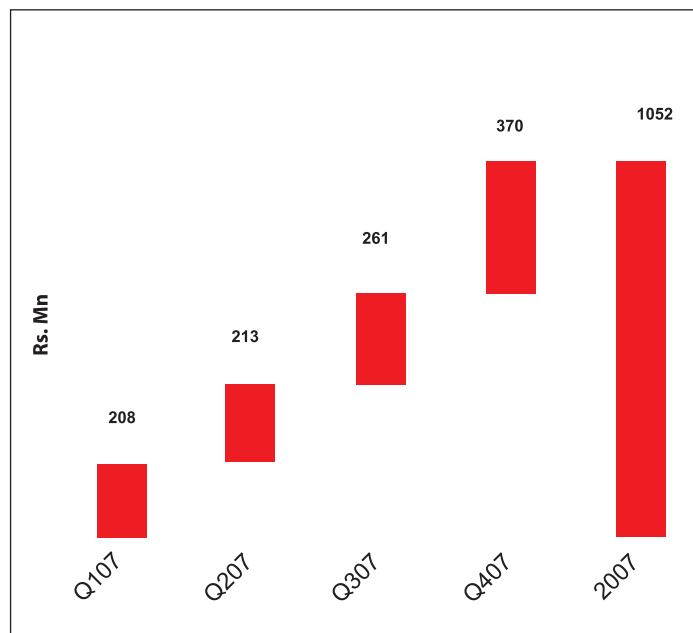


Figure-18: Dialog Broadband- Quarter on Quarter Revenue Growth in 2007

4.1.2 Taxation

During 2007, DBN entered in to an investment agreement with the BOI, encapsulating a 75 Million USD investment in telecommunications infrastructure but not limited to the development of a fibre optic network and the expansion of its WiMAX and CDMA networks. In line with the terms of the said agreement DBN was awarded an extension to its incumbent tax holiday. Accordingly, the company is deemed exempt from income tax up to five years (ending March 2011) from the expiry of the incumbent tax holiday, and no income tax has been charged to the Income statement in 2007. All provisions made with effect from the date of expiry (March 2006) of the incumbent tax holiday, were reversed during the year. Upon the expiry of the exemption period, the company will be subject to a corporate tax rate of 15%.

4.1.3 Profitability

○ Gross Profit

Gross profit for the period under review amounted to Rs. 80.41 Mn. relative to Rs. 347.21 Mn in 2006.

○ EBITDA

EBITDA for the period under review amounted to negative Rs. 62.80 Mn. relative to positive Rs. 413.71 Mn. in 2006.

○ Net Profit/ (Loss)

DBN recorded a net loss of Rs. 317.96 Mn. for the year ended 31 December 2007 vis-à-vis a profit of Rs. 152.92 Mn. recorded for the year ended 31 December 2006

○ Margin Analysis

The negative contribution from Dialog Broadband Networks (DBN) accrues largely from costs arising from capacity building ahead of demand and revenue realization, corresponding to the recently established CDMA and WiMaX Network infrastructures. The company is moving rapidly towards a reversal of the latter position with the commercial launch of CDMA services and WiMaX based Wireless Broadband services.

In particular top-line revenue growth initiatives centered on an aggressive entry in to the CDMA market will serve to boost revenue streams and normalize profit margins of DBN in the short to medium term.

4.2 Dialog Television (Pvt) Ltd

4.2.1 Revenue

DTV Group (inclusive of subsidiaries Communiq

Broadband Network (Pvt) Ltd (CBN) and CBN SAT (Pvt) Ltd) recorded a revenue of Rs. 722.45 Mn. from a rapidly growing subscribe base which surpassed 50,000 at year end.

Revenue comprises initial connection fees and monthly subscription rentals. Connection fee revenue represented 52 per cent of total revenue totaling to Rs. 376.59 Mn. The revenue generated from monthly subscription totaled Rs. 345.86 Mn. contributing to 48 per cent of total revenue.

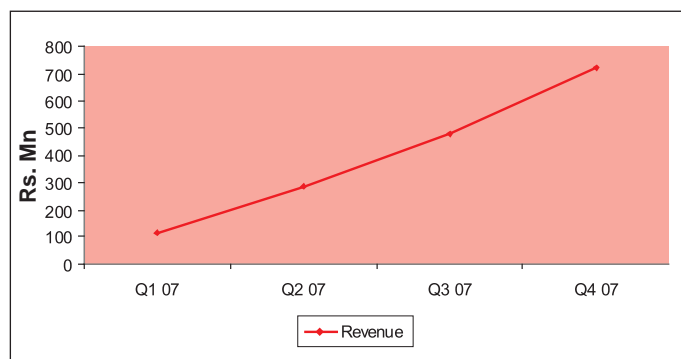


Figure-19: Revenue composition

4.2.1.1 Subscriber Growth

The company has been singularly focused on driving subscriber growth. During the course of 2007 the company adopted a strategy of driving subscriber growth through the delivery of a high quality portfolio of content (channels) options at a pricing level which would trigger market creation and expansion. The company achieved an year-end subscriber base in excess of 50,000 securing its place as the undisputed leader in the Pay TV market in Sri Lanka. Figure 20 depicts the month on month growth in the subscriber base.

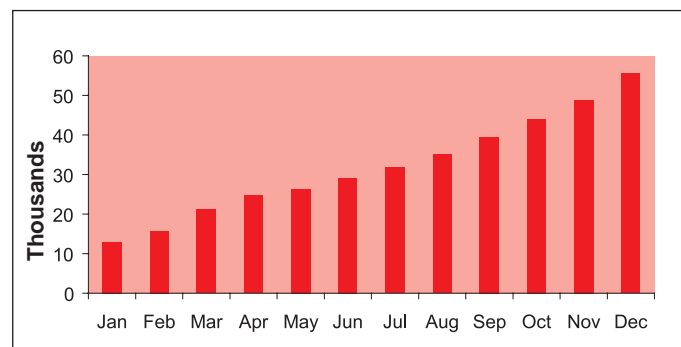


Figure-20: Growth in Subscriber Base

4.2.2 Taxation

Dialog Television was awarded a tax exemption by the BoI in line with the company's investment of 5 Million USD towards the development of a Digital Television Broadcasting Platform utilizing satellite based and Terrestrial UHF technologies. The tax exemption is for a period of 3 years from the first year of assessment. The aforesaid first year of assessment is the earlier of the year in which the enterprise commences to make profits or two years from the commencement of operations. Thereafter, profits will be taxed at a concessionary rate of 10% p.a. for a period of two years. Upon the expiry of the two-year period, the Company's profits will be subject to a tax of 20% p.a.

4.2.3 Profitability

○ Gross Profit/(Loss)

Gross loss for the period under review amounted to Rs.193.07 Mn. in 2007.

○ EBITDA

EBITDA for the period under review amounted to negative Rs. 582.76 Mn. in 2007.

○ Net Profit/(Loss)

The Company recorded a net loss of Rs. 788.53 Mn. during the year ended 31 December 2007, as characteristic of a Satellite Television operation in start up phase.

○ Margin Analysis

The Direct to home (DTH) Pay TV business operated by DTV is characterized by a substantial fixed cost base (comprising satellite capacity costs, minimum payments to content providers and other operation specific fixed costs). Contribution from operations is determined in the main by the extent to which the fixed costs could be recovered against revenue generated by the growing subscriber base. DTV recorded a 40 per cent increase in subscribers during 4Q 07 compared to the immediately preceding quarter. The company is moving aggressively towards achieving a critical mass of subscribers required to fully amortize fixed costs.

The achievement of a break-even volume of subscribers and operating revenues will see the Company in a position to override its fixed cost base, leading thereafter to positive bottom line contribution.

***Note: The DTV Group was not in commercial operation during most of 2006 and hence a comparison against the previous year is not included. The FY 2007 is the first year of full commercial operation.**

5.0 Group Financial Summary

(all figures in Rs. Mn.)	Year Ended 31 December	
	2006	2007
Revenue	25,679	32,517
YoY %	42	27
Direct Cost	8,822	13,403
YoY %	42	52
Gross Profit	16,858	19,114
YoY %	43	13
Gross Margin%	66	59
Operating expenses	6,130	9,851
YoY %	35	61
EBITDA	13,744	13,740
YoY %	46	(0.03)
EBITDA Margin %	54	42
PBT	10,193	9,012
YoY %	44	(12)
PAT	10,119	8,967
YoY %	44	(11)
PAT Margin %	39	28

Table -9: Group Financial Summary

DIALOG TELEKOM GROUP: CONSOLIDATED PERFORMANCE SUMMARY

5.1 Group Income Statement Highlights

Group results of Dialog Telekom PLC, post consolidation with subsidiary performance, recorded a Profit after Tax (PAT) of Rs. 8,967.16 Mn. for the year ended 31 December 2007. Negative contributions from DTV (Rs. 788.53 Mn.) and DBN (Rs. 317.96 Mn.) resulted in the dilution of company earnings by a total of Rs. 1,156.77 Mn. (inclusive of consolidation adjustments) resulting in negative growth of 11% with respect to consolidated group earnings.

With respect to the subsidiaries of the company (DBN and DTV) the Year 2007 represented a year of aggressive network and service build-out, with the commercial service portfolio of the Group expanding manifold during the course of the year through the commissioning of WLL CDMA, WiMax Broadband Wireless Access (BWA) and Satellite Based Digital Pay Television Services.

Key features of the consolidated performance of DT Group are presented below:

- For the year ended 31 December 2007, Group Revenue increased by 27 per cent to Rs. 32,516.84 Mn. vis-à-vis revenue reported for the year ended 31 December 2006.
- The gross profit of Rs. 19,113.91 Mn. represents an increase of 13 per cent relative to Rs. 16,857.71 Mn. recorded for the year ended 31 December 2006.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) was recorded at Rs. 13,739.82 Mn. for the year ended 31 December of 2007 representing a marginal decline of 0.03 per cent relative to the year ended 31 December 2006.
- DT Group recorded a Profit after Tax (PAT) of Rs. 8,967.16 Mn. representing a drop in performance by 11 per cent relative to the year ended 31 December 2006.

5.2 Group Balance Sheet Highlights

Some of the significant changes in the Group's balance sheet during the FY 2007 are as follows:

- Fixed assets additions during the year amounted to Rs. 24,974.74 Mn. compared to Rs 11,978.91 Mn. in the FY 2006.
- Intangible assets increased from Rs. 3,602.74 Mn. to Rs. 3,918.18 Mn. arising mainly from the acquisition of licenses (Rs. 106 Mn.), computer software (Rs. 85 Mn.) and goodwill (Rs. 95 Mn.) arising from the acquisition of the balance 10% shareholding in Dialog Television (formerly Asset Media Pvt Ltd) (Please refer Note 12 of the audited financial statements).
- As at 31 December 2007, current assets were recorded at Rs. 17,387.77 Mn. an increase of 78 per cent relative to the corresponding figure of Rs. 9,791.73 Mn. in the FY 2006.

Market Information on Ordinary Shares of DIAL

	2006	2007
Market Value		
Highest Price (Rs.)	29.75 (01 Dec 2006)	29.75 (17 Jan 2007)
Lowest Price (Rs.)	16.00 (16 Jan 2006)	19.75 (19 Dec 2007)
As at the year end (Rs.)	26.50	20.00
Trading Statistics		
Number of Trades	26,411	15,744
% of Total Market Trades	2.8%	1.8%
Number of Share Trades	403,601,666	556,591,395
% of Total Shares Traded	10.3%	18.9%
% of Public Float *	53.7%	45.9%
Value of all Shares Traded (Rs. '000)	8,465,271	14,504,182
Average Daily Turnover (Rs. '000)	35,126	60,183
% of Total Market Turnover	8.1%	13.8%
Market Capitalisation (Rs. '000)		
% of Total Market Capitalisation	196,191,025	162,875,568
	23.5%	19.8%

* Excluding unexercised ESOS shares and TM International (L) Limited holding

Table 10: Market Information

THE DIAL SHARE

The share price of Dialog Telekom PLC (DIAL) decreased by 25 per cent over the previous year's closing price to end the year at Rs. 20.00 (31 December 2007). During the year, the share price ranged between a low of Rs. 19.75 and a high of Rs. 29.75.

The DIAL share under performed the All Share Price Index (ASPI) by 18 percentage points and the Blue Chip Milanka Price Index (MPI) by 13 percentage points during the year ended 31 December 2007 primarily due to retail selling amidst high interest rates.

Since its listing in July 2005, the DIAL share has out performed both ASPI and MPI by compound annual growth rates of 9 per cent and 12 per cent respectively.

- The Colombo Stock Exchange (CSE) recorded the highest turnover for a day of Rs. 6.7 Bn. on 17 May 2007. Dialog's contribution was over 95 per cent of the day's total turnover.
- CSE recorded the highest net foreign inflow of Rs. 11.3 Bn. in 2007. Dialog accounted for approximately 28 per cent of the total market foreign purchases.

STATED CAPITAL

The Company's stated capital grew to Rs. 33.1 Bn. as at 31 December 2007 from a closing balance of Rs. 12.7 Bn. as at 31 December 2006. The increase in stated capital by 161 per cent is due mainly on account of the 1:10 rights issue and the Rs. 5.0 Bn. preference share issue announced in May 2007.

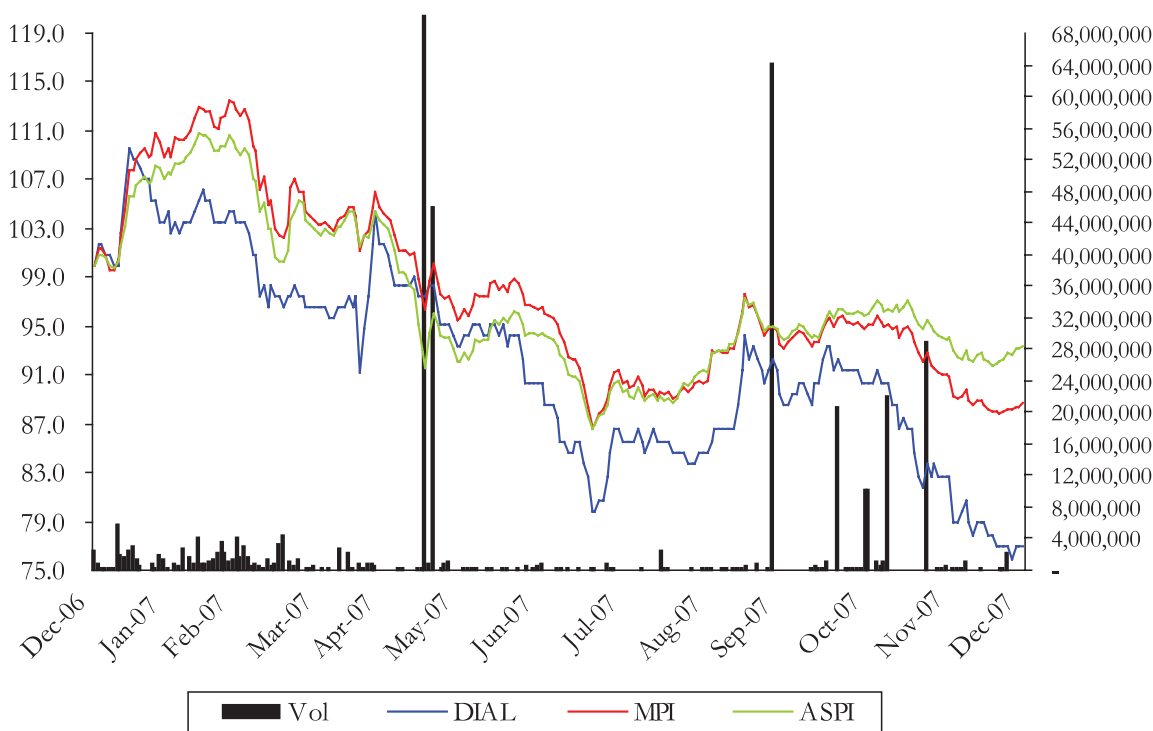
Dialog's rights issue was the largest equity raising in the Country accounting for 36 per cent of the total equity funds raised through the CSE in 2007.

MARKET CAPITALISATION

The total market capitalisation of Dialog Telekom as at 31 December 2007 was Rs. 162.9 Bn., 25 per cent lower than the Rs. 196.2 Bn. as at 31 December 2006, representing approximately 20 per cent of the total market capitalisation.

Dialog's market capitalisation reached approximately 25 per cent of the total market capitalisation in the month of January 2007, the highest since its listing on the CSE.

DIAL is the largest listed company on the CSE in terms of market capitalisation. The company also has the distinction of having become the first and to date the only Company in Sri Lanka to achieve a market capitalisation exceeding USD 1 billion.



Note: Excludes 235.3mn share traded on 17th May '07

Figure 21: Share Price, Share Volumes and Market Indices

DIVIDENDS

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

The Board has recommended for approval by the Shareholders at the AGM, a 44 per cent final dividend payout based on the profits of 2007, which translates to a Dividend Per Share (DPS) of 55 cents, flat compared to the previous year. The total dividend declared out of the 2007 profits is Rs. 4.5 Bn. compared to the Rs. 4.1 Bn. paid out of the 2006 profits, an increase of 10 per cent.

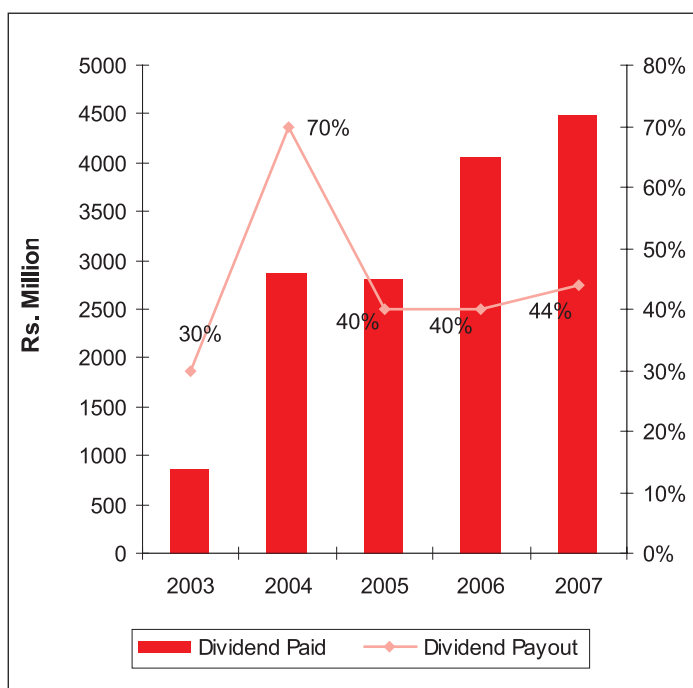


Figure 22: Dividend Payout

TOTAL SHAREHOLDER RETURNS

The Total Shareholder Returns (TSR) on the DIAL share in 2007 was negative 22 per cent, given a 24.5 per cent decrease in the share price and a 2.8 per cent dividend yield based on a DPS of 55 cents.

EARNINGS PER SHARE

The Earnings Per Share (EPS) of Rs. 1.15 recorded during the FY 2007 represented a decrease of 16.7 per cent over the EPS of Rs. 1.38 in 2006. EPS is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year after adjusting for the effects of the rights issue and excluding ordinary shares held by the Employee Share Options Scheme (ESOS).

PRICE EARNINGS RATIO

The Price Earnings Ratio (PER) as at 31 December 2007 was 17.4 times compared to 18.9 times as at 31 December 2006. The DIAL share has consistently traded at a premium earnings multiple to the market, which was recorded at 11.6 times as at 31 December 2007.

RETURN ON EQUITY

The Return on Equity (ROE) for the Group decreased from 47.9 per cent in 2006 to 25.3 per cent in 2007. Return on Capital Employed (ROCE) for the Group decreased from 32.3 per cent to 19.3 per cent. The drop in ROE and ROCE is due to the movement in the stated capital as a result of the rights issue and ESOS shares being exercised by the employees.

PRICE TO BOOK RATIO

The Price to Book ratio as at 31 December 2007 was 3.2 times, compared to 7.8 times in the FY 2006. The drop in the ratio is partly on account of the rights shares issued at a premium.

Valuation Yardsticks	2005	2006	2007
P/E	14.3	18.9	17.4
EV/EBITDA	13.4	14.8	12.2
Price/Book	7.1	7.8	3.2
Dividend Yield	2.3%	2.1%	2.8%
Total Shareholder Returns	40%	63%	-22%

Table 11: Valuation Yardsticks

LIQUIDITY

The average daily turnover of the DIAL share was Rs. 60.2 Mn. during 2007. DIAL turnover levels represented 13.8 per cent of total market turnover during 2007, higher than the 8.1 per cent recorded in the previous year, indicating a relative increase in liquidity levels in relation to the overall market.

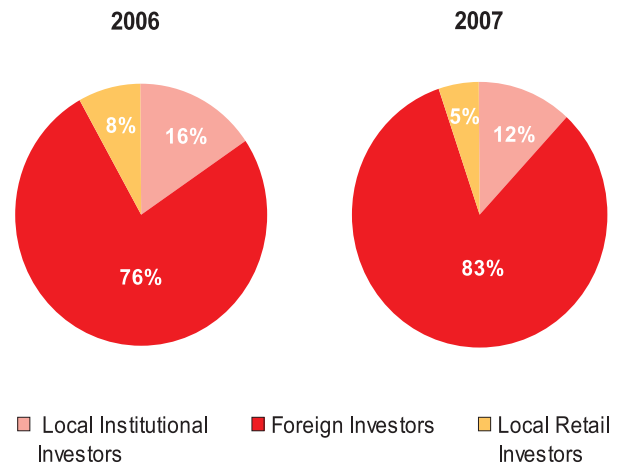
Liquidity levels of the DIAL share increased compared to the previous year, with total volumes traded during the year increasing to 556.6 million shares compared to 403.6 million in 2006 and average daily turnover increasing to Rs. 60.2 Mn. compared to Rs. 35.1 Mn. in the previous year. Higher liquidity levels were recorded during the months of May and September.

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 13.45 per cent as at 31 December 2007 compared to 8.95 per cent at the previous year's close.

DISTRIBUTION OF COMPOSITION OF SHAREHOLDERS

The total number of Shareholders of DIAL decreased to 22,230 as at 31 December 2007 compared to the 22,727 as at 31 December 2006.

The public float of DIAL which excludes shares held by Directors and connected parties from the issued capital was 14.89 per cent as at 31 December 2007 compared to 10.20 per cent in 2006. In terms of composition of the public float, foreign investors held 83 per cent of the float, 12 per cent was held by local institutional investors and 5 per cent by local retail investors.



Shareholders Profile

	31 December 2006				31 December 2007			
	No. of Shareholders	%	No. of Shares Held	%	No. of Shareholders	%	No. of Shares Held	%
1 to 1,000	11,399	50.16	7,904,184	0.11	9,973	44.86	6,104,314	0.07
1,001 to 5,000	9,737	42.84	18,957,088	0.26	10,437	46.95	19,686,490	0.24
5,001 to 10,000	625	2.75	4,601,100	0.06	763	3.43	5,282,322	0.07
10,001 to 50,000	690	3.04	14,262,900	0.19	739	3.32	14,709,378	0.18
50,001 to 100,000	99	0.44	7,383,600	0.10	96	0.43	7,066,279	0.09
100,001 to 500,000	97	0.43	22,771,267	0.31	122	0.55	27,221,611	0.33
500,001 to 1,000,000	20	0.09	14,319,500	0.19	21	0.09	16,003,520	0.20
Over 1,000,000	60	0.26	7,313,235,274	98.78	79	0.36	8,047,704,491	98.82
Total	22,727	100.00	7,403,434,913	100.00	22,230	100.00	8,143,778,405	100.00

* The issued Ordinary Shares of Dialog Telekom PLC 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 12: Distribution of Shareholders

Twenty Largest Shareholders of the Company

Shareholder's Name	31 December 2006		31 December 2007	
	No. of Shares	%	No. of Shares	%
TM International (L) Limited	6,491,205,869	87.68	6,771,539,665	83.15
Dialog Telekom Employees ESOS Trust	160,435,462	2.17	159,365,662	1.96
HSBC Intl Nominees Ltd – JPMCB – Emerging Markets Growth Fund	32,493,800	0.44	149,615,180	1.84
HSBC Intl Nominees Ltd – JPMLU – Genesis Smaller Company	40,931,900	0.55	104,100,140	1.28
HSBC Intl Nominees Ltd – BPSS LUX – Aberdeen Global Asia Pacific Fund	68,733,000	0.93	73,606,300	0.90
HSBC Intl Nominees Ltd – JPMLU – Capital International Emerging Markets Fund	14,786,600	0.20	71,265,260	0.88
HSBC Intl Nominees Ltd – SSBT – International Finance Corporation	Nil	Nil	64,086,800	0.79
HSBC Intl Nominees Ltd – SSBT – SSGA – Emerging Market Fund	34,792,821	0.47	56,711,403	0.70
HSBC Intl Nominees Ltd – SSBT – Daily Active Emerging Markets Securities Lending Common Trust	45,280,983	0.62	52,046,481	0.64
HSBC Intl Nominees Ltd – JPMCB – T Rowe New Asia Fund	71,680,900	0.97	47,195,270	0.58
Investors Bank and Trust s/a South Asia Portfolio	34,948,800	0.47	38,443,680	0.47
HSBC Intl Nominees Ltd – JPMCB – T Rowe International Discovery Fund	34,873,200	0.47	38,360,520	0.48
Sri Lanka Insurance Corporation Limited – Life Fund	23,536,000	0.32	33,413,850	0.41
HSBC Intl Nominees Ltd – BPSS LDN – Aberdeen Asia Pacific Fund	20,000,000	0.27	20,000,000	0.27
Sri Lanka Insurance Corporation Limited – General Fund	20,782,600	0.28	21,120,360	0.26
HSBC Intl Nominees Ltd – JPMCB – T Rowe Price Media & Telecommunications Fund	Nil	Nil	20,350,550	0.25
HSBC Intl Nominees Ltd – SSBT – State Street Bank & Trust Company Investment Funds	Nil	Nil	19,605,896	0.24
Danske Bank A/S	Nil	Nil	19,014,600	0.23
Northern Trust Co s/a Murray Johnstone International Delaware Business Trust	16,150,000	0.22	18,371,430	0.23
Employees Provident Fund	13,263,400	0.18	18,146,189	0.22

Table 13: Twenty Largest Shareholders



STATEMENT
OF

CORPORATE



GOVERNANCE

Corporate Governance

2007

Dialog Telekom PLC (the Company) and its subsidiaries, Dialog Broadband Network (Private) Limited (DBN), and Dialog Television (Private) Limited (DTV) [together referred to as the 'Group' are committed to achieving and maintaining the highest standards of Corporate Governance by ensuring greater transparency, business integrity, professionalism and ethical values; the cornerstones on which an apposite Corporate Governance framework is founded.

In furtherance of this commitment, the Company has developed and adopted its own Code of Corporate Governance (Code), which is applicable to the Group, and 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 has been structured in the form of 'Principles' and 'Best Practices' and spells out a governance framework underpinned by eight (08) core principles within which the business is conducted:

1. Establishment of the Charter of the Board of Directors (Board)
2. Remunerate fairly and responsibly
3. Accountability, Audit and 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

The Code is reviewed regularly in the light of local and international laws, regulations and best practices. Due emphasis has been given to comply with the Rules on Corporate Governance promulgated in 2007, the Listing Rules of the Colombo Stock Exchange, the disclosure requirements for listed public companies as mandated by the Securities and Exchange Commission of Sri Lanka and the stipulations as per the New Companies Act No. 7 of 2007.

In line with the above, this report sets out the Corporate Governance framework, and its application and practice within

the Company and its subsidiaries during the year 2007.

BOARD

The Company's business and operations are managed under the supervision of the Board, which consists of members with experience and knowledge in the areas of business, in which the company is engaged, with specific acumen in terms of commercial, financial and /or technical expertise, in relation to information and communications technology management. Matters reserved for the Board include:-

- Providing entrepreneurial leadership to the Company;
- Providing strategic guidance, with respect to and approval for, the corporate strategy and the performance objectives of the Company;
- Setting and monitoring financial and other reporting practices adopted by the Company;
- Reviewing and constructively challenging 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 nine (09) meetings were held in the financial year ended 31 December 2007, which included five (05) special meetings. The attendance of Directors at these meetings are set out in the table on the next page

Name of Director	Date of Appointment / Resignation during the year	Attendance	Per centage of Attendance
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	-	7/9	77
Dr. Shridhir Sariputta Hansa Wijayasuriya	-	9/9	100
Ir. Prabahar N.K. Singam	-	8/9	88
Mr. Moksevi Rasingh Prelis	-	9/9	100
Dato' Yusof Annuar bin Yaacob	-	9/9	100
Dato' Sri Mohammed Shazalli bin Ramly	-	5/9	66
Mr. Mohamed Vazir Muhsin	-	8/9	88
Mr. Jayantha Cudah Bandara Dhanapala	Appointed on 3 August 2007	3/3	100

Table 1- Attendance at Board Meetings

CONSTITUTION OF THE BOARD

The roles of the Chairman and the Chief Executive Officer (CEO) are separate with a clear distinction of responsibilities between them. This ensures the balance of power and authority between the running of the Board, and the executive responsibility for the functioning 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

The Board comprises of eight (08) Directors, of which seven (07) are Non-Executive Directors and one (01) is an Executive Director who is also the CEO of the Company. Of the Non-Executive Directors, three (03) are Independent. The present composition and the expertise of the Board members are sufficient to ensure optimum effectiveness to meet the needs of the Company.

The Non-Executive Directors provide a considerable depth of knowledge collectively gained from experiences, whilst

serving in a variety of public and private companies. Out of the seven Non-Executive Directors, four (04) Directors, namely Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor, Ir. Prabahar s/o Nagalingam Kirupalasingam, Dato' Sri Mohammed Shazalli bin Ramly and Dato' Yusof Annuar bin Yaacob, are Non-Independent and are nominees of the parent company, Telekom Malaysia Berhad.

Mr. Jayantha Cudah Bandara Dhanapala was appointed as an Independent Non-Executive Director on 3 August 2007. The three (03) Independent Non-Executive Directors, namely, Mr. Moksevi Rasingh Prelis, Mr. Mohamed Vazir Muhsin and Mr. Jayantha Cudah Bandara Dhanapala, are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their judgment.

Profiles of each Director are found on pages 5 - 8 of this report.

ACCESS TO INFORMATION

The Board is provided with complete and adequate information relating to matters to be brought before the Board, 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.

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 (ToR) and the Board receives reports of their proceedings and deliberations. The chairmen of the committees report the outcome of the committee meetings to the Board. Where a committee has no authority to make decisions on matters reserved for the Board the recommendations of the committee will be highlighted and submitted for the approval of the Board and the relevant decisions are incorporated in the minutes of the Board meetings.

The Audit Committee held six (06) meetings during the financial year ended 31 December 2007. The details of the attendance of the Directors are as follows:

Name of Director	Attendance	Per centage of Attendance
Ir. Prabahar N.K. Singam	6/6	100
Mr. Moksevi Rasingh Prelis	6/6	100
Dato' Yusof Annuar bin Yaacob	4/6	66
Dato' Lim Kheng Guan (nominee of Telekom Malaysia Berhad)	4/6	66
Mr. Mohamed Vazir Muhsin	5/6	83

Table 2-Audit Committee meeting attendance

The activities conducted by the Audit Committee are set out in the Audit Committee Report on page 93.

AUDIT COMMITTEE

The Audit Committee during the financial year ended 31 December 2007, consisted of four (04) Non-Executive Directors and one (01) representative of Telekom Malaysia Berhad. The members were Mr. Moksevi Rasingh Prelis (Chairman), Ir. Prabahar N.K. Singam, Dato' Yusof Annuar bin Yaacob, Dato' Lim Kheng Guan and Mr. Mohamed Vazir Muhsin. The Board appointed Mr. Jayantha Cudah Bandara Dhanapala to the Audit Committee in February 2008 in place of Dato' Lim Kheng Guan who resigned with effect from 31 December 2007.

The Audit Committee ensures that the Company complies with applicable financial standards and laws. It sets out high standards of corporate disclosure corporate responsibility, integrity and accountability to the shareholders. The appointed members of the Audit Committee are required to exercise independent judgment in carrying out their functions.

The Audit Committee has a specific ToR 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.

NOMINATING AND REMUNERATION COMMITTEE

The Nominating and Remuneration Committee (NRC) comprises 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 inter alia is to identify, consider and propose suitable candidates for appointment as new Directors and to review and make recommendations to the Board with regard to the remuneration of the Executive, Non-Executive

Directors and with regard to key positions of the senior management.

The NRC ensures that the Directors appointed to the Board possess the experience and knowledge required to maintain an appropriate balance of skills and experience on the Board, The NRC held two (02) meetings during the financial year ended 31 December 2007 and the attendance at these meetings are set out below.

Name of Director	Attendance	Per centage of Attendance
Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor	02/02	100
Ir. Prabahar N.K. Singam	02/02	100
Mr. Moksevi Rasingh Prelis	02/02	100

Table 3 –NRC meeting Attendance

PERFORMANCE EVALUATION AND PROFESSIONAL DEVELOPMENT

The NRC is responsible for evaluating the Board's performance. A formal performance evaluation and board effectiveness exercise was carried out by PricewaterhouseCoopers Advisory Services Sdn Bhd in 2007.

RE-ELECTION

The Company's Articles of Association require that one-third of the Directors, excluding the Executive Director, retire and submit themselves for re-election at every Annual General Meeting ('AGM'). 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 AGM 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 in advance 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 the AGM on page 149.

REMUNERATION

The Company endeavours to attract, retain and motivate Directors of the quality required to run the Group successfully.

The remuneration policy for Directors is proposed, evaluated and reviewed by the Nominating and Remuneration Committee, in keeping with criteria of moderation. The Company furnishes information each year regarding the remuneration paid for the Board of Directors in the Annual Report.

Further the performance-related elements of the remuneration of the Executive Director have been designed to align the interests of the Executive Directors with those of shareholders and link rewards to corporate and individual performance.

The remuneration of the Executive Director, in his capacity of an employee, comprises of a salary, bonuses and other customary benefits as appropriate. The salary reviews take into account the market rates and the performance of the individual and the Company.

The remuneration of Non-Executive Directors comprises of a monthly stipend and an allowance paid in accordance with the number of meetings attended during the year 2007.

A total of Rs. 24.7Mn. was paid to the Directors as emoluments for the financial year.

Accountability and Audit

FINANCIAL REPORTING

The Board believes that an independent verification is necessary to safeguard the integrity of the Company's financial reporting.

The Board aims to provide and present a balanced 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 (CFO) 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 that the operational results are in accordance with the relevant accounting standards.

RESPONSIBLE DECISION-MAKING

The Code of Business Ethics (CBE) which has been drafted to actively promote ethical and responsible decision-making endeavours to influence and guide the Directors, employees and other representatives (Stakeholders) of the practices necessary to maintain confidence in the Company's integrity and to demonstrate the commitment of the Company to ethical practices.

The Company has in place an Insider Trading Policy (ITP) which deals with the trading practices of Directors, officers and employees of the Company in Group securities. The ITP raises awareness of the prohibitions under the law and specifies the restrictions relating to trading by designated officers in specific circumstances, details of such circumstances, and the basis upon which discretion is applied.

RECOGNISE AND MANAGE RISK

INTERNAL CONTROL

The Board ensures that a sound system of internal controls are 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' investment and the Company's assets. The Audit Committee conducts a comprehensive review of the effectiveness of the Company's system of internal controls and reports its finding to the Board.

RISK MANAGEMENT, COMPLIANCE & CONTROL

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

- Oversight of the risk management system;
- Risk profile - a description of the material risks facing the Company including financial and non-financial matters;
- Risk management;
- Compliance and control;
- Assessment of effectiveness - mechanism to review, atleast annually, the effectiveness of the Company's implementation of that system and update the risk profile of the Company.

INTERNAL AUDIT

Internal audits are conducted by the Internal Audit Unit (IAU) which is independent of the 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 the management.

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

RESPECT THE RIGHTS OF SHAREHOLDERS

The forthcoming AGM 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 announcements made to the Colombo Stock Exchange (CSE) and related information is made available on the Company's website at www.dialogtelekom.com/corporate/investor_relations.

INVESTOR RELATIONS

The Company's fully established Investor Relations (IR) unit proactively disseminates relevant information about the Company to the investment community, specifically to the institutional fund managers and analysts.

The Company is one of the most actively covered companies in the All Share Price Index (ASPI) with regular tracking by the 20 stock brokering firms of the Colombo Stock Exchange, the Fitch ratings agency and over 100 domestic and foreign institutional investors, both in the equity and debt markets. The IR unit maintains close contact to ensure that the Company's strategies, operational activities and financial performance are well understood and that such information is made available to them in a timely manner. Some of the methods used to provide accurate and timely information are road shows, company visits, one-on-one meetings, teleconferences and emails etc.

The Company participated actively in more than five (05) overseas investor conferences in Hong Kong, Malaysia and Singapore in the year 2007, including the Bursa Malaysia's Investor Week 2007. In addition the company has conducted one-on-one meetings with key investors.

The Company 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 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.dialog.lk/en/corporate/ir>.

The Group Chief Executive and other members of the Senior Management team are actively involved in IR activities such as conducting regular meetings with fund managers and analysts. The 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 prior to making an official announcement to the CSE for public release.

RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

The Company's CBE 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 the Board and the 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

THE FUTURE

The Group is steadfast in its commitment to imbibe a governance culture that is in line with international best practices. To this end, the Code will be continuously reviewed and updated to enhance and further strengthen the Company's and its subsidiaries' commitment to conduct its affairs with integrity, efficiency and with utmost transparency. The governance policies and procedure established within the Group will ensure that these objectives are achieved, practiced and consistently enhanced during 2008 and beyond.

Report of the Audit Committee

Membership

The Audit Committee (AC) during the year 2007 comprised of two independent non-executive directors, two non-independent non-executive directors of the board and one representative of Telekom Malaysia Berhad (TM) as follows:

MR. MOKSEVI RASINGH PRELIS

Chairman
Independent Non-Executive Director

MR. MOHAMED VAZIR MUHSIN

Independent Non-Executive Director

IR. PRABAHAR S/O NAGALINGAM KIRUPALASINGAM

Non-independent Non-Executive Director

DATO' YUSOF ANNUAR BIN YAACOB

Non-Independent Non-Executive Director

YBHG DATO' LIM KHENG GUAN

(Representative of TM)

The AC is chaired by an independent non-executive director Mr. Moksevi Rasingh Prelis. Dato' Yusof Annuar bin Yaacob, a Chartered Accountant serves the AC as the financial expert.

Mr. Lalith T. Fernando, the Group Chief Internal Auditor (GCIA) functions as the Secretary to the AC in terms of Terms of Reference (TOR) of the AC.

Dato' Lim Kheng Guan's term of office as a member ended as at 31st December 2007. The AC wishes to place on record its appreciation to Dato Lim for his invaluable contribution to AC activities.

Mr. Jayantha Dhanapala an independent director of the company was appointed to the AC with effect from 6 February 2008.

Meetings

The AC had six (06) meetings that include two (02) special meetings in the financial year 2007. The meeting attendance of the committee members is as follows:

Name of the Director	Attendance	Per centage
Mr. Moksevi Rasingh Prelis	6/6	100
Ir. Prabahar s/o Nagalingam Kirupalasingam	6/6	100
Dato' Yusof Annuar bin Yaacob	4/6	67
Dato' Lim Kheng Guan	4/6	67
Mr. Mohamed Vazir Muhsin	5/6	83

The Group Chief Executive Officer (GCEO), Group Chief Financial Officer (GCFO) and the external auditors attended these meetings upon invitation to brief the committee on specific issues. The external auditors met with the chairman of the 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 in this Financial Year

The AC approved the proposals made by the GCIA to further strengthen the internal audit team in line with the group structure. Five new internal auditors were recruited during the year under review. Currently the internal audit division consists of 16 auditors.

During the year under review, the AC deliberated and approved the amendments to the TOR for AC. The internal audit charter was also amended to formalize the widen scope of the internal audit function across the group. The AC approved the internal audit operating procedures for adherence.

The AC discussed significant audit issues at its meetings and had private sessions with the external auditors, the GCIA, and the Management.

The chairman of the AC had formal discussions with the GCIA of TM and the PwC representatives from TM corporate audit team.

The AC carried out its duties as set out in page 94 in the TOR. Apart from its duties, the AC also reviewed and deliberated on reports and updates as provided by the GCIA on the following.

- Review of management audit committee reports on the progress of the management actions to resolve significant internal control issues as highlighted by the internal and external auditors.

- Interim financial review for purposes of quarterly announcement of financial results.
- Review of enterprise risk management reports on significant risk exposures and risk mitigation plans.
- Deliberations on new 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.
- Monitoring and coordinating reviews on the effectiveness of the company's system of internal controls, through reports furnished by the internal auditors, the external auditors and the management.

Group Internal Audit

The AC is strongly supported by the Group Internal Audit Department (GIAD) with a dotted line relationship to the TM group internal audit. The GCIA reports directly to the AC. The GCIA periodically reports the activities and key strategic and control issues noted by internal audit to the AC.

The main focus of the internal audit function is to provide independent assurance over 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 group. The audit activities include:

- Governance and management control reviews
- Reviews 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 the management.

The GIAD performed 38 audit assignments and highlighted key risk issues with recommendations for action. In addition, the GIAD coordinated and updated the follow up review on external audit issues.

The AC reviewed and approved the GIAD annual budget and the organization structure to ensure adequacy of resources and competent and proficient internal auditors to achieve its 2008 business plan.

The GIAD has a mix of expertise in the disciplines of Finance, Information Technology and Network Engineering that comprise of 16 qualified audit personnel in those disciplines, two chartered accountants, two management accountants, one certified information system auditor (CISA) and three CISA passed finalists. Further, TM Group internal audit provides guidance and resources in terms of training new auditors, updating latest developments in the profession, allocating audit expertise on loan as and when required.

The GCIA is responsible to maintain quality assurance and improvement program which includes annual self assessment and external assessment as performed by TM Group internal audit, in accordance with international standards for the professional practice of internal auditing. Further, an external QAR certification is planned to be carried out in 2008, by the Institute of Internal Auditors.

Terms of Reference of the Audit Committee

The TOR for the AC is in line with international best practices framework. The AC reviews the TOR annually and updates it as appropriate. The key extracts of the TOR of the AC are set out below.

1) COMPOSITION OF THE AC

The members of AC, including the chairman will hold office so long as they serve as directors of Dialog Telekom PLC (DTP). The Board of Directors (BOD) must review the term of office and performance of the AC and each of its members at least once every 3 years to determine whether such AC has carried out their duties in accordance with its terms of reference.

2) MEMBERS OF THE AC

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

The AC must be composed of no fewer than 3 members who are directors of DTP or, its holding company, TM International 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 by applicable legislations and regulation.

At least the CEO or the CFO of DTP to be present at the AC meeting while the other functional heads shall be present at the meeting by invitation.

3) SECRETARY OF THE AC

The GCIA 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. The AC shall submit their recommendations to the Board after review of

4.1 Risk Management and Internal Control

- Review the adequacy and the integrity of DTP’s internal control systems and management information systems, including systems for compliance with applicable laws, rules, directives and guidelines.
- Propose an adequate system of risk management for management to safeguard the company’s assets.
- Review the risk profile of the company and major initiatives having significant impacts on the business

4.2 Financial Reporting Review

- Review the quarterly interim results, half-yearly results and annual financial statements of the Company, focusing particularly on:
 - a) Any changes in accounting policies and practices;

b) Significant or material adjustments with financial impact arising from the audit;

c) Significant unusual events or exceptional activities;

d) Financial decision making with the presumptions of significant judgments;

e) The going concern assumptions;

f) Compliance with approved accounting standards, stock exchange and other regulatory requirements.

Review with the external auditors the financial statements for the purpose of approval before the audited financial statements are presented to the Board for adoption including:

a) Whether the auditors’ report contained any qualifications which must be properly discussed and acted upon for purposes of resolving the contentious point of disputes in the current audits and to remove the cause of the auditors’ concern in the conduct of future audits.

b) Significant changes and adjustments in the presentation of financial statements.

c) Compliance with laws and local and international accounting standards.

d) Material fluctuations in balances in the financial statements.

e) Significant variations in audit scope and approach.

f) Significant commitments or contingent liabilities.

○ 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;

○ 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.

- 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.

4.3 External Audit

- Consider the appointment of a suitable accounting firm to act as external auditors and amongst the factors to be considered for the appointment are the adequacy of the experience and resources of the firm and the persons assigned to the audit, to consider any question of resignation (including any letter of resignation) or removal and whether there is a reason (supported by grounds) to believe that the external auditors are not suitable for re-appointment and to recommend the audit fee payable thereof.
- 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.
- Monitor the extent of non-audit work to be performed by the external auditors to ensure that the provision of non-audit services does not impair their independence or objectivity.

4.4 Internal Audit

- To approve the Internal Audit Charter, which defines the independent purposes, authority, scope and responsibility of the internal audit function in the Company.
- Review the Internal Audit Plan and results of the internal audit process and where necessary to ensure:
 - a) That appropriate action is taken on the recommendations of the internal audit function;
 - b) That Internal Audit Division has adequate and competent resources and that it has the necessary authority to carry out its work;
 - c) That the goals and objectives of the Internal Audit Division commensurate with corporate goals.
- To review and appraise the performance and remuneration of the GCIA and senior staff members of the Internal Audit Division, approve the appointment or termination of the GCIA and senior

staff members of Internal Audit Division and inform itself of resignations of the GCIA and senior staff members of the Internal Audit Division and provide the resigning staff member an opportunity to submit his/her reasons for resigning.

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

4.5 Related Party Transactions

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

4.6 Employee Share Option Scheme (ESOS)

- Verify the allocation of share options to the Group's eligible employees in accordance to the Listing Requirements at the end of each financial year.

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 DTP.
- 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 DTP 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 GIAD of DTP in respect of any fraud or irregularities discovered and referred to GIAD by the management.

6) GROUP CHIEF INTERNAL AUDITOR

- GCIA reports functionally to the AC and administratively to the GCEO of DTP with a dotted line relationship to the TM Group Chief Auditor.



.....
M R PRELIS

Audit Committee

18 February 2008.

Enterprise Risk Management

1.0 INTRODUCTION

Enterprise Risk Management (ERM) at Dialog is a focused business thrust through which the company seeks to identify and thereafter effectively control and manage risks. ERM is executed through a portfolio of processes which serve to detect and evaluate risks leading to the initiation of action plans to avoid, mitigate or eradicate the impact of risk on the business. The ERM framework is a dynamic process which is reviewed on an annual basis by the Corporate Governance Steering Committee (CGSC) of the Group. The CGSC is the guardian of the groups' resources in the context of multiple environmental frameworks including but not limited to those pertaining to Risk, Compliance and Governance.

RISKS ARE MANAGED IN A STRUCTURED AND SYSTEMATIC MANNER

Dialog's ERM process utilises a three level risk and control programme that solicits and incorporates the expertise and insight of both the Enterprise Risk Management Operations Committee (ERMOC) and Corporate Governance Steering Committee (CGSC). Members of these committees are drawn from across all key operational and functional areas of the company.

Level one is the annual risk and control assessment. Key sources of input to this process include outputs of Dialog's strategic planning process and prior year outcomes with respect to ERM as reported in the ERM Navigator.

Dialog's annual risk and control assessment process also draws on inputs from internal and external audit interventions, and outcomes of Management Review Meetings in the context of the company's quality and process compliance framework. Within the scope of Level 1 of the Risk and Control

programme, key Risks are identified, defined and prioritized and senior management is charged with implementing risk control activities.

Within level two, the company's ERM function conducts a monthly risk review engaging ERMOC members to dynamically capture changing business risks, monitor the mitigation of key risks and monitor the progress of risk control activities utilising Dialog's SMART performance appraisal tools. Level three, is focused on risk assessments pertaining to specific risk management initiatives. Outcomes of the multiple levels of risk review are evaluated, updated monthly and prioritised for further action as deemed required.

PROJECT RISK

Apart from its strategic risk focus Dialog actively safeguards its investments through sound project risk management to ensure timely and within budget completion of its key projects. This practice of engaging risks proactively ensures Dialog's continued success at being 1st to market and the leader in new technology deployment

2.0 SIGNIFICANT PROGRESS MADE IN EMBEDDING A CULTURE OF RISK MANAGEMENT DURING THE COURSE OF 07

Strategic enhancements to the organizational framework surrounding ERM, has increased the visibility of risks and ensures management applies the required level and depth of rigor to identify, assess and control enterprise risks.

The consolidation of the Corporate Responsibility Operations Committee (CROC), Corporate Governance Operations Committee (CGOC) and ERMOC, the CGSC, executive management and the Board are provided with a holistic view of the risk pertaining to Dialog and their control.

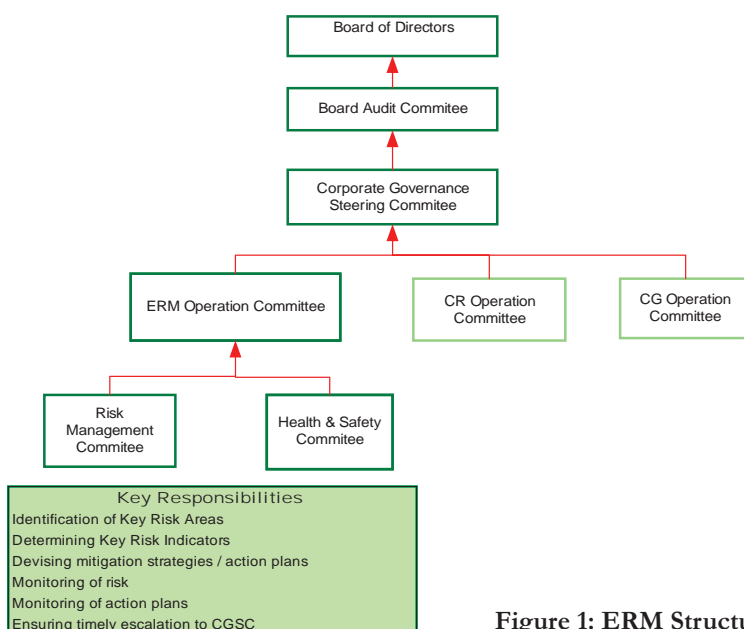
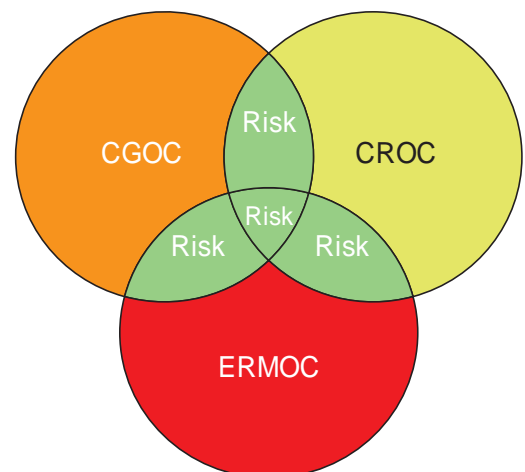


Figure 1: ERM Structure and Scope



The Board is ultimately responsible for the management of risk across the group. At a management level the risk management process is governed by the Enterprise Risk Management Operations Committee which reports to the Corporate Governance Steering Committee which is a Group Senior Management forum.

The ERMOC meets monthly and is charged with ensuring that management have established a risk management framework that includes policies and procedures to effectively identify, treat and monitor principle business risks. Furthermore, all three operations committees have cross representation to ensure risk related concerns are addressed and escalated as necessary.

REPORTING AND GOVERNANCE

The ERMOC reports to the Board through the Board Audit Committee (BAC). The ERMOC also seeks advice, guidance and expert support from the Telekom Malaysia (TM) Group Risk Management Committee on a regular basis with respect to the risks inherent to the business and the design and execution of mitigation actions.

3.0 ACTIVELY MANAGING RISK AND PERFORMANCE

One of the most important aspects of the risk management process is the implementation and effectiveness of the control actions recommended.

Dialog has customised its internally developed performance management system (Dialog SMART) to ensure risk improvement recommendations are prioritized and clear responsibilities are assigned. SMART is directly linked to the performance appraisal system which ensures accountability and acts as a motivator to manage risk actively at individual, business unit, subsidiary and group level.

4.0 INVESTMENT IN HUMAN CAPITAL; ERM ENHANCEMENT PROGRAMME

The company recognizes that investments in human and knowledge capital with respect to the management of risk are a key determinant of the quality of ERM outcomes. Key stakeholders and operative staff across multiple functions are regularly exposed to training and knowledge enhancement with respect to multiple facets of ERM as it applies to their operating environments. ERM related training interventions increase awareness of Risk Management and also enhance risk mitigation capability and capacity across multiple levels of the organization. The human capital based risk management framework thereby established, provides a robust control framework across the company. The company's commitment towards instilling a strong risk management and control framework is manifested in training and development investments as set out in the table below.

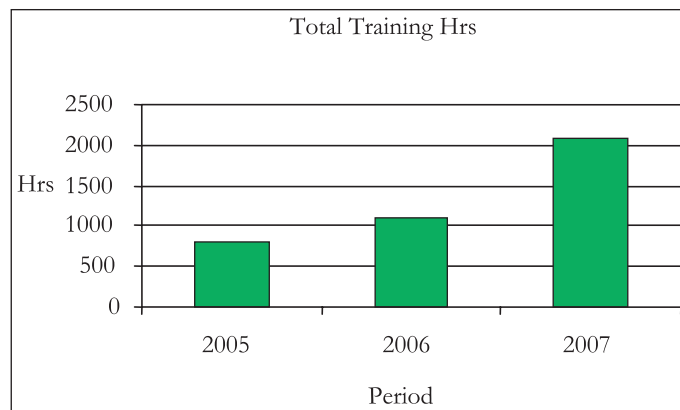


Figure 3: Total Training Hours Dedicated To Managing Risk

5.0 KEY RISKS FACED BY THE COMPANY

5.1 COUNTRY RISK – POLITICAL & ECONOMIC STABILITY

Unfavorable dynamics in macro-economic indices such as inflation, currency devaluation alongside factors such as increased political uncertainty in the Northern and Eastern provinces may have a significant impact on cash flow, risk of bad debt and profitability. It should be noted however that despite relatively adverse dynamics along the referenced dimensions, the company has registered double digit growth rates in turnover. Profit levels at Gross, Contribution, EBIDTA and NPAT levels have been however subject to dilution relative to the prior year.

During the course of 2007, Dialog actively managed country risks through its business planning process which factors in negative economic dynamics to ensure a prudent approach to growth planning and profitability. Hard controls in the form of currency matching, strategic management of debt portfolios and the deployment of hedging mechanisms are initiated as and when necessary as responses to macro-economic dynamics.

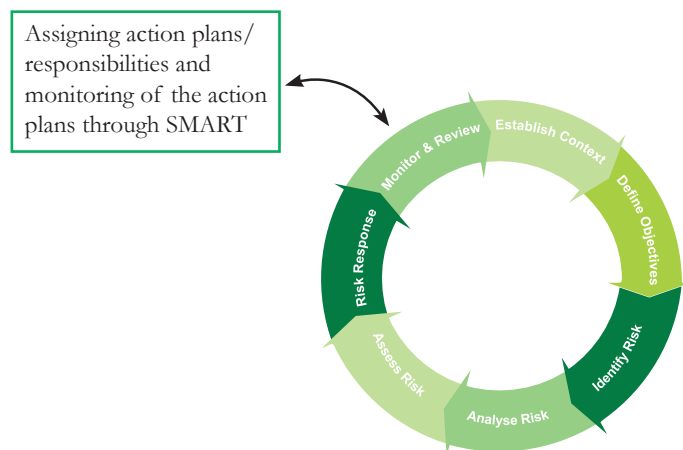


Figure 2: Risk Management Process

5.2 REGULATORY ENVIRONMENT

The operations of the Dialog Group are impacted by multiple regulatory environments. The network development related activities of the group are subject to regulations and regulatory approval processes pertaining to multiple state agencies including but not limited to the Telecommunications Regulatory Commission, Central Environment Authority, Ministry of Defence and Local Authorities. The securing of the said multiple regulatory approvals in a timely and efficient manner is key determinant of the success of capital project execution which in turn has a direct effect on returns on capital, cash flows, competitiveness and profitability.

The telecommunications sector policy framework with respect to licensing, spectrum allocations and competition is determined and enforced through the offices of the Telecommunications Regulatory Commission of Sri Lanka (TRCSL). In the capacity of a market and industry leader, the company and its subsidiaries maintain a close and interactive relationship with the TRCSL with the objective of maintaining a robust compliance environment in the sector as well as with a view to providing stakeholder input to the shaping of policy and its enactment going forward. Key regulatory issues which could impact the company and its operations include but are not limited to policies with respect to the issuing of new licenses (competition) with respect to the various sub-sectors in which the company operates, spectrum allocation policies and principles, and policies with respect to liberalisation related dimensions such as bottleneck infrastructures, equal access and numbering. The company has maintained a consistent position with respect to its support for the continued liberalisation of the sector subject to the liberalisation process being based on a strategic outcome driven roadmap. In the sequel, the company is active in its lobby against ad hoc and/or ill planned changes in the sector which in the company's view would be detrimental to the growth of the sector and participating players and would in turn represent an escalation of the regulatory risk associated with its operations.

The Media related activities of the company's subsidiary Dialog Television Pvt Ltd., fall under the purview of the Ministry of Media and Information.

The company actively monitors regulatory risk across the multiple environments described above. It is believed that close adherence to regulatory principles, rigorous conformance

and proactive participation in the process of policy making and industry shaping would serve as the principle edict of regulatory risk management and mitigation.

5.3 COMPETITIVE PRESSURES

Dialog continues to face intense competition from both traditional competitors as well as new entrants. Industry players across the multiple sectors in which the company operates have been seen to enhance the maturity and competence of their operations leading to aggressive competition in terms of reach, service portfolios and price.

Competitive risk is hence manifested in the financial outcomes resulting from price pressure, cost of acquisition and reducing margins. Accelerated liberalisation along one or more of the dimensions discussed in the context of regulatory risk would further exacerbate risks arising due to competition.

Dialog is committed to managing the risks associated with a highly competitive market place through a consistent focus on innovation in terms of affordability, availability, applicability and (consumer) affinity enhancement. The company's distinct mastery of the technologies it deploys has placed it in a position of strength with respect to leading the market along multiple dimensions, thereby maintaining its composite product portfolio at a superior position in terms of total value to consumer.

5.4 STAFF RETENTION

Dialog is highly dependent on the knowledge base and experience of its key staff. Overarching trends of global and local mobility of knowledge workers continues to place pressure on the company's human resource retention efforts. While the company continues to enjoy superlative retention levels, there can be no definitive assurance that dialog would succeed in retaining all its key employees or be in a position to attract additional cadre of the requisite caliber.

Key mitigating actions include the specific focus on human resource development, job enrichment, internal career advancement and value/performance based compensation. The company also concentrates on risk based succession

planning in order to ensure the continuity of operations and business competitiveness notwithstanding human resource dynamics. Dialog has also focused its attention on talent attraction and retention through leveraging the Dialog brand across the Group and implementing industry best human resource practices in order to further strengthen its position as the most sought after employer in Sri Lanka.

5.5 MAN MADE AND NATURAL PERILS

Dialog is exposed to both manmade perils in the form of terrorism and sabotage and natural hazards. Dialog proactively manages its loss control programme to ensure assurance of assets. The mandate of the ERMOC is to develop and implement a group wide business continuity programme (policies, processes and infrastructure). In 2007 Dialog made significant progress in this regard with the completion of a dedicated disaster recovery switching center which will be commissioned in the 2nd Quarter of 2008.

Although Dialog proactively manages material risks there can be no assurance that specific risks will not affect the business operations of the company.

The company notes significant progress with respect to ERM outcomes on a Year on Year basis and will continue to hone its practices in this sphere with the objective of establishing and maintaining a best in class risk and control framework across the group.

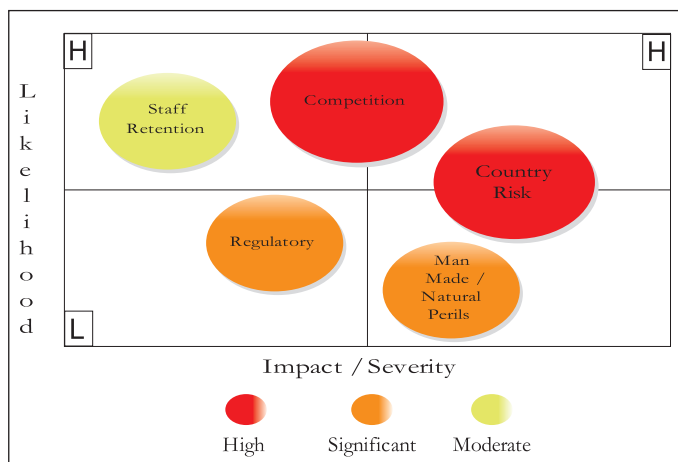


Figure 4: Key Risks for the Year 2007

6.0 CONCLUSION

ERM at Dialog is not an isolated function, but a “Culture” propagated across the Group. ERM is given tangible shape through the stewardship of the Enterprise Risk Management function, and the institution of cross functional constructs such as the ERMOC and CGSC at multiple management layers of the group.

Furthermore, the risk control structure at Dialog interlinks corporate governance, corporate responsibility and risk management and provides management with a broad perspective of risk and associated impacts to the organisation.



FINANCIAL STATEMENTS

Report of the Board of Directors

The Board of Directors of Dialog Telekom PLC (“the Company”) is pleased to present their Report and the Audited Consolidated Financial Statements of the Company and its subsidiaries (“the Group”) for the financial year ended 31 December 2007.

The details set out herein provide the pertinent information required by the Companies Act No. 7 of 2007, the Colombo Stock Exchange Listing Rules and are guided by recommended best accounting practices.

GENERAL

Dialog Telekom PLC was incorporated on 27 August 1993 as a private limited liability company and subsequently converted to a public limited liability company on 26 May 2005. The issued shares of the Company were listed on the Colombo Stock Exchange (CSE) on 28 July 2005 and the Company has the distinction of being the largest listed company on the CSE in terms of market capitalisation. Pursuant to the requirements of the new Companies Act No. 7 of 2007, the Company was re-registered on 19 July 2007.

PRINCIPLE ACTIVITIES COMPANY

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

SUBSIDIARIES

The principle activities of Dialog Broadband Network (Private) Limited and Dialog Television (Private) Limited (formerly known as Asset Media (Private) Limited) mainly comprise of the provision of internet services, telecommunication infrastructure services facilitating switched/non-switched, data communication and fixed wireless services, television broadcasting and media related services.

FINANCIAL STATEMENTS

The Financial Statements which include the income statement, balance sheet, cash flow statement, statement of changes in equity, and the notes to the Financial Statements of the Company and the Group for the year ended 31 December 2007 are set out on pages 110 to 143.

AUDITORS' REPORT

The Auditors' Report on the Financial Statements is given on page 109.

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given on pages 115 to 123. There were no changes in the accounting policies adopted in the previous year for the Company and the Group.

INTERESTS REGISTER

The interest register is maintained by the Company, as per the Companies Act No. 7 of 2007. All Directors have made declarations in accordance with the aforesaid Act. The interest register is available for inspection as required by the Companies Act.

DONATIONS

The total donations made by the Company during the year amounted to Rs. 14.1 Mn. (2006 – Rs. 13.1 Mn.).

DIRECTORS

The Directors of the Company as at 31 December 2007 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
Dato' Yusof Annuar bin Yaacob
Dato' Sri Mohammed Shazalli bin Ramly
Mr. Mohamed Vazir Muhsin
Mr. Jayantha Cudah Bandara Dhanapala

The biographical details of the Directors are given on pages 5 to 8. In accordance with the Company's Articles of Association, Dato' Yusof Annuar bin Yaacob and Dato' Sri Mohammed Shazalli bin Ramly shall retire by rotation and be eligible for re-election.

Mr. Moksevi Rasingh Prelis, who attained the age of 71 years on 2 July 2007, retires pursuant to Section 210 of the Companies Act No. 7 of 2007 and a resolution that the age limit of 70 years referred to in Section 210 of the Companies Act No. 7 of 2007 shall not be applicable to Mr. Moksevi Rasingh Prelis will be proposed at the forthcoming Annual General Meeting.

Mr. Jayantha Cudah Bandara Dhanapala was appointed as a Director of the Company with effect from 3 August 2007. In accordance with the Articles of Association of the Company, Mr. Jayantha Cudah Bandara Dhanapala will submit himself for retirement and re-election at the forthcoming Annual General Meeting.

The remaining Directors held office through out the year ended 31 December 2007.

DIRECTORS' INTERESTS IN CONTRACTS AND PROPOSED CONTRACTS

Except as stated in Note 28 to these Financial Statements, during and at the end of the financial year 2007, none of the directors were directly or indirectly interested in contracts or proposed contracts connected with the company's business.

DIRECTORS' REMUNERATION

The Directors' remuneration, in respect of the Company and the Group for the financial year 2007 are given in Note 4 to the Financial Statements.

DIRECTORS' MEETINGS

The details of Directors' meetings are set out on page 88 of the Annual Report.

DIRECTORS' SHAREHOLDINGS

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

	2007	2006
Dr. Shridhir Sariputta Hansa Wijayasuriya	42,570	38,700
Mr. Moksevi Rasingh Prelis	18,480	16,800
Mr. Mohamed Vazir Muhsin	18,040	16,400

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 the Group 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, the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange.

BOARD COMMITTEES

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

AUDIT COMMITTEE

Mr. Moksevi Rasingh Prelis (Chairman)
 Ir. Prabahar s/o Nagalingam Kirupalasingam
 Dato' Yusof Annuar bin Yaacob
 Mr. Mohamed Vazir Muhsin
 Dato' Lim Kheng Guan (resigned w.e.f. 31 December 2007)
 Mr. Jayantha Cudah Bandara Dhanapala (appointed w.e.f. 6 February 2008)

NOMINATING & REMUNERATION COMMITTEE

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

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 Auditors Messrs PricewaterhouseCoopers were paid Rs. 8.57 Mn. for the year ended 31 December 2007 (2006 - Rs. 5.45 Mn.) as audit fees by the Group. In addition, they were paid Rs. 4.03 Mn. (2006 - Rs. 2.57 Mn.) by the Group, for non-audit related services.

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 93 to 97 of the Annual Report.

The Directors are satisfied that, based on written representations made by the independent auditors to the Board, the Auditors did not have any relationship or any interest with the Company and the Group that would impair their independence.

REVIEW OF BUSINESS

The statements made by the Chairman and the GCEO on pages 14 and 17 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 the Group.

The segment wise contribution to Group results, Assets and Liabilities are provided in Note 3 to the Financial Statements on pages 123 and 124.

During the year, the Company acquired the remaining 10 per

cent of the issued shares in Dialog Television (Private) Limited, formerly known as Asset Media (Private) Limited.

RESULTS AND APPROPRIATIONS

The profit after tax of the Company was Rs. 10,126 Mn. (2006 - Rs. 10,049 Mn.) whilst the Group profit attributable to equity holders for the year was Rs. 8,967 Mn. (2006 - Rs. 10,119 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 110 and 112 respectively.

The Group and Company profits relating to the financial years 2007 and 2006 are as follows:

In Rs. '000	2007		2006	
	Group	Company	Group	Company
Profit for the year after making provision for bad and doubtful debts and for all known liabilities and after providing for depreciation on property, plant and equipment and contingencies	8,967,159	10,126,514	10,118,893	10,048,666
Profit brought forward from the previous years	14,206,808	14,136,581	6,900,917	6,900,917
Depreciation transfer	463	463	303	303
Dividend paid	(4,071,889)	(4,071,889)	(2,813,305)	(2,813,305)
Dividend paid to rated cumulative redeemable preference shares	(60,988)	(60,988)	-	-
Transfer of minority interest	55,035	-	-	-
Profit to be carried forward	19,096,588	20,130,681	14,206,808	14,136,581

The Final Dividend proposed for the financial year 2007 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 55 cents per share is recommended by the Directors for the year ended 31 December 2007.

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

Taking into account the said distribution, the Directors are satisfied that the Company would meet the solvency test requirement under section 56 (2) of the Companies Act No. 7 of 2007 immediately after the distribution. The Company's Auditors, PricewaterhouseCoopers have issued a Certificate of Solvency confirming the same.

PROPERTY, PLANT AND EQUIPMENT

The book value of property, plant and equipment as at the Balance Sheet date amounted to Rs. 45,956 Mn. (2006 - Rs. 28,029 Mn.) and Rs. 50,419 Mn. (2006 - Rs. 30,032 Mn.) for the Company and Group, respectively.

The capital expenditure for the Company and the Group amounted to Rs. 22,171 Mn. (2006 - Rs. 12,140 Mn.) and Rs. 25,260 Mn. (2006 - Rs. 12,740 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

The buildings of the Company and the Group have been subjected to periodic revaluation by independent professional valuers. The buildings of the Company were last revalued as at December 2006. 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.

The Directors are of the opinion that the carrying amount of Building stated in Note 11 to the Group Financial Statements reflects the fair value of the properties.

CORPORATE GOVERNANCE

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

A detailed account of the Corporate Governance framework and its application and adherence within the Group are set out on pages 86 to 92 of the Annual Report.

SYSTEM OF INTERNAL CONTROLS

The Directors are responsible for the Company's system of internal controls covering financial operations and risk management activities and review its effectiveness, in accordance with the provisions of the Corporate Governance framework. The Directors consider that the system is appropriately designed to manage the risk environment facing the Company and to provide reasonable assurance against material misstatement or loss. The Directors fur-

ther confirm 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 98.

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. The 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. The 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 2007 was 4,092 (2006 - 2,774).

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 is disclosed in Note 17 to the Financial Statements.

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

ENVIRONMENTAL PROTECTION

The Group is sensitive to the needs of the environment and makes every endeavour 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 CR Review on page 40 of the Annual Report.

EQUITABLE TREATMENT TO SHAREHOLDERS

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

SHARE INFORMATION

The details relating to Earnings, Net assets, Market value per share and information on share trading is given on pages 76 to 81 of the Report.

SUBSTANTIAL SHAREHOLDINGS

The parent company, TM International (L) Limited holds 83.15 per cent of the total ordinary shares in issue of the Company. The twenty largest shareholders and the per cent-ages held by each of them are disclosed on page 85.

As at 31 December 2007 the public holds 14.89 per cent of the total ordinary shares in issue of the Company.

STATED CAPITAL

The stated capital of the Company as at 31 December 2007 stood at Rs. 33,056.41 Mn. consisting of 8,143,778,405 ordinary shares and 5,000,000,000 rated cumulative redeemable preference shares. The details of the stated capital are contained in Note 17 to the Financial Statements.

During the year, the Company raised Rs 15.54 Bn. through a 1 for 10 rights issue to its shareholders at Rs. 21 per share, by issuing 740,343,492 ordinary shares and Rs. 5.0 Bn. through the issue of 5 Billion rated cumulative redeemable preference shares at Rs. 1 per share.

The funds raised from the rights issue and the rated cumulative redeemable preference shares have been used to partially finance the Group's three year (2007-2009) composite capital expenditure requirements in keeping with the requirement to capitalise on growing business opportunities spanning the telecommunication and media sectors.

RESERVES

The movement in the reserves is shown in the Statement of Changes in Equity on pages 112 and 113.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

The Contingent Liabilities and Commitments made on account of capital expenditure as at 31 December 2007 are given in Note 25 and 26 to the Financial Statements.

STATUTORY PAYMENTS

The Directors confirm that to the best of their knowledge all 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 the Group 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 have reviewed the Group's business plans and are satisfied that the Company and the Group have adequate resources to continue as a going concern for the foreseeable future. As such the Financial Statements have been prepared on that basis.

ANNUAL REPORT

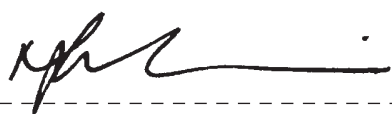
The Board of Directors approved the Consolidated Financial Statements on 18 February 2008. The appropriate number of copies of this report will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 08 May 2008 at Ceylon Continental Hotel.

The Notice of Meeting relating to the 11th Annual General Meeting is given on page 149.

For and on behalf of the Board,



**Tan Sri Dato' Ir. Muhammad
Radzi bin Haji Mansor**
Chairman
18 February 2008



Dr. S S H Wijayasuriya
Director/ Group Chief Executive
18 February 2008



Mrs. Anoja Obeyesekere
Company Secretary
18 February 2008

Group Chief Executive's and Group 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. 7 of 2007, and any other applicable statutes to the extent applicable to the Company and the Group. 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 Group Chief Executive and Group Chief Financial Officer accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and responsible basis after making all reasonable enquiries in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the Company and the Group's state of affairs. To ensure this, Dialog Telekom PLC, has taken proper and sufficient care in implementing a system of internal control and accounting records, for the safeguarding of assets, and preventing and detecting of fraud as well as other irregularities. Internal controls are reviewed, evaluated and updated on an ongoing basis and effective functioning of Board Audit Committee ensures that the internal controls and procedures are followed consistently.

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

The Company's Audit Committee meets periodically with the independent auditors to review the manner in which they are performing their responsibilities, adherence to statutory and regulatory requirements, 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 enquiries and to the best of our knowledge the Company and the Group 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.

We confirm that the Company and the Group have complied with all applicable laws, regulations, and guidelines and there are no material litigation against the Group other than those disclosed in the notes to the Financial Statements of the Annual Report.

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



Dr. Hans Wijayasuriya
Director / Group Chief Executive
Date : 18 February 2008



Wan Zaidan Wan Mahyudin
Group Chief Financial Officer
Date : 18 February 2008

Report of the Auditors

Independent Auditor's Report to the Members of Dialog Telekom PLC



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

REPORT ON THE FINANCIAL STATEMENTS

- We have audited the accompanying financial statements of Dialog Telekom PLC, the consolidated financial statements of the Company and its Subsidiaries as at that date, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory related notes as set out in pages 115 to 143.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

- Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

SCOPE OF AUDIT AND BASIS OF OPINION

- Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

- In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2007 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2007 and of its results for the year and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- In our opinion, the consolidated financial statements give a fair view of the state of affairs as at 31 December 2007 and consolidated results for the year and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concern the members of the Company.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) as appropriate of the Companies Act No. 07 of 2007.

18 February 2008

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

Financial Statements

Dialog Telekom PLC and its Subsidiaries

INCOME STATEMENT

(all amounts in Sri Lanka Rupees Thousands)

	Notes	Group Year ended 31 December		Company Year ended 31 December	
		2007	2006	2007	2006
		Revenue	3	32,516,842	25,679,492
Direct costs		(13,402,937)	(8,821,778)	(11,881,600)	(8,536,151)
Gross margin		19,113,905	16,857,714	19,247,593	16,613,156
Other operating income		379,859	123,322	325,649	83,489
Administrative expenses		(6,076,609)	(3,064,260)	(5,426,048)	(2,981,573)
Distribution costs		(3,774,676)	(3,066,000)	(3,490,535)	(3,057,288)
Operating profit		9,642,479	10,850,776	10,656,659	10,657,784
Finance costs	6	(630,018)	(657,309)	(485,059)	(552,911)
Profit before tax		9,012,461	10,193,467	10,171,600	10,104,873
Tax	7	(45,302)	(74,574)	(45,086)	(56,207)
Profit for the year		8,967,159	10,118,893	10,126,514	10,048,666
Attributable to:					
Equity holders of the Company		8,967,159	10,118,893	10,126,514	10,048,666
Minority interest		Nil	Nil	Nil	Nil
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in Rs per share)					
- basic	9	1.15	1.38	1.30	1.37
- diluted	9	1.14	1.38	1.29	1.37

The notes on pages 115 to 143 form an integral part of these financial statements.

Dialog Telekom PLC and its Subsidiaries


BALANCE SHEET


(all amounts in Sri Lanka Rupees Thousands)

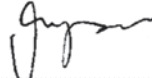
	Notes	Group Year ended 31 December		Company Year ended 31 December	
		2007	2006	2007	2006
ASSETS					
Non-current assets					
Property, plant and equipment	11	50,418,567	30,031,500	45,955,975	28,029,423
Intangible assets	12	3,919,177	3,602,737	1,236,106	1,004,362
Investments in subsidiaries	13	Nil	Nil	2,335,510	2,295,844
		54,337,744	33,634,237	49,527,591	31,329,629
Current assets					
Inventories	15	954,385	580,215	704,194	519,063
Trade and other receivables	14	10,090,263	6,910,094	13,612,888	7,709,931
Cash and cash equivalents	16	6,343,121	2,301,422	6,062,156	2,237,455
		17,387,769	9,791,731	20,379,238	10,466,449
Total assets		71,725,513	43,425,968	69,906,829	41,796,078
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Stated capital	17	33,056,413	12,680,378	33,056,413	12,680,378
ESOS Trust shares	17	(2,000,439)	(1,925,226)	(2,000,439)	(1,925,226)
Dividend reserve - ESOS		172,722	70,309	172,722	70,309
Revaluation reserve	18	20,377	20,840	20,377	20,840
Retained earnings		19,096,588	14,206,808	20,130,681	14,136,581
		50,345,661	25,053,109	51,379,754	24,982,882
Minority interest in equity		Nil	(72)	Nil	Nil
Total equity		50,345,661	25,053,037	51,379,754	24,982,882
LIABILITIES					
Non-current liabilities					
Subscription in advance	22	306	1,235	306	1,235
Borrowings	20	5,172,921	8,057,847	4,751,593	7,338,450
Deferred tax liability	21	140,084	39,717	119,823	39,717
Retirement benefit obligations	23	211,916	111,997	201,554	102,635
Provision for other liabilities		142,979	86,666	142,979	86,666
		5,668,206	8,297,462	5,216,255	7,568,703
Current liabilities					
Trade and other payables	19	14,812,319	8,795,818	13,118,538	8,142,897
Current income tax liabilities		19,913	63,491	19,344	44,624
Borrowings	20	879,414	1,216,160	172,938	1,056,972
		15,711,646	10,075,469	13,310,820	9,244,493
Total liabilities		21,379,852	18,372,931	18,527,075	16,813,196
Total equity and liabilities		71,725,513	43,425,968	69,906,829	41,796,078

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board of Directors on 18 February 2008.

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


 Dr. S S H Wijayasuriya
 Director/ Group Chief Executive


 M R Prelis
 Director


 Wan Zaidan Wan Mahyudin
 Group Chief Financial Officer

The notes on pages 115 to 143 form an integral part of these financial statements.

Dialog Telekom PLC and its Subsidiaries

(all amounts in Sri Lanka Rupees 'Thousands)

STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company									
Group	Notes	Stated* capital	Rated cumulative preference share capital	Shares in ESOS trust	Revaluation reserve	Retained earnings	Dividend reserve	Minority interest	Total
Balance at 1 January 2006		12,680,378	Nil	(2,385,320)	4,896	6,900,917	Nil	Nil	17,200,871
Net Profit		Nil	Nil	Nil	Nil	10,118,893	Nil	Nil	10,118,893
Dividend paid	10	Nil	Nil	Nil	Nil	(2,813,305)	Nil	Nil	(2,813,305)
Dividend received ESOS		Nil	Nil	Nil	Nil	Nil	70,309	Nil	70,309
Revaluation of buildings	18	Nil	Nil	Nil	16,247	Nil	Nil	Nil	16,247
Depreciation transfer	18	Nil	Nil	Nil	(303)	303	Nil	Nil	Nil
Shares exercised - ESOS	17	Nil	Nil	461,329	Nil	Nil	Nil	Nil	461,329
Subscription in advance	22	Nil	Nil	(1,235)	Nil	Nil	Nil	Nil	(1,235)
Minority interest arising on business acquisition		Nil	Nil	Nil	Nil	Nil	Nil	(72)	(72)
Balance at 31 December 2006		12,680,378	Nil	(1,925,226)	20,840	14,206,808	70,309	(72)	25,053,037
Balance at 1 January 2007		12,680,378	Nil	(1,925,226)	20,840	14,206,808	70,309	(72)	25,053,037
Net Profit		Nil	Nil	Nil	Nil	8,967,159	Nil	Nil	8,967,159
Issue of ordinary shares		15,376,035	Nil	Nil	Nil	Nil	Nil	Nil	15,376,035
Dividend paid to ordinary shareholders	10	Nil	Nil	Nil	Nil	(4,071,889)	Nil	Nil	(4,071,889)
Dividend paid to rated cumulative redeemable preference shares		Nil	Nil	Nil	Nil	(60,988)	Nil	Nil	(60,988)
Dividend received ESOS		Nil	Nil	Nil	Nil	Nil	102,413	Nil	102,413
Issue of rated cumulative redeemable preference shareholders	17	Nil	5,000,000	Nil	Nil	Nil	Nil	Nil	5,000,000
Depreciation transfer	18	Nil	Nil	Nil	(463)	463	Nil	Nil	Nil
Purchase shares - ESOS	17	Nil	Nil	(205,452)	Nil	Nil	Nil	Nil	(205,452)
Shares exercised - ESOS	17	Nil	Nil	130,545	Nil	Nil	Nil	Nil	130,545
Subscription in advance		Nil	Nil	(306)	Nil	Nil	Nil	Nil	(306)
Transfer of minority interest	8	Nil	Nil	Nil	Nil	55,035	Nil	72	55,107
Balance at 31 December 2007		28,056,413	5,000,000	(2,000,439)	20,377	19,096,588	172,722	Nil	50,345,661

* stated capital includes amounts previously reported under ordinary share capital and share premium as required by the Companies Act No. 7 of 2007.

The notes on pages 115 to 143 form an integral part of these financial statements.

(all amounts in Sri Lanka Rupees Thousands)

Attributable to equity holders of the Company

STATEMENT OF CHANGES IN EQUITY

Company	Notes	Stated* capital	Rated cumulative redeemable preference share capital	Shares in ESOS trust	Revalua- tion reserve	Retained earnings	Dividend reserve	Total
Balance at 1 January 2006		12,680,378	Nil	(2,385,320)	4,896	6,900,917	Nil	17,200,871
Net profit		Nil	Nil	Nil	Nil	10,048,666	Nil	10,048,666
Dividend paid	10	Nil	Nil	Nil	Nil	(2,813,305)	Nil	(2,813,305)
Dividend received ESOS		Nil	Nil	Nil	Nil	70,309	70,309	70,309
Revaluation of buildings		Nil	Nil	Nil	16,247	Nil	Nil	16,247
Depreciation transfer		Nil	Nil	Nil	(303)	303	Nil	Nil
Shares exercised - ESOS		Nil	Nil	461,329	Nil	Nil	Nil	461,329
Subscription in advance		Nil	Nil	(1,235)	Nil	Nil	Nil	(1,235)
Balance at 31 December 2006		12,680,378	Nil	(1,925,226)	20,840	14,136,581	70,309	24,982,882
Balance at 1 January 2007		12,680,378	Nil	(1,925,226)	20,840	14,136,581	70,309	24,982,882
Net profit		Nil	Nil	Nil	Nil	10,126,514	Nil	10,126,514
Issue of ordinary shares		15,376,035	Nil	Nil	Nil	Nil	Nil	15,376,035
Dividend paid to ordinary shareholders	10	Nil	Nil	Nil	Nil	(4,071,889)	Nil	(4,071,889)
Dividend paid to rated cumulative redeemable preference shareholders		Nil	Nil	Nil	Nil	(60,988)	Nil	(60,988)
Dividend received ESOS		Nil	Nil	Nil	Nil	102,413	102,413	102,413
Issue of rated cumulative redeemable preference shares	17	Nil	5,000,000	Nil	Nil	Nil	Nil	5,000,000
Depreciation transfer	18	Nil	Nil	Nil	(463)	463	Nil	Nil
Purchase shares - ESOS	17	Nil	Nil	(205,452)	Nil	Nil	Nil	(205,452)
Shares exercised - ESOS	17	Nil	Nil	130,545	Nil	Nil	Nil	130,545
Subscription in advance	22	Nil	Nil	(306)	Nil	Nil	Nil	(306)
Balance at 31 December 2007		28,056,413	5,000,000	(2,000,439)	20,377	20,130,681	172,722	51,379,754

* stated capital includes amounts previously reported under ordinary share capital and share premium as required by the Companies Act No. 7 of 2007.

The notes on pages 115 to 143 form an integral part of these financial statements.

Dialog Telekom PLC and its Subsidiaries

CASH FLOW STATEMENT

(all amounts in Sri Lanka Rupees Thousands)

	Notes	Group		Company	
		Year ended 31 December		Year ended 31 December	
		2007	2006	2007	2006
Cash flows from operating activities					
Cash generated from operations	24	16,805,407	12,520,580	16,844,218	12,377,705
Interest received		161,375	242,294	160,202	242,296
Interest paid		(774,823)	(731,338)	(618,028)	(633,630)
Tax / ESC paid		(61,482)	(7,961)	(60,220)	(7,626)
Retirement benefit obligations paid	23	(2,403)	(3,804)	(2,007)	(3,022)
Net cash generated from operating activities		16,128,074	12,019,771	16,324,165	11,975,723
Cash flows from investing activities					
Purchases of property, plant and equipment		(404,165)	(185,746)	(193,946)	(141,601)
Purchases of intangible assets		(186,865)	(503,050)	(142,353)	(503,050)
Amounts owed by subsidiary undertakings		Nil	Nil	(3,130,476)	(913,596)
Expenditure incurred on capital work-in-progress		(24,488,034)	(11,692,401)	(21,793,825)	(11,135,832)
Acquisition of subsidiary, net of cash acquired	27	(39,666)	(849,444)	(39,666)	(325,079)
Proceeds from sale of property, plant and equipment		76,721	18,735	30,036	15,313
Dividend received - ESOS		102,413	70,309	102,413	70,309
Net cash used in investing activities		(24,939,596)	(13,141,597)	(25,167,817)	(12,933,536)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		15,376,035	Nil	15,376,035	Nil
Proceeds from treasury shares - ESOS		129,308	461,329	129,308	461,329
Purchase of treasury shares - ESOS	17	(205,452)	Nil	(205,452)	Nil
Proceeds from issuance of rated cumulative redeemable preference shares		5,000,000	Nil	5,000,000	Nil
Repayment of finance leases		(43,705)	(22,864)	(18,656)	(19,259)
Repayment of borrowings		(12,197,706)	(1,151,041)	(11,265,833)	(1,057,685)
Proceeds from borrowings		8,793,324	142,700	7,785,828	Nil
Dividends paid to ordinary shareholders		(4,071,889)	(2,813,305)	(4,071,889)	(2,813,305)
Dividends paid to holders of rated cumulative redeemable preference shares		(60,988)	Nil	(60,988)	Nil
Net cash generated from / (used in) financing activities		12,718,927	(3,383,181)	12,668,353	(3,428,920)
Net increase / (decrease) in cash and cash equivalents		3,907,405	(4,505,007)	3,824,701	(4,386,733)
Movement in cash and cash equivalents					
At start of year		2,184,664	6,689,671	2,237,455	6,624,188
Increase / (decrease)		3,907,405	(4,505,007)	3,824,701	(4,386,733)
At end of year	16	6,092,069	2,184,664	6,062,156	2,237,455

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS

(IN THE NOTES ALL AMOUNTS ARE SHOWN IN SRI LANKA RUPEES THOUSANDS UNLESS OTHERWISE STATED)

1. GENERAL INFORMATION

Dialog Telekom PLC (the “Company”) and its subsidiaries (together “the Group”) provide Communication (Mobile, Internet, International, Data and Backbone, Fixed Wireless and Transmission Infrastructure) and Media related services (Television Broadcasting Services, Pay Television and Cable Television Services, Operation of a Television Broadcasting Station and Direct to Home Satellite TV Service). During the year, the Company acquired the remaining 10% of Dialog Television (Private) Limited, formally known as Asset Media (Private) Limited.

Dialog Telekom PLC is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Company is located at 475, Union Place, Colombo 2.

The Company has 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 (SLAS). These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings.

The preparation of financial statements in conformity with SLASs and requires the use of certain critical accounting estimates. It requires management to exercise their judgment in the process of applying the Company’s accounting policies. The areas where assumptions and estimate are significant to the consolidated financial statements are disclosed in Note 2.25.

(a) SLASs that are not yet effective and therefore not adopted by the Group

The following standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2009 or later periods:

SLAS 44 - Financial Instruments; Presentation

The objective of this standard is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, in to financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset.

The substance of a financial instrument, rather than its legal form, governs its classification on the entity’s balance sheet. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of equity but are liabilities in substance and others may combine features associated with equity instruments and features associated with financial liabilities.

Accordingly, the preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability.

SLAS 45 - Financial Instruments; Recognition and Measurement

The objective of this standard is to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

2.2 CONSOLIDATION

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The subsidiary undertakings financial years are coterminous 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.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. 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

(a) Functional and presentation currency

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.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

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. Separately recognised goodwill is tested annually for impairment and carried at cost 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. Costs include the software development employee costs and an appropriate portion of relevant overheads. 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.

2.6 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 periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. 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.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

2.6 PROPERTY, PLANT AND EQUIPMENT (CONTD)

(a) Cost and valuation (Contd)

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. The carrying amount of the replaced part is derecognised. 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 of buildings are credited to other reserves in shareholders' equity under stated capital. Decreases that offset previous increases of the same asset are charged against other reserves. All other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Depreciation is calculated to write off the cost or valuation of property, plant and equipment on a straight line basis over the expected useful lives of assets concerned.

The principal annual depreciation rates used are:

	% per annum
Buildings	2.5 - 2.9
Building - electrical installation	12.5
Building - leasehold property	33 1/3
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
ISP infrastructure	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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.

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.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

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 recognized 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 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. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 TRADE RECEIVABLES

Trade receivables are recognised at the amounts that they are estimated to realise 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 estimated realisable value. The amount of the provision is recognised in the income statement within selling and distribution costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

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 overdraft are shown within borrowings in current liabilities on the balance sheet.

2.12 STATED CAPITAL

Ordinary shares and rated cumulative redeemable preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.13 TRADE AND OTHER PAYABLES

Liabilities classified as trade and other payables in the balance sheet are those which fall due for payment on demand or within one year from the balance sheet date. Items classified as non-current liabilities are those which fall due for payment beyond a period of one year from the balance sheet date.

2.14 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.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

2.15 CURRENT AND DEFERRED INCOME TAXES

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

2.16 EMPLOYEE BENEFITS

(a) Defined benefit plan - Gratuity

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. 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 actuarial valuation carried out.

The actuarial gains and losses are charges or credited to income statement in the period in which they arise.

The assumptions based on which the results of the actuarial valuation was determined, are included in Note 23 to the financial statements.

(b) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company contributes 12% or 15% and 3% respectively, of the employees' basic or consolidated wage or salary. The Group has no further payment obligations once the contributions have been paid. The company and the employees are members of these defined contribution plans.

(c) 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.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

2.17 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. Provisions are not recognised for future operating 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.

2.18 REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. The Group and Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The revenue is recognised as follows:

(a) Domestic and international call revenue and rental income

The customers are charged for the usage with a monthly fixed rental for the telephony services. The customers are charged government taxes at the applicable rates. The revenue is recognised net of such taxes.

(b) Revenue from other network operators and international settlements

The revenue received from other network operators, local and international, for the use of the Group's telecommunication network for completing call connections are recognised, net of taxes, based on traffic minutes / per second rates stipulated in the relevant agreements and regulations.

(c) Connection fees

The connection fees relating to connections are recognised as revenue in the period in which the connection is activated.

(d) Equipment revenue

These revenues consist of the sale of phones, accessories, sim cards and starter packs. Revenues from these sales are recognised at the time that the item is sold to the customer.

(e) Prepaid card revenue

The revenue from sale of prepaid cards is recognised in the period in which it is used based on airtime.

(f) 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.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

2.19 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group and Company 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 and Company 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 and Company. The Group and Company do not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.20 ACCOUNTING FOR LEASES WHERE COMPANY IS THE LESSEE

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

(a) Finance lease

The Group and Company leases certain motor vehicles included in property, plant and equipment. Leases of property, plant and equipment where the Group and Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other 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.

(b) Operating lease

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.

2.21 CREDIT RISK

Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposure to customers and other network operators, including outstanding receivables. For bank and financial institutions only rated financial institutions are accepted. The credit control assess the credit quality of customers, taking into account their financial position, past experience and other factors. The individual risk limits are set based on internal ratings in accordance with limits set by the Board. The utilisation of credit limits are regularly monitored.

2.22 LIQUIDITY RISK

Effective liquidity risk management includes maintaining sufficient cash and marketable securities and the availability of funding from adequate amount of committed credit facilities. Due to dynamic nature of the underlying business, the Group maintains flexibility in funding by maintaining sufficient cash reserves and committed credit lines.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

2.23 INTEREST RATE RISK

The Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. The borrowings at variable rates expose the Group to cash flow interest rate risk whilst borrowings at fixed rates exposes the Group to interest rate risk. The Group analyses its interest rate exposure on a dynamic basis.

2.24 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.

2.25 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 with in 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 2007, the qualifying segments under business segment reporting are as follows:

- 1 Cellular Mobile Telephone Network
- 2 External Gateway Operations

Other Group operations mainly comprise of 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 per cent or more of the total revenue of all segments; or segment result, whether profit or loss, is not 10 per cent 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 per cent or more of the total assets of all segments.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

3 SEGMENTAL ANALYSIS (CONTD)

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

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

	Cellular operations	External Gateway Operations	Other	Unallocated	Group
Total segmental revenue	28,609,962	6,214,752	2,385,523	Nil	37,210,237
Inter-segment revenue	(1,723,170)	(2,583,061)	(387,164)	Nil	(4,693,395)
Revenue	26,886,792	3,631,691	1,998,359	Nil	32,516,842
Operating profit / segment results	9,906,823	596,823	(808,305)	(52,862)	9,642,479
Finance income					169,817
Finance cost					(799,835)
Profit before income tax					9,012,461
Income tax expense					(45,302)
Profit for the year					8,967,159

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

	Cellular operations	External Gateway Operations	Other	Group
Depreciation	3,493,669	48,551	427,068	3,969,288
Amortisation	376,818	22,835	108,264	507,917

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

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

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

Capital expenditure comprises additions to property, plant and equipment (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	65,781,937	3,617,869	2,325,707	Nil	71,725,513
Liabilities	11,974,408	569,493	2,623,618	6,212,333	21,379,852
Capital expenditure	21,595,041	209,280	3,455,678	Nil	25,259,999

(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.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

4 OPERATING PROFIT

The following items have been charged / (credited) in arriving at operating profit:

	Group		Company	
	2007	2006	2007	2006
Directors' fee	24,748	14,261	24,748	14,261
Auditors' emoluments				
- audit fees	8,575	5,455	6,577	4,355
- other	4,026	2,575	4,026	2,575
Other professional services	74,659	63,420	71,824	62,011
Amortisation of intangible assets (Note 12)	507,917	281,272	390,877	190,106
Depreciation on property, plant and equipment (Note 11)				
- owned assets	3,925,623	2,703,528	3,583,407	2,573,605
- leased assets under finance leases	43,665	32,074	23,267	23,845
Repair and maintenance expenditure on property, plant and equipment	1,057,278	564,631	994,814	536,183
Provision for doubtful debts	844,902	830,330	786,254	830,330
Operating lease rentals				
- office	471,730	235,692	434,193	233,975
- base stations and lease circuits	773,857	618,055	679,220	591,385
Cost of inventories (included in 'direct costs')	855,869	732,032	855,869	732,032
Employee benefit expense (Note 5)	2,033,220	1,086,760	1,741,748	998,783
Profit on disposal of property, plant and equipment (Note 24)	(14,978)	(9,643)	(15,154)	(8,001)
Provision for impairment	17,544	Nil	Nil	Nil

5 EMPLOYEE BENEFIT EXPENSE

	Group		Company	
	2007	2006	2007	2006
Wages and salaries	1,525,863	864,317	1,309,850	781,854
Social security costs	139,637	34,078	92,847	34,078
Pension costs				
- defined contribution plans	265,398	155,141	238,125	152,384
- defined benefit plan (Note 23)	102,322	33,224	100,926	30,467
	2,033,220	1,086,760	1,741,748	998,783
Number of persons employed as at 31 December:				
- Full time	4,008	2,686	3,423	2,291
- Part time	84	88	84	88

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

6 FINANCE COST

	Group		Company	
	2007	2006	2007	2006
Interest income on deposits	152,746	249,770	151,572	249,770
Interest expense on:				
- bank overdrafts	(22,238)	(4,106)	(141)	(175)
- term loans	(720,000)	(726,707)	(595,143)	(628,026)
- parent company loan	Nil	(828)	Nil	(828)
- finance cost on ARO	(35,376)	Nil	(35,376)	Nil
- finance lease charges	(18,940)	(9,560)	(7,373)	(7,774)
	(796,554)	(741,201)	(638,033)	(636,803)
Net foreign exchange transaction gain / (loss)	13,790	(165,878)	1,402	(165,878)
	(630,018)	(657,309)	(485,059)	(552,911)

7 TAX

Year ended 31 December	Group		Company	
	2007	2006	2007	2006
Income tax charge for the year	20,016	62,840	19,565	44,473
Reversal of overprovision	(42,709)	(23,569)	(26,056)	(23,569)
Deferred tax charge	96,524	39,717	80,106	39,717
Economic Service Charge	(28,529)	(4,414)	(28,529)	(4,414)
	45,302	74,574	45,086	56,207

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.

There were overprovision reversals of Rs. 26 million and Rs. 16 million with regard to the provisions made in previous year, resulting in income tax credits reflected in the Company's and Group's income statements respectively during the year.

With the new pronouncement made on ESC, through the 2006/ 2007 budget, the ESC including carried forward ESC from year 2005/2006 can be setoff against any income tax without restriction to income tax payable on profit from trade, business, profession or vocation. Accordingly, the Company reinstated Rs. 28,529,320 that had been incurred and expensed in year 2005/2006 during the current year on ESC and setoff against the income tax liability. Of the total reinstated amount, Rs. 9,960,823 is further available to the Company for carry forward and setoff against the income tax liability.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

7 TAX (CONTD)

Year ended 31 December	Group		Company	
	2007	2006	2007	2006
Profit before tax	9,012,461	10,193,467	10,171,600	10,104,873
Tax at the applicable rate	3,004,154	3,428,240	3,390,533	3,368,291
Income not subject to tax	(7,051,805)	(6,139,301)	(7,193,159)	(6,097,207)
Expenses not deductible for tax purposes	4,174,432	2,812,687	3,912,598	2,812,687
Utilization of tax losses	(10,301)	(16,008)	(10,301)	(16,008)
Overprovision of tax	(42,649)	(6,630)	(26,056)	(7,142)
Adjustment on economic service charge	(28,529)	(4,414)	(28,529)	(4,414)
	45,302	74,574	45,086	56,207

Tax losses available for carry forward to the year of assessment 2008/2009 amount to Rs. 914,113,001. 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. The balance loss could be carried forward to future years.

8 MINORITY INTEREST

The total loss of Rs. 55.1 million applicable to minorities during the post acquisition period was allocated against the majority interest in accordance with SLAS 26. However following the acquisition of the remaining stake in Dialog Television (Private) Limited, the latter is now a fully owned subsidiary and accordingly no minority interest was carried at the balance sheet date.

9 EARNINGS PER SHARE

(a) Basic

Basic earning per share is calculated by dividing the profit attributable to equity holders of the Company 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	
	2007	2006	2007	2006
Net profit after tax	8,967,159	10,118,893	10,126,514	10,048,666
Less: Preference dividend paid	(60,988)	Nil	(60,988)	Nil
Net profit attributable to equity holders of the Company	8,906,171	10,118,893	10,065,526	10,048,666
Weighted average number of ordinary shares in issue (thousands)	7,719,955	7,344,159	7,719,955	7,344,159
Basic earnings per share (Rs)	1.15	1.38	1.30	1.37

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

9 EARNINGS PER SHARE (CONTD)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has share options (ESOS) which is potential for the dilution. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Group		Company	
	2007	2006	2007	2006
Net profit after tax	8,967,159	10,118,893	10,126,514	10,048,666
Less: Preference dividend paid	(60,988)	Nil	(60,988)	Nil
Net profit attributable to equity holders of the Company	8,906,171	10,118,893	10,065,526	10,048,666
Weighted average number of ordinary shares for diluted earnings per share (thousands)	7,827,019	7,344,159	7,827,019	7,344,159
Diluted earnings per share (Rs.)	1.14	1.38	1.29	1.37

10 DIVIDEND PER SHARE

(a) Ordinary dividend

The ordinary dividends paid in 2007 and 2006 were Rs. 4,071,889,197 (Rs. 0.55 per share) and Rs. 2,813,305,267 (Rs. 0.38 per share) respectively. A dividend in respect of the year ended 31 December 2007 of Rs. 0.55 per share, amounting to a total dividend of 4,479,078,123, is to be proposed out of tax exempted profits at the annual general meeting on 8 May 2008. These financial statement do not reflect this dividend payable.

(b) Preference dividend

Preference dividend amounting to Rs. 60,987,989 was paid during the year at Rs. 0.0122 per share.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

11 PROPERTY, PLANT AND EQUIPMENT

(a) Group	Land and buildings	Computer systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Asset in the course of construction (CWIP)	Total
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 (Note 4)	(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
Year ended 31 December 2007						
Opening net book amount	512,604	20,235,851	313,052	211,901	8,758,092	30,031,500
Additions	138,865	218,363	64,739	84,289	24,468,486	24,974,742
Transferred from CWIP	152,499	8,864,331	354,218	Nil	(9,371,048)	Nil
Transferred to intangible assets (Note 12)	Nil	(28,532)	6,871	632	(518,071)	(539,100)
Impairment charge	Nil	(17,543)	Nil	Nil	Nil	(17,543)
Disposals	(609)	(54,444)	(3,749)	(2,942)	Nil	(61,744)
Depreciation charge (Note 4)	(40,287)	(3,605,548)	(244,357)	(79,096)	Nil	(3,969,288)
Closing net book amount	763,072	25,612,478	490,774	214,784	23,337,459	50,418,567
At 31 December 2007						
Cost / valuation	909,993	37,988,853	936,052	473,027	23,337,459	63,645,384
Accumulated depreciation	(146,921)	(12,376,375)	(445,278)	(258,243)	Nil	(13,226,817)
Net book amount	763,072	25,612,478	490,774	214,784	23,337,459	50,418,567

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

11 PROPERTY, PLANT AND EQUIPMENT (CONTD)

(b) Company	Land and buildings	Computer systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Asset in the course of construction (CWIP)	Total
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	11,135,831	11,378,196
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)	(3,140)	Nil	(7,313)
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	177,505	8,318,503	28,029,423
At 31 December 2006						
Cost / valuation	503,080	27,059,753	460,197	342,313	8,318,503	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	177,505	8,318,503	28,029,423
Year ended 31 December 2007						
Opening net book amount	430,406	18,825,530	277,479	177,505	8,318,503	28,029,423
Additions	1,354	180,694	33,625	19,003	21,793,702	22,028,378
Transferred from CWIP	151,546	8,224,387	227,208	Nil	(8,603,141)	Nil
Transferred to intangible assets (Note 12)	Nil	Nil	Nil	Nil	(480,269)	(480,269)
Disposals	(609)	(7,583)	(3,749)	(2,942)	Nil	(14,883)
Depreciation charge (Note 4)	(35,198)	(3,405,574)	(108,453)	(57,449)	Nil	(3,606,674)
Closing net book amount	547,499	23,817,454	426,110	136,117	21,028,795	45,955,975
At 31 December 2007						
Cost / valuation	654,643	35,448,106	716,353	344,065	21,028,795	58,191,962
Accumulated depreciation	(107,144)	(11,630,652)	(290,243)	(207,948)	Nil	(12,235,987)
Net book amount	547,499	23,817,454	426,110	136,117	21,028,795	45,955,975

(c) If the buildings were stated on the historical cost basis, the amount would be as follows:

	Group		Company	
	2007	2006	2007	2006
Cost	743,568	489,307	633,384	489,307
Accumulated depreciation	(146,013)	(75,072)	(106,236)	(75,072)
Net book amount	597,555	414,235	527,148	414,235

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

11 PROPERTY, PLANT AND EQUIPMENT (CONTD)

(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	
	2007	2006	2007	2006
Cost	199,159	173,675	138,368	120,366
Accumulated depreciation	(100,960)	(90,237)	(92,365)	(69,098)
Net book value	98,199	83,438	46,003	51,268

(e) Property, plant and equipment includes fully depreciated assets still in use, the cost of which amounted to Rs.1,759,276,338 (2006 - Rs 1,172,359,631) and Rs 1,834,089,132 (2006 - Rs.1,242,431,435), for Company and group as at the balance sheet date respectively.

(f) No borrowing costs (2006 - Rs 43,782,708) were capitalised during the year.

12 INTANGIBLE ASSETS

Group	Goodwill	Licenses	Others	Computer software	Total
Year ended 31 December 2006					
Opening net book amount	389,857	890,000	228,850	119,598	1,628,305
Acquisition of subsidiary	1,409,683	Nil	Nil	Nil	1,409,683
Additions	Nil	503,053	Nil	Nil	503,053
Transferred from capital WIP (Note 11)	Nil	44,666	13,009	285,293	342,968
Amortisation charge (Note 4)	Nil	(111,554)	(15,645)	(154,073)	(281,272)
Closing net book amount	1,799,540	1,326,165	226,214	250,818	3,602,737
At 31 December 2006					
Cost	1,799,540	1,450,438	245,686	819,224	4,314,888
Accumulated amortisation charge	Nil	(124,273)	(19,472)	(568,406)	(712,151)
Net book amount	1,799,540	1,326,165	226,214	250,818	3,602,737
Year ended 31 December 2007					
Opening net book amount	1,799,540	1,326,165	226,214	250,818	3,602,737
Additions	94,772	105,978	Nil	84,507	285,257
Transferred from capital WIP (Note 11)	Nil	Nil	134,452	404,648	539,100
Amortisation charge (Note 4)	Nil	(185,521)	(7,746)	(314,650)	(507,917)
Closing net book amount	1,894,312	1,246,622	352,920	425,323	3,919,177
At 31 December 2007					
Cost	1,894,312	1,556,416	380,138	1,308,379	5,139,245
Accumulated amortisation charge	Nil	(309,794)	(27,218)	(883,056)	(1,220,068)
Net book amount	1,894,312	1,246,622	352,920	425,323	3,919,177

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

12 INTANGIBLE ASSETS (CONTD)

Company	Licenses	Others	Computer software	Total
Year ended 31 December 2006				
Opening net book amount	Nil	228,850	119,598	348,448
Additions	503,052	Nil	Nil	503,052
Transferred from capital WIP	44,666	13,009	285,293	342,968
Amortisation charge (Note 4)	(20,388)	(15,645)	(154,073)	(190,106)
Closing net book amount	527,330	226,214	250,818	1,004,362
At 31 December 2006				
Cost	547,718	245,686	819,224	1,612,628
Accumulated amortisation charge	(20,388)	(19,472)	(568,406)	(608,266)
Net book amount	527,330	226,214	250,818	1,004,362
Year ended 31 December 2007				
Opening net book amount	527,330	226,214	250,818	1,004,362
Additions	74,174	Nil	68,178	142,352
Transferred from capital WIP	Nil	134,452	345,817	480,269
Amortisation charge (Note 4)	(90,018)	(7,746)	(293,113)	(390,877)
Closing net book amount	511,486	352,920	371,700	1,236,106
At 31 December 2007				
Cost	621,892	380,138	1,233,219	2,235,249
Accumulated amortisation charge	(110,406)	(27,218)	(861,519)	(999,143)
Net book amount	511,486	352,920	371,700	1,236,106

13 INVESTMENTS IN SUBSIDIARIES

	Holding %	Market value / directors valuation	
		2007	2006
Dialog Television (Private) Limited (formerly known as Asset Media (Private) Limited)	100	364,746	325,080
Dialog Broadband Networks (Private) Limited	100	1,970,764	1,970,764
Communiq Broadband Network (Private) Limited	0.00	Nil	Nil
CBN Sat (Private) Limited	0.07	Nil	Nil
		2,335,510	2,295,844

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	2007	2006
Trade receivables	3,222,095	2,802,786	2,850,004	2,624,857
Prepayments	1,213,544	211,722	351,262	194,562
Amounts due from related companies (Note 28)	4,610	5,993	5,336,869	1,148,581
Other receivables	5,650,014	3,889,593	5,074,753	3,741,931
	10,090,263	6,910,094	13,612,888	7,709,931

15 INVENTORIES

	Group		Company	
	2007	2006	2007	2006
Phone stock	352,599	120,453	111,119	120,453
Accessories and consumables	601,786	459,762	593,075	398,610
	954,385	580,215	704,194	519,063

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	2007	2006
Cash at bank and in hand	1,373,114	686,325	1,092,149	623,188
Short term bank deposits	4,970,007	1,615,097	4,970,007	1,614,267
	6,343,121	2,301,422	6,062,156	2,237,455

The weighted average effective interest rate on short term foreign currency bank deposits was 4.64% p.a. while the effective earnings on LKR deposits was 15.31% p.a. For the purposes of the cash flow statement, the year-end cash and cash equivalents computation.

	Group		Company	
	2007	2006	2007	2006
Cash and bank balances	6,343,121	2,301,422	6,062,156	2,237,455
Bank overdrafts (Note 20)	(251,052)	(116,758)	Nil	Nil
	6,092,069	2,184,664	6,062,156	2,237,455

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

17 STATED CAPITAL

	Number of shares (thousands)	Stated capital	Shares in trust	Total
As 31 December 2005	7,204,658	12,680,378	(2,385,320)	10,295,058
Shares exercised during the year - ESOS	38,341	Nil	460,094	460,094
As 31 December 2006	7,242,999	12,680,378	(1,925,226)	10,755,152
Issuance of rated cumulative redeemable Preference shares	5,000,000	5,000,000	Nil	5,000,000
Set off of cost - rated cumulative redeemable Preference shares	Nil	(47,500)	Nil	(47,500)
Rights issue	740,343	15,547,213	(205,452)	15,341,761
Setoff of cost - right issue	Nil	(123,678)	Nil	(123,678)
Shares exercised during the year - ESOS	10,853	Nil	130,239	130,239
As 31 December 2007	12,994,195	33,056,413	(2,000,439)	31,055,974

Pursuant to the new Companies Act No. 7 of 2007 which became effective from 3 May 2007, the value of stated capital consists of ordinary shares, share premium and preference share capital.

Pursuant to a resolution adopted by the shareholders at a meeting held on 21 May 2007, the Company raised Rs. 15.54 Billion through a 1 for 10 rights issue to its shareholders at Rs. 21 per share, by issuing 740,343,492 ordinary shares.

The Company issued 5 Billion Rated Cumulative Redeemable Preference Shares at Rs. 1 per share on 23 October 2007. The shares are mandatory redeemable on 31 May 2012 at Rs. 1 per share. The Rated Cumulative Preference Share dividend is payable semi annually, at AWPLR minus 0.9%, on 31 March and 30 September.

The Preference Shares are redeemable on 31 May each year as follows:

2008	-	10%
2009	-	15%
2010	-	25%
2011	-	25%
2012	-	25%

The parent company, TM International (L) Limited held 83.15% 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 (55.56%) shall be allocated to employees as an ongoing performance incentive.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

17 STATED CAPITAL (CONTD)

The Trustees of the ESOS Trust as at 31 December 2007 were as follows:

Ir. Prabahar s/o Nagalingam Kirupalasingam

Mr. Moksevi Rasingh Prelis

Mr. Arittha Rahula Wikramanayake

Dato 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.

The total number of shares granted under Tranche 0 was 88,841,218. At 31 December 2007, 50,310,499 shares (inclusive of 39,457,279 shares as at 31 December 2006) have been exercised and 37,528,819 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:

	2007		2006	
	Average exercise price in Rs per share	Options (thousands)	Average exercise price in Rs per share	Options (thousands)
At 1 January	12	48,735	12	87,725
Forfeited	12	(353)	12	(649)
Exercised	12	(10,853)	12	(38,341)
Expired	Nil	Nil	Nil	Nil
At 31 December		37,529		48,735
Forfeited shares to be reallocated to subsequent Tranches		1,002		649
Available for subsequent Tranches		111,052		111,052
At 31 December		149,583		160,436

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

18 REVALUATION RESERVE

	Group		Company	
	2007	2006	2007	2006
At beginning of year	20,840	4,896	20,840	4,896
Revaluation additions during the year	Nil	16,247	Nil	16,247
Transfer of depreciation to retained earnings	(463)	(303)	(463)	(303)
At end of year	20,377	20,840	20,377	20,840

The revaluation reserve is non-distributable.

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	2007	2006
Trade payables	2,417,247	942,292	986,573	689,699
Amount due to parent company (Note 28)	74,074	41,208	74,074	41,208
Amount due to related companies (Note 28)	256,928	147,248	256,928	185,835
Accrued expenses	1,852,372	1,283,704	1,671,259	1,219,761
Customer deposits	1,350,310	1,421,870	1,290,534	1,384,238
Other payables	8,861,388	4,959,496	8,839,170	4,622,156
	14,812,319	8,795,818	13,118,538	8,142,897

20 BORROWINGS

	Group		Company	
	2007	2006	2007	2006
Current				
Bank overdrafts (Note 16)	251,052	116,758	Nil	Nil
Bank borrowings	586,096	1,070,293	155,000	1,040,293
Loan from ultimate parent company	Nil	Nil	Nil	Nil
Lease liabilities	42,266	29,109	17,938	16,679
	879,414	1,216,160	172,938	1,056,972
Non-current				
Bank borrowings	5,101,572	8,011,812	4,729,097	7,313,861
Loan from ultimate parent company	Nil	Nil	Nil	Nil
Lease liabilities	71,349	46,035	22,496	24,589
	5,172,921	8,057,847	4,751,593	7,338,450
Maturity of non current borrowings (excluding finance lease liabilities):				
Between 1 and 2 years	2,155,843	5,834,158	1,783,368	5,496,928
Between 2 and 5 years	1,818,125	2,177,654	1,818,125	1,816,933
More than 5 years	1,127,604	Nil	1,127,604	Nil
	5,101,572	8,011,812	4,729,097	7,313,861

The Citi/Commercial syndicated loan, HSBC loan and Standard Chartered syndicated loan facilities were settled before maturity during Q3 2007 utilising the monies received from the rights issue of shares.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

20 BORROWINGS (CONTD)

The IFC loan too was settled before the maturity date in November 2007, and USD 25 million was drawn down from a new loan under revised conditions. These funds will be used to finance the upgrade and expansion of the telecommunication operations in Pay TV services. The loan is repayable in twelve equal semi-annual instalments commencing from December 2009.

A loan of Rs. 1 Billion was obtained from the Development Finance Corporation of Ceylon (DFCC) for project financing with a 5 year tenor current drawdown stands at Rs. 775 million.

	2007	2006
Weighted average effective interest rates:		
Term loan	N/A	SLIBOR + 1% p.a.
Lease liabilities	13.11% p.a.	13.11% p.a.
Standard Chartered Bank	AWPLR + 0.35% p.a.	AWPLR + 0.35% p.a.
DFCC Bank	AWDR + 6% p.a.	N/A
Syndicated Rupee loan	N/A	AWPLR + 1.25% p.a.
Syndicated USD loan	N/A	3M USD LIBOR + 1.625% p.a.
IFC Borrowings	6M USD LIBOR + 2.125% p.a.	6M USD LIBOR + 3.25% p.a.

Finance lease liabilities - minimum lease payments:

	Group		Company	
	2007	2006	2007	2006
Not later than 1 year	56,507	34,657	22,402	21,259
Later than 1 year and not later than 5 year	82,549	56,494	24,612	27,668
	139,056	91,151	47,014	48,927
Future finance charges on finance leases	(25,441)	(16,007)	(6,580)	(7,659)
Present value of finance lease liabilities	113,615	75,144	40,434	41,268
Representing lease liabilities:				
current	42,266	29,109	17,938	16,679
non-current	71,349	46,035	22,496	24,589
	113,615	75,144	40,434	41,268

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	
	2007	2006	2007	2006
At the Beginning of the year	39,717	Nil	39,717	Nil
Under provision of deferred tax - Dialog Television (pvt) Limited	3,843	Nil	Nil	Nil
Income statement charge (Note 7)	96,524	39,717	80,106	39,717
At the end of the year	140,084	39,717	119,823	39,717

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

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	
	2007	2006	2007	2006
At beginning of year	1,235	Nil	1,235	Nil
Additions during the year - ESOS shares	27,469	1,235	27,469	1,235
Shares issued during the year	(28,398)	Nil	(28,398)	Nil
Repayment during the year	Nil	Nil	Nil	Nil
At end of year	306	1,235	306	1,235

The current year additions relate to subscriptions in advance for cash received by the ESOS on exercise of shares for which the share certificates had not been issued at the year end.

23 RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
	2007	2006	2007	2006
At beginning of year	111,997	81,833	102,635	75,190
Current service cost (Note 5)	102,322	33,224	100,926	30,467
Acquisition of subsidiary	Nil	744	Nil	Nil
Contributions paid	(2,403)	(3,804)	(2,007)	(3,022)
At end of year	211,916	111,997	201,554	102,635

This obligation is not externally funded.

The Gratuity liability of the Company is based on the actuarial valuation carried out by Messrs. Actuarial and Management Consultants (Private) Limited, Actuaries, on 13 December 2007. The principal assumptions used in the actuarial valuation were as follows:

	2007 %	2006 %
1. Discount rate (the rate of interest used to discount the future cash flows in order to determine the present value)	10	10
2. Future salary increase	10	10

In addition to the above, demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation. "A 67/07 mortality table" issued by the Institute of Actuaries London was used to estimate the gratuity liabilities of the Company.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2007	2006	2007	2006
Profit before tax	9,012,461	10,193,467	10,171,600	10,104,873
Adjustments for:				
Exchange loss on borrowings	8,103	88,817	8,103	88,817
Profit on sale of property, plant and equipment (Note 4)	(14,978)	(9,643)	(15,154)	(8,001)
Interest expense (Note 6)	796,554	741,201	638,033	636,803
Interest income (Note 6)	(152,746)	(249,770)	(151,572)	(249,770)
Depreciation charge (Note 11)	3,969,288	2,735,602	3,606,674	2,597,450
Amortisation (Note 12)	507,917	281,272	390,877	190,106
Retirement benefit obligation (Note 23)	102,321	33,224	100,926	30,467
Transfer of CWIP	14,083	Nil	Nil	Nil
Provision for impairment loss	17,544	Nil	Nil	Nil
Changes in working capital				
trade and other receivables	(4,133,754)	(3,359,417)	(2,711,150)	(3,294,638)
inventories	(369,670)	(189,880)	(185,131)	(168,567)
payables	7,048,284	2,255,707	4,991,012	2,450,165
Cash generated from operations	16,805,407	12,520,580	16,844,218	12,377,705

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.

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	
	2007	2006	2007	2006
Supply of telecom equipment	14,786,991	3,379,593	14,786,991	2,984,660

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 commitment to pay Rs. 432,749,204 as rent to Base Station site owners.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

26 COMMITMENTS (CONTD)

Financial commitments (Contd)

The Company has annual commitment to pay Rs. 7,920,000 as rent to TMI Lanka (Private) Limited.

The Company and Dialog Broadband Networks (Private) Limited have annual commitments 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 Company has to pay Change Trust Fund an amount equivalent to the contributions received from its customers.

There were no other material financial commitments outstanding at the balance sheet date.

27 BUSINESS ACQUISITION

- (a) On 13 September 2007, the Company acquired balance 10% of the share capital of Dialog Television (Private) Limited (formally known as Asset Media (Private) Limited) a company which provides television broadcasting services. The assets and liabilities of the acquire

Details of net assets acquired and goodwill are as follows

	Company
Purchase consideration:	
Cash paid	39,666
Total purchase consideration	39,666
Fair value of net liabilities acquired	(55,106)
	<hr/>
Goodwill	<u>94,772</u>

The fair value on the net liabilities approximated to the book value of the net liabilities acquired.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

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 Networks (Private) Limited	Dialog Television (Private) Limited	Dialog Broadband Networks (Private) Limited	Telekom Malaysia Bhd	T M International (L) Limited	T M International Lanka (Pri- vate) Limited	T M International 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 Preliis	X	X	X	X	-	-	-	-
Dato' Yusof Annuar bin Yaacob	X	X	X	X	-	X	-	X
Dato' Sri Mohammed Shazalli bin Ramly	-	-	-	-	-	-	-	-
Mr. Mohamed Vazir Muhsin	-	-	-	-	-	-	-	-
Mr. Jayantha Cudah Bandara Dhanapala	-	-	-	-	-	-	-	-

'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.

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

28 DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY (CONTD)

The Company had following transactions with related entities during the year under review:

	Company	
	2007	2006
(a) Sale of services		
i) TM International Lanka (Private) Limited		
- Rendering of management services	2,700	2,700
ii) Dialog Broadband Networks (Private) Limited		
- Site sharing revenue	57,888	Nil
- International bandwidth revenue	51,806	19,288
iii) Dialog Television (Private) Limited (formerly known as Asset Media (Private) Limited)		
- Revenue from call centre agent fee	9,598	Nil
(b) Purchase of services		
i) TM International Lanka (Private) Limited		
- Rental	7,920	7,920
ii) Telekom Malaysia Berhad		
- Lease rental	40,332	38,119
iii) Dialog Broadband Networks (Private) Limited		
- Lease circuit rental and electricity	296,554	224,168
iv) Dialog Television (Private) Limited (formerly known as Asset Media (Private) Limited)		
- Cost on Initial connection given to DTP staff and others (holiday bungalows)	5,276	Nil
- Cost on subscription fees of connection given to DTP staff	5,057	Nil
- Donation of DTV connection given to SL Armed forces	1,365	Nil
- Cost on e-mobile, cartoon network and CNN mobile video streaming	11,394	Nil
(d) Purchase of property, plant and equipment		
i) CBN Sat (Private) Limited		
- Earth station with accessories and computer process device	39,070	Nil

Dialog Telekom PLC and its Subsidiaries

NOTES TO THE FINANCIAL STATEMENTS (CONTD)

28 DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY (CONTD)

The above transactions were carried out on commercial terms and conditions and at a price agreed upon by the management.

	Group		Company	
	2007	2006	2007	2006
(e) Year-end balances arising from sales / purchases of services				
Amounts due from related companies (Note 14)				
- CBN Sat (Private) Limited	Nil	Nil	112,700	57,700
- Change Trust Fund	3,128	Nil	3,128	Nil
- Communiq Broadband Network (Private) Limited	Nil	Nil	292,396	173,934
- Dialog Broadband Networks (Private) Limited	Nil	Nil	2,982,028	Nil
- Dialog Television (Private) Limited	Nil	Nil	1,945,135	910,954
- Telekom Malaysia Berhad	Nil	261	Nil	261
- TM International Lanka (Private) Limited	1,482	5,732	1,482	5,732
	4,610	5,993	5,336,869	1,148,581
Amount due to TM International Bhd. (Note 19)	74,074	41,208	74,074	41,208
Amounts due to related companies (Note 19)				
- Change Trust Fund	Nil	95,077	Nil	95,077
- Dialog Broadband Networks (Private) Limited	Nil	Nil	Nil	38,587
- Telekom Malaysia Berhad	198,201	Nil	198,201	Nil
- TM International (Bangladesh) Limited	58,727	52,171	58,727	52,171
	256,928	147,248	256,928	185,835

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.

30 PARENT COMPANY

TM International (L) Limited is the parent company of Dialog Telekom PLC. TM International. 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 PLC 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.

Dialog Telekom PLC and its Subsidiaries

US DOLLAR FINANCIAL STATEMENTS

INCOME STATEMENT

For information purpose only

For the year ended 31 December In USD '000	Group		Company	
	2007	2006	2007	2006
Turnover	300,387	238,635	287,568	233,708
Direct cost	(123,815)	(81,979)	(109,761)	(79,325)
Gross margin	176,572	156,656	177,807	154,383
Other operating income	3,509	1,146	3,008	776
Administrative expenses	(56,135)	(28,476)	(50,125)	(27,707)
Distribution costs	(34,870)	(28,492)	(32,245)	(28,411)
Operating profit	89,076	100,834	98,445	99,041
Finance costs	(5,820)	(6,108)	(4,481)	(5,138)
Profit before tax	83,256	94,726	93,964	93,903
Tax	(418)	(693)	(416)	(522)
Profit for the year	82,837	94,033	93,547	93,381
Attributable to:				
Equity holders of the Company	82,837	94,033	93,547	93,381
Minority interest	Nil	Nil	Nil	Nil
	82,837	94,033	93,547	93,381
Exchange rates	108.25	107.61	108.25	107.61

Dialog Telekom PLC and its Subsidiaries

US DOLLAR FINANCIAL STATEMENTS

BALANCE SHEET

For information purpose only

For the year ended 31 December In USD '000	Group		Company	
	2007	2006	2007	2006
ASSETS				
Non - current assets				
Property, plant and equipment	465,760	279,077	424,536	260,472
Intangible assets	36,205	33,480	11,419	9,333
Investment in subsidiaries	Nil	Nil	21,575	21,335
	501,965	312,557	457,530	291,140
Current assets				
Inventories	8,816	5,392	6,505	4,824
Trade and other receivables	93,213	64,214	125,754	71,647
Cash and cash equivalents	58,597	21,387	56,001	20,792
	160,626	90,993	188,261	97,263
Total assets	662,591	403,550	645,791	388,403
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Stated Capital	305,371	117,836	305,371	117,836
ESOS Trust shares	(18,480)	(17,891)	(18,480)	(17,891)
Dividend reserve - ESOS	1,596	653	1,596	653
Revaluation reserve	188	194	188	194
Retained earnings	176,412	132,021	185,965	131,369
	465,087	232,814	474,640	232,161
Minority interest in equity	Nil	(1)	Nil	Nil
Total Equity	465,087	232,813	474,640	232,161
Non - current liabilities				
Subscription in advance	3	11	3	11
Borrowings	47,787	74,880	43,895	68,195
Deferred tax liability	1,294	369	1,107	369
Retirement benefit obligations	1,958	1,042	1,862	954
Provision for other liabilities	1,321	805	1,321	805
	52,362	77,107	48,187	70,335
Current liabilities				
Trade and other payables	136,834	81,738	121,187	75,670
Current income tax liabilities	184	590	179	415
Borrowings	8,124	11,302	1,598	9,822
	145,142	93,629	122,964	85,907
Total liabilities	197,504	170,736	171,151	156,242
Total equity and liabilities	662,591	403,550	645,791	388,403
Exchange rates	108.25	107.61	108.25	107.61

This information does not constitute a full set of financial statements in compliance with SLAS. The Financial Statements should be read together with the Auditors opinion and the Financial Statements from pages 115 to 143.

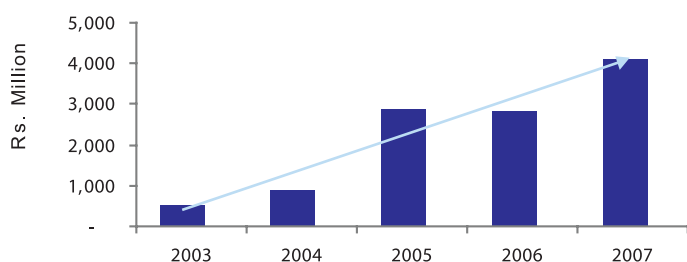
Exchange rates prevailing at each year end have been used to convert the Income Statement and Balance Sheet.

Dialog Telekom PLC and its Subsidiaries

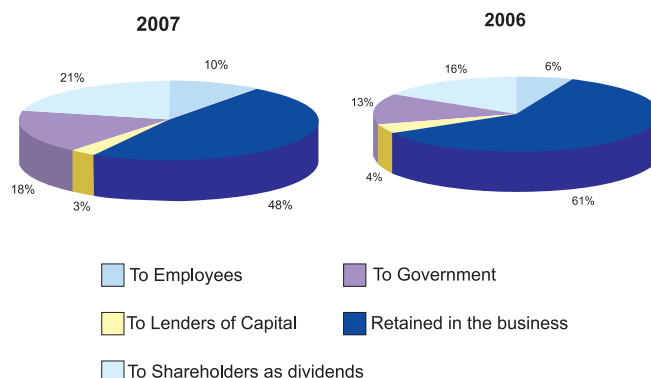
GROUP VALUE ADDED STATEMENT

For the year ended 31 December In Rs. '000s	Group			Company	
	2007	2006	2005	2004	2003
Value Added					
Revenue	32,516,842	25,679,492	18,034,397	11,406,685	7,476,924
Other operating income	379,859	123,322	53,271	30,092	16,994
	32,896,701	25,802,814	18,087,668	11,436,777	7,493,918
Cost of materials and services bought in	(13,215,870)	(8,677,685)	(6,336,615)	(4,002,879)	(1,855,058)
	19,680,831	17,125,129	11,751,053	7,433,898	5,638,860
Distribution of Value Added					
To Employees					
Salaries and other benefits	2,033,220	1,086,760	617,012	420,760	260,624
To Government					
Taxes	3,517,731	2,245,062	1,706,796	1,104,987	1,186,817
To Lenders of Capital					
Minority interest	Nil	(72)	Nil	Nil	Nil
Interest on borrowings	630,018	657,309	263,065	212,464	252,881
	630,018	657,237	263,065	212,464	252,881
To Shareholders as Dividends					
Dividend to shareholders	4,071,889	2,813,305	2,858,936	866,285	497,474
Dividend to rated cumulative redeemable preference shareholders	60,988	Nil	Nil	Nil	Nil
	4,132,877	2,813,305	2,858,936	866,285	497,474
Retained in the Business					
Profit retained	4,889,780	7,305,891	4,152,935	3,234,455	2,361,463
Depreciation	4,477,205	3,016,874	2,152,309	1,594,947	1,079,601
	9,366,985	10,322,765	6,305,244	4,829,402	3,441,064
	19,680,831	17,125,129	11,751,053	7,433,898	5,638,860

Total Dividend to Shareholders



Distribution of Value Added



Dialog Telekom PLC and its Subsidiaries

FIVE YEAR SUMMARY

31 December Rs. '000s	Group			Company	
	2007	2006	2005	2004	2003
OPERATING RESULTS					
Turnover	32,516,842	25,679,492	18,034,397	11,406,685	7,476,924
EBIT	9,642,479	10,850,776	7,316,885	4,352,365	2,666,668
Finance Cost	(630,018)	(657,309)	(263,065)	(212,464)	(252,881)
Profit Before Tax	9,012,461	10,193,467	7,053,820	4,139,901	2,413,787
Profit After Tax	8,967,159	10,118,893	7,011,871	4,100,519	2,858,937
CAPITAL EMPLOYED					
Stated Capital	33,056,413	12,680,378	12,680,378	1,638,979	1,638,979
ESOS Trust Shares	(2,000,439)	(1,925,226)	(2,385,320)	Nil	Nil
Dividend Reserve -ESOS	172,722	70,309	Nil	Nil	Nil
Revaluation Reserve	20,377	20,840	4,896	4,896	5,117
Retained Earnings	19,096,588	14,206,808	6,900,917	7,068,281	3,833,826
Shareholders Fund	50,345,661	25,053,109	17,200,871	8,712,156	5,477,922
Minority Interest	Nil	(72)	Nil	Nil	Nil
Subscription in Advance	306	1,235	Nil	3,414,190	3,414,190
Total Debt	6,547,313	9,512,387	10,745,616	3,511,370	2,909,577
	56,893,280	34,566,659	27,946,487	15,637,716	11,801,689
ASSETS EMPLOYED					
Property, Plant & Equipment	50,418,567	30,031,500	20,801,836	13,383,592	10,908,478
Other Non Current Assets	3,919,177	3,602,737	1,628,305	82,300	76,655
Current Assets	17,387,769	9,791,731	10,766,494	5,688,435	2,331,898
Liabilities Net of Debt	(14,832,233)	(8,859,309)	(5,250,148)	(3,516,611)	(1,515,342)
	56,893,280	34,566,659	27,946,487	15,637,716	11,801,689
CASH FLOW					
Cash flow from Operating Activities	16,128,074	12,090,080	9,011,522	6,970,083	3,476,548
Net Cash Flows from Investing Activities	(24,939,596)	(13,211,906)	(10,073,426)	(4,060,628)	(3,937,770)
Net Cash Flows from Financing Activities	12,718,927	(3,383,181)	4,581,240	(254,610)	(308,434)
Net Increase / (Decrease) in Cash and Cash Equivalents	3,907,405	(4,505,007)	3,519,336	2,654,845	(769,656)
KEY INDICATORS					
Basic Earnings Per Share (Rs.)	1.15	1.38	1.15	0.98	0.70
Interest Cover (No. of times)	15.31	16.51	27.81	20.40	10.50
Adjusted Net Asset Per Share (Rs.)	6.17	3.08	2.32	2.15	1.35
Current Ratio (No. of Times)	1.11	0.97	1.57	1.48	1.14
Price Earning Ratio (Times)	17.40	18.9	14.3	Nil	Nil
Dividend Yield	2.8%	2.1%	2.3%	Nil	Nil
Market Price Per Share (Rs.)	20.00	26.50	16.50	Nil	Nil

Economic Overview

ECONOMIC OVERVIEW

Sri Lanka is an island of twenty million people located in the Indian ocean south of India. The country features scenic and climatic diversity - from tropical beaches along the coast to cool mountains in the Central South. Sri Lanka is administratively divided into nine provinces and 25 districts. The commercial center of Sri Lanka is Colombo, while nearby Sri Jayawardenapura Kotte is the legislative capital. Sri Lanka is rich in terms of cultural diversity and pluralism being home to people of multiple races, faiths and cultures.

PERFORMANCE OF THE ECONOMY

Sri Lanka's economy grew by 6.8 per cent in 2007 government data showed. Though growth was marginally less than that of 7.7 per cent recorded in 2006, it was achieved amidst a number of external challenges. These included high international oil prices, adverse weather conditions which affected agriculture, and the volatile security situation.

Inflation, which was on a decelerating trend until June 2007 exhibited upward adjustments thereafter, in administered prices of certain commodities, in line with increasing international prices. From a substantially high level of 20.5 per cent in January 2007, inflation declined to 13.0 per cent in June, but picked up again in July to 17.6 per cent and reached a high of 20.2 per cent at the close of 2007. The increase in inflation was partly as a result of upward adjustments in administered prices such as kerosene/ fuel and price of wheat flour. However, the removal of subsidies on these items is expected to contribute positively in lowering inflation in the medium-term, as it would reduce the subsidy cost to the government.

SECTORAL VIEW

Growth has been broad-based across three major sectors viz. agriculture, industry and services. The industry sector grew by 7.6 per cent; down from 8.1 per cent in 2006. Industry growth was supported by higher growth in manufacturing, mining and quarrying. The Services sector recorded growth of 7.1 per cent in 2007, with telecommunications, cargo handling, ports and civil aviation, banking, insurance, real estate and other financial services growing at healthy rates.

The telecommunication sector continued to grow at a high pace, expanding by 19.7 per cent in 2007. Value-addition in telecommunications grew at a lower rate due to price competition. During 2007, the subscriber base of cellular phones and fixed access phones expanded by 57 per cent and 90 per cent, respectively, as per the Telecommunications Regulatory Commission. Meanwhile, the number of subscribers for internet and e-mail connections grew by 90 per cent as against 20 per cent during the previous year –

a clear indication of the growing demand for connectivity services.

The hospitality sector however suffered deceleration due to a reduction in tourist arrivals during 2007. Travel advisories which depressed tourist arrivals in the early to mid part of 2007 were relaxed towards the latter part of 2007 setting the foundation for a recovery of inbound tourism in 2008.

With respect to the Agriculture sector, Rice production dropped by 7.7 per cent due to a combination of external factors such as delayed cultivation due to water shortages, crop destruction due to floods and a reduction in the cultivated land area due to depressed price conditions during the previous year. Subsidiary food crops recorded a mixed performance during the 2007/08 season.

EXPENDITURE AND FUNDING

Recurrent expenditure remained high throughout the year. Increases were recorded in expenditure on salaries and wages, pensions, interest payments, defence and humanitarian activities. Capital expenditure and net-lending grew by 33.9 per cent to Rs. 134 billion due to continued investment towards mega infrastructure projects.

Sri Lanka successfully completed a benchmark international bond issue of USD 500 million in October 2007. The bond has a maturity period of 5 years and a coupon rate of 8.25 per cent per annum. The bond issue was oversubscribed 3.2 times (over US dollars 1.6 billion). The government intends to use the bond proceeds to support infrastructure projects. The Bond has had a favorable impact on the economy with Treasury bill and Treasury bond rates dropping marginally and the pressure on the exchange rate being alleviated to a significant degree.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE ELEVENTH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON THURSDAY 08 MAY 2008 AT 2.00 P.M. AT THE SAPPHIRE BALLROOM, CEYLON CONTINENTAL HOTEL, 48, JANADIPATHI MAWATHA, COLOMBO 01.

- 1 To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2007 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, **Dato' Yusof Annuar bin Yaacob** who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.
- 4 To re-elect as a Director, **Dato' Sri Mohammed Shazalli bin Ramly** who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.
- 5 To re-elect as a Director, **Mr. Jayantha Cudah Bandara Dhanapala** who was appointed to the Board during the year and retires pursuant to Article 115 of the Articles of Association of the Company.
- 6 To re-elect as a Director, **Mr. Moksevi Rasingh Prelis**, who has attained the age of 71 years on 2 July 2007 and retires pursuant to Section 210 of the Companies Act No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Moksevi Rasingh Prelis.
- 7 To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.
- 8 To authorise the Directors to determine and make donations for 2008.
- 9 To consider any other business of which due notice has been given.

By order of the Board



Mrs. Anoja J Obeyesekere
Company Secretary

02 April 2008
Colombo

Notes:

- i) A shareholder entitled to attend and vote at the above meeting is entitled to appoint a Proxy to attend and vote in his/her place by completing the Form of Proxy enclosed herewith.
- ii) A Proxy need not be a shareholder of the Company.
- 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 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.

Form of Proxy

I/Weof
 being a shareholder/s of Dialog Telekom
 PLC 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 N.K. Singam, or failing him
 Mr. Moksevi Rasingh Prelis, or failing him
 Dato' Yusof Annuar bin Yaacob, or failing him
 Dato' Sri Mohammed Shazalli bin Ramly or failing him
 Mr. Mohamed Vazir Muhsin or failing him
 Mr. Jayantha Cudah Bandara Dhanapala

as my/our proxy to represent me/us and vote on my/our behalf at the Eleventh Annual General Meeting of the Company to be held on Thursday, 08th May 2008 at 2.00 PM and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

	Resolution	For	Against
1	To receive and consider the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2007 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, Dato' Yusof Annuar bin Yaacob who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.		
4	To re-elect as a Director, Dato' Sri Mohammed Shazalli bin Ramly who retires by rotation pursuant to Article 107 of the Articles of Association of the Company.		
5	To re-elect as a Director, Mr. Jayantha Cudah Bandara Dhanapala who was appointed to the Board during the year and retires pursuant to Article 115 of the Articles of Association of the Company.		
6	To re-elect as a Director, Mr. Moksevi Rasingh Prelis, who has attained the age of 71 years on 2 July 2007 and retires pursuant to Section 210 of the Companies Act No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Moksevi Rasingh Prelis.		
7	To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration		
8	To authorise the Directors to determine and make donations for 2008.		

(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 2008.

.....
 Signature/s of Shareholder

NOTE: Instructions as to completion of the Form of Proxy are noted on the reverse hereof Form of Proxy

Notes and Instructions as to completion of Form of Proxy

- 1 Please perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
- 2 The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company at No. 475, Union Place, Colombo 2 not later than 48 hours before the time appointed for the holding of the Meeting.
- 3 If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
- 4 If the appointer is a company or Corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the company or Corporation in accordance with its Articles of Association or Constitution.

Please provide the following details:

Shareholders NIC/ Passport/ Company registration No.	Shareholder's Folio No.	Number of shares held	Proxy Holders NIC (if not a Director)