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## 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 senses and faculties, through committed adherence to customer-driven, responsive and flexible business processes, and through the delivery of quality service and leading edge technology unparalleled by any other, spurred by an empowered set of dedicated individuals who are driven by an irrepressible desire to work as one towards a common goal in the truest sense of team spirit.

## Dialog Values

- ▶ Service from the Heart
- ▶ Create the Future
- ▶ Champions of Change
- ▶ Exceptional Performance
- ▶ Uncompromising Integrity
- ▶ Responsible Leadership
- ▶ One Team

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Report 2017 online



# Introduction to the Company



Dialog Axiata PLC, a subsidiary of Axiata Group Berhad (Axiata), operates Sri Lanka's largest and fastest growing mobile telecommunications network. The Company is also one of the largest listed companies on the Colombo Stock Exchange in terms of market capitalisation. Dialog, is also Sri Lanka's largest Foreign Direct Investor (FDI) with investments totalling USD 2.3Bn.

Dialog, a winner of six GSMA Mobile World Awards has the distinction of being voted by Sri Lankan consumers as the Telecom Service Provider of the Year for six successive years and Internet Service Provider of the Year for the fifth consecutive year at the SLIM Nielsen People's Choice Awards. Dialog has topped Sri Lanka's Corporate Accountability rankings for the past seven years in succession and is an ISO:9001 certified company. The Company has received numerous local and international awards including the National Quality Award and Sri Lanka Business Excellence Award. Dialog has been at the forefront of innovation in the mobile industry in Sri Lanka since the late 90's, propelling the nation's mobile telephony infrastructure to a level of advancement on par with the developed world. The Company delivers advanced mobile telephony and high speed mobile broadband services to a subscriber base of over 12.7 million Sri Lankans, via 2.5G, 3G/3.5G and 4G/4.5G networks. In April 2013, Dialog secured the distinction of becoming the first service provider in South Asia to commence commercial operations of mobile 4G-LTE services, having previously introduced 3G to the region, as far back as 2006. The Company also provides a comprehensive suite of international roaming services across a global footprint comprising more than 200 countries, and operates a wide portfolio of international telecommunication services, including but not limited to retail and wholesale international voice and data services.

Dialog Axiata supplements its market leading position in the Mobile Telecommunications sector with a robust footprint and market presence in Sri Lanka's Fixed Telecommunications and Digital Pay Television markets through its fully-owned subsidiaries, Dialog Broadband Networks (Private) Limited (DBN), Dialog Television (Private) Limited (DTV) and Digital Holdings Lanka (Private) Limited. DBN is Sri Lanka's second largest Fixed Telecommunications service provider, serving residential and enterprise customers with voice, broadband, lease lines and customised telecommunication services. DBN is also a leading provider of Radio and Optical Fibre-based transmission infrastructure facilities. DTV operates a Direct-to-Home (DTH) Digital Satellite Pay TV service and is the market leader in Sri Lanka's Pay TV sector. DTV supports a broad array of international and local content in both Standard Definition (SD) and High Definition (HD) formats together with a wide portfolio of Sri Lankan television channels and delivers high quality infotainment to a viewer base of over 980,000 Sri Lankan households.

# Message from the Chairman



Datuk Azzat Kamaludin  
Chairman

“It is with distinct pleasure that I bring you the results for the financial year 2017, a year of exceptional performance and growth by your Company. This growth translated into a Net Profit of Rs. 10.8Bn in FY 2017 for the Group.”



## “This unprecedented performance also enabled the Dialog Group to continue to be a significant contributor to state revenues, remitting a total of Rs. 35.7Bn to the Government of Sri Lanka.”

*My dear shareholders,*

It is with pleasure that I report to you another exceptional year of performance by our Company and its subsidiaries. The year which was marked by macroeconomic challenges, regulatory changes and technological shifts saw your Company consolidate its position as the undisputed converged communications leader in Sri Lanka.

A tight monetary environment, weather related disruptions and weak consumer demand characterised the challenging macroenvironment in 2017. Despite this, the single-minded execution of our vision of empowering and enriching Sri Lankan lives, guided your Company to make investments in sustainable solutions, while relentlessly focusing on operational efficiencies, enabled us to demonstrate a remarkable financial performance. It is with distinct pleasure that I bring you the results for the financial year 2017, a year of exceptional performance and growth by your Company. This growth translated into a Net Profit of Rs. 10.8Bn in FY 2017 for the Group.

This performance is on account of the investments made throughout the year with the objective of owning our future and delivering on our commitment to driving sustainable change. A majority of these investments has been directed towards further strengthening our data leadership in Sri Lanka's mobile, fixed and broadband sectors by investing in the high-speed data infrastructure including mobile 4G LTE and fixed LTE, which are discussed in greater detail in the Group Chief Executive's review. Our focus remains on technological innovation, through investments in digital infrastructure of the future. This will enable enterprises and people to connect, providing benefits to society as well as financial rewards for our shareholders and deliver meaningful innovations to improve people's lives. Our contribution to society remains substantial and we operate on the premise that our success is dependent on the communities we operate in.

Dialog's strategy continues to be one that invests ahead of devices and technologies, and 2017 was no exception where we saw the best rendition of new technologies by the Dialog team, who on multiple fronts demonstrated their prowess in working to create long-term value for society and results for our shareholders. This bore fruit in a challenging year where we have grown our mobile subscriber base to connect over 12.7 million Sri Lankans, while being positioned as the fastest growing operator, reflecting a subscriber market share growth of 1.1 percentage points, in spite of being the largest.

We are confident in the strategic direction we set at the beginning of 2017, and our efforts have seen fruition. Your Company delivered strong revenue growth across key business segments to record a consolidated revenue of Rs. 94.2Bn for 2017, representing Year-on-Year (YoY) growth of 9%.

Business outcomes for the year 2017 were a clear indication of our twin focus strategy on innovation and our relentless drive towards delivering world-class customer experiences.

This unprecedented performance also enabled the Dialog Group to continue to be a significant contributor to state revenues, remitting a total of Rs. 35.7Bn to the Government of Sri Lanka (GoSL) during the financial year ended 31st December 2017, representing an increase of 13% YoY. Total remittances included direct taxes and levies (Rs. 9.0Bn) as well as consumption taxes collected on behalf of the GoSL (Rs. 26.7Bn).

The combined effort of every aspect of Dialog and its subsidiaries resulted in an Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) growth of 16% and Group Net Profit After Tax (NPAT) of Rs. 10.8Bn which represents a 19% growth over the previous year. I would like to iterate that we witnessed a significant moment in our corporate history, as our

# Message from the Chairman

Group Net Profit hit the Rs. 108bn mark after a 11 year hiatus, thus consolidating our position as one of the most robust and celebrated brands in the country.

The remarkable performance of the Group was mirrored in its stock performance where your Company yielded a total shareholder return of 27.5% in FY 2017 compared with the All Share Price Index (ASPI) which recorded a mere 2.7% of total return. This favourable movement in Dialog's share performance contributed to growth in its market capitalisation, which enabled it to move up one notch to be the fourth largest publicly listed firm on the Colombo Stock Exchange (CSE).

**“It is gratifying to note that your Company's contribution to the nation is underscored by the country's recognition of Dialog as the single largest investor, investing USD 2.3Bn since 1995.”**

Dialog considers the enhancement of shareholder value a priority and to this end is aiming for sustainable growth to increase corporate value. We aim to pay stable, on-going dividends, while giving due consideration to the Company's investment plans. To succeed in this highly competitive industry, we continue to use retained earnings to expand our broadband footprint, with emphasis on our promise of delivering accessibility on a plural basis. In line with the excellent performance of the Group in FY 2017 and taking into account forward investment requirements to serve the nation's demand for mobile, broadband and digital services, the Board of Directors of Dialog Axiata PLC, is pleased to propose for your consideration, a full year Dividend Per Share of Forty Six (46) cents which represents a Dividend Pay-Out of 35% of Net Profit.

The business and financial performance of your Company is discussed in greater detail in the Business and Financial Review Section of the Annual Report.

Sri Lanka's favourable investment climate has resulted in a number of high profile Foreign Direct Investments

(FDI). Investment opportunities as well as attractive and competitive incentives set out by the Sri Lankan Government to draw in FDIs have paid dividends, such as by the country gaining recognition as a leading global investment destination. In line with the Government's vision 2025, achieving data leadership in every segment while delivering world-class experience and innovations represents a core part of our business.

Dialog sowed investments at a critical time when there was only a modest FDI presence in the country despite strenuous promotional efforts by the Government. It is gratifying to note that your Company's contribution to the nation is underscored by the country's recognition of Dialog as the single largest investor, investing USD 2.3Bn since 1995. We are convinced that, over the long-term, the success of our business is closely tied to the success of the communities in which we operate. These have, in turn, collectively prompted a dramatic spate of expansion of existing FDIs and fresh foreign investment projects in the cities and towns in Sri Lanka.

Once again, we were at the forefront of innovation, spearheading the development of telephony in the country and the region, even among dominant world players. Our continuous presence at the top of Sri Lankan minds is underscored by successive years of being hailed by the SLIM-Nielsen People's Awards as the Telecom Service Provider of the Year and the Internet Service Provider of the Year.

**“Once again, we were at the forefront of innovation, spearheading the development of telephony in the country and the region, even among dominant world players.”**

In 2017, we embraced change as Dr. Hans Wijayasuriya's successor, Supun Weerasinghe, took on his role as Group Chief Executive for Dialog. I applaud his efforts and would like to place on record my sincere gratitude for making 2017 a year of solid progress and exponential change, in tumult market conditions.



Supun completes the first year of his tenure as Group Chief Executive, which has seen success as mentioned previously in terms of the exceptional financial performance of the Group. 2017 also resonates our passion for driving the Group's vision towards inclusive empowerment of communities by spearheading the growth of technological services that are relevant and affordable to communities. Supun and his 'Api Dialog' team continue to be enriched by the experiences of Dr. Hans Wijayasuriya in his capacity as the Corporate Executive Vice President and Regional Chief Executive for South Asia, Axiata Group Berhad, as we continue to execute the vision he pioneered, to remain at the cutting edge of technology while keeping with our mantra of delivering "The Future.Today."

It has been several months since we received the sad news of the passing of our beloved former Chairman, Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor. As we recount the past year, I like to pay tribute to an exemplary human being. Tan Sri Radzi served as the Chairman of the Board of Directors of Dialog Axiata from August 1999 upto July 2008 and provided visionary leadership and guidance in steering Dialog during its formative stages to become Sri Lanka's largest communication services provider and one of the largest listed companies on the Colombo Stock Exchange.

I would once again like to sound my sincere appreciation and gratitude to Mr. Moskevi Prelis who served the Company as an Independent Director since 2004 and retired in May 2017. Along with my colleagues I would like to take this opportunity to extend our appreciation to Mr. Prelis for his invaluable counsel and contribution to the Board and the Company.

The Board extends a warm welcome to Mr. Willem Timmerman who joined the Board of Dialog Axiata in May 2017. He previously served as the Director and Chief Corporate Transformation Officer of PT XL Axiata TBK; a subsidiary of Axiata Group Berhad and has also served as a Non-Executive Director of Celcom Axiata Berhad from 2011 to 2017. Mr. Timmerman joins the Dialog Board with a wealth of experience having held senior positions within and outside the telecommunications sector. We wish him all the very best and hope his tenure at Dialog would be a rewarding experience.

**"2017 also resonates our passion for driving the Group's vision towards inclusive empowerment of communities by spearheading the growth of technological services that are relevant and affordable to communities."**

In concluding, on behalf of the Board, I would like to express our sincere appreciation to the President and Group CEO of Axiata, Tan Sri Jamaludin Ibrahim and the Axiata Board for their vision and continued confidence to reinvest and commit to Sri Lanka.

I take this opportunity to express my sincere gratitude to the Government of Sri Lanka, the Telecommunications Regulatory Commission of Sri Lanka, the Ministry of Parliamentary Reforms and Mass Media, the Central Bank of Sri Lanka, our valued shareholders and other agencies who have encouraged, enabled and facilitated the development of our company and its operations.

I would also like to thank our employees and business partners for their efforts and contribution to Dialog's progress. None of these achievements would have been possible without the talent and dedication of our people. Dialog is led and supported by a team of dedicated staff, and the value we create as a team permeates millions of Sri Lankan lives and enterprises to enable, enrich and empower Sri Lanka's transformation through technology.

**Datuk Azzat Kamaludin**  
Chairman

31 March 2018

# Group Chief Executive's Review of Operations



Supun Weerasinghe  
Group Chief Executive

*“Central to our organisational purpose and vision, our investments in 2017 were directed towards spearheading the democratisation of broadband connectivity in Sri Lanka, centred on ‘inclusive digital empowerment’, which is fundamental to delivering advanced technologies and enabling connectivity services, to maximise availability and affordability to all Sri Lankans.”*

I am glad to begin my journey at the helm of this great organisation delivering strong results, notwithstanding tighter macroeconomic conditions and the dynamic techno-economic nexus within the industry. Our strong performance in 2017 is an outcome of prudent investments made in people and infrastructure over the years, along with diligent management of impacts from market externalities. Despite a declining trend in wallet share among consumer driven businesses, your Company delivered exceptional results as we balanced

the dual pressures of short-term profitability with long-term investment and shared value creation. In line with our vision to empower and enrich Sri Lankan lives and enterprises, we also endorsed and supported the national digitalisation agenda set by the Government of Sri Lanka as articulated in the country's ‘Vision 2025’ framework. Central to our organisational purpose and vision, our investments in 2017 were directed towards spearheading the democratisation of broadband connectivity in Sri Lanka, centred on ‘inclusive digital



“Our outlook for the sector includes emerging technologies such as Internet of Things (IoT), Big Data, Augmented Reality, Cloud Computing and Artificial Intelligence (AI) coming together to transform lives and enterprises as we enter the fourth industrial revolution.”

empowerment’, which is fundamental to delivering advanced technologies and enabling connectivity services, to maximise availability and affordability to all Sri Lankans.

As I alluded to last year, while Over-The-Top (OTT) players continue to disrupt and erode revenue streams such as voice and messaging, growing opportunity exists to drive digitalisation efforts across industries, and societies. Our outlook for the sector includes emerging technologies such as Internet of Things (IoT), Big Data, Augmented Reality, Cloud Computing and Artificial Intelligence (AI) coming together to transform lives and enterprises, as we enter the fourth industrial revolution.

The following sections provide an overview of your Company’s achievements and accolades in 2017, covering the performance of our business units as well as our vision for the industry and how we are geared to lead the inclusive digitalisation of Sri Lanka.

## **PROGRESS REVIEW - 2017 PERFORMANCE AND OUTCOMES**

### **Financial Performance and Stakeholder Dividends**

#### **Performance Overview**

I am happy to report that all segments of the Dialog Group demonstrated commendable growth in FY 2017. A consolidated revenue of Rs. 94.2Bn representing a Year-on-Year (YoY) growth of 9% was achieved through growth in consumption and expansion in our subscriber base. While core voice revenues remained stable, the emerging segments of Mobile Broadband, Fixed and Digital Services contributed significantly to the overall profile, delivering a growth of 39%, 28% and 40% respectively.

Revenue growth combined with our continued focus on operational improvements led to Group Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA), growing 16% YoY to be recorded at Rs. 33.9Bn for FY 2017. The Group EBITDA margin was recorded at 36%, which represents an improvement of 2.3 percentage points (pp) relative to the previous year. Strong growth in operational performance, together with the diligent planning and execution of new investment strategies helped to deliver a Net Profit After Tax (NPAT) of Rs. 10.8Bn, a 19% improvement YoY. I am pleased to report that your Company grew stronger as reflected in our Statement of Financial Position and confirmed a AAA (Ika) rating with a stable outlook by Fitch Ratings.

#### **Dividends to Shareholders**

It gives me pleasure to note that in line with the excellent financial performance delivered by the Group during FY 2017, the Board of Directors resolved to recommend for your approval, a dividend to shareholders amounting to Rs. 3.7Bn translating to a Dividend per Share to Forty Six (46) Cents. The proposed dividend represents an increase of 18% relative to 2016 with a Dividend Pay-Out of 35%.

#### **Contributions to the Government of Sri Lanka**

It gives me great pride to report that the growth and acceleration of Dialog’s financial performance has translated to a significant contribution to the Government of Sri Lanka and the economy. During the course of 2017, your Company was a key contributor to the Government’s tax revenues, contributing Rs. 9.0Bn in direct taxes and collecting Rs. 26.7Bn in consumption taxes, amounting to a total pay-out of Rs. 35.7Bn, which represents a 13% YoY increase. In the year under review, the Government undertook macro-economic, institutional and regulatory reforms

# Group Chief Executive's Review of Operations

**“We continue to invest nearly three times our Net Profit, in line with our commitment to help Sri Lanka's economic growth and our trust in the Government and people of Sri Lanka.”**

to enhance productivity and competitiveness of the economy. These reforms were instrumental in raising private investment, including knowledge-intensive and technology-driven Foreign Direct Investment (FDI). We continue to be the largest cumulative contributor of FDI to Sri Lanka, with a total investment of USD 2.3Bn since inception. We continue to invest nearly three times our Net Profit, in line with our commitment to help Sri Lanka's economic growth and our trust in the Government and people of Sri Lanka.

## Mobile and Adjacent Businesses

Dialog Axiata PLC, which encompasses the Mobile, International, Tele-Infrastructure and Digital Service businesses, continued to leverage the Company's market leading position within Sri Lanka's mobile sector, to grow by approximately 1 million subscribers during the year under review to record a mobile subscriber base of over 12.7 million at the end of FY 2017, an 8% YoY growth. The combined offerings of Mobile, International, Tele-Infrastructure and Digital Service businesses that come under the purview of Dialog Axiata PLC, continued to account for the majority of Group revenue (83%) and of Group EBITDA (80%). Company revenue for FY 2017 was recorded at Rs. 77.6Bn, up 6% YoY compared with FY 2016. Revenue growth was impacted by the increase in indirect taxation from 27.8% to 49.7% (excluding data) and the rapid adoption of OTT services that had a direct impact on international business. Aggressive initiatives undertaken to increase the subscriber base which underpinned the strong revenue performance, resulted in Company EBITDA growing by 8% YoY to be recorded at Rs. 27.0Bn for FY 2017 translating to an EBITDA margin of 34.8%. On the backdrop of an increase in depreciation, resulting from aggressive investments, Company NPAT grew by only 2% to record at Rs. 10.5Bn.

## Fixed Telecommunications and Broadband Business

Dialog Broadband Networks (DBN) features the Group's fixed telecommunications and broadband businesses which collectively recorded a revenue of Rs. 12.4Bn for FY 2017, representing a YoY increase of 33% and a 11% contribution towards the Group's top line. Revenue growth was achieved through growth in high-speed broadband which was bolstered by the introduction of Voice over Long Term Evolution (VoLTE) services towards the end of 2017. The year under review also featured the commercial launch of 4.5G technology with download speeds in excess of 1 Gigabits per Second (Gbps). Further, in line with our focus on inclusive access to data services, DBN launched prepaid LTE in July 2017, which is the only prepaid option for home broadband without fixed monthly payments. Inclusive and innovative user centric offerings contributed towards delivering a 74% YoY increase in DBN EBITDA which was recorded at Rs. 6.9Bn for FY 2017. I am happy to report that DBN has recorded a commendable NPAT of Rs. 1.8Bn in FY 2017 compared with the Rs. 385Mn Net Loss recorded in FY 2016.

## Digital Pay Television Business

Dialog Television (DTV), the Digital Pay Television business of the Group faced a more challenging operating environment, partly accounted for by an increase in indirect taxes from 27.6% to 49.7%, which resulted in a marginal 1% YoY dip in revenue to reach Rs. 6.0Bn for FY 2017. In line with our strategy of revenue growth via subscriber acquisition, DTV's pay television customer base grew 17% YoY adding 142,000 customers during the year, bringing the total number of subscribers to over 980,000 as at the end of December 2017. On the back of aggressive cost optimisation initiatives, DTV's EBITDA for FY 2017 grew 49% YoY to record at Rs. 572Mn. DTV continued to take steps towards enhancing viewer experience with the launch of the 'ViU Hub' hybrid Set-Top-Box offering Time-Shift TV, Catch Up TV and Video on Demand features that enabled DTV to deliver a world-class entertainment experience to its subscribers. Despite the significant improvement in EBITDA, DTV recorded a Net Loss of Rs. 736Mn an increase of 14% YoY.



## Market Performance and Sector Leadership

### The Dialog Brand

Dialog is one of the most valuable brands across all categories in Sri Lanka with an attributed value of USD 232Mn and a AAA- rating as evaluated by Brand Finance of UK in 2017. We are humbled that the Sri Lankan consumer placed their trust in us and awarded Dialog as the 'Telecom Service Provider of the Year' for the sixth consecutive time and as the 'Internet Service Provider of the Year' for the fifth consecutive year at the SLIM - Nielsen People's Awards 2017.

During the period under review our mobile payments brand, eZ Cash, was recognised as the leading e-commerce brand by Brand Finance of UK and STING consultants.

At the country's first ever 'Best Sri Lankan Brands Awards' launched by the prestigious Interbrand, the world's largest and most influential brand consultancy, Dialog was recognised within the top 3 brands in Sri Lanka. Your Company was ranked third in LMD's prestigious 'Most Respected Business Entities' index in 2017 up from 6th position held in 2016. Dialog remained the highest ranked organisation for corporate accountability and corporate sustainability on the STING Corporate Accountability index, during 2017. Furthermore, in recognition of our pursuit of service excellence, our flagship service initiative 'Service from My Heart' received two gold awards for 'Employee Engagement Programme of the Year' and the 'Best Change Management Programme of the Year' at the Asian Customer Engagement Forum, representing the best service initiatives of 200 companies across the Asia Pacific Region.

We are humbled by these accolades and acknowledge that these recognitions represent the trust and confidence placed in our brand and the values that it represents, to the Sri Lankan consumer and our stakeholders.

### Strategic Investments and Key Milestones

We continued to invest in new technologies to augment our capacity and capability to ensure that we deliver world-class communications to our customers. Group capital expenditure for FY 2017 stood at Rs. 27.3Bn, which represents a significant 18% growth

compared to the previous year. Majority of these investments were directed towards the expansion of Dialog's mobile and fixed data networks. Investments were made during the year in mobile 4G LTE and fixed LTE technology services with the objective of enabling greater population coverage with a consistent user experience. We also continued to extend our leadership across 2G, 3G and 4G domains with over 3,000 2G/3G sites and over 1,500 4G sites during the period under review.

Sri Lanka is in transition from conventional connectivity channels to digital platform driven ecosystems that have the potential to transform and positively impact businesses and the communities alike. Over the last few years the need to fast-track technology adoption in keeping up with global competitiveness has become a key national priority. Dialog aims to be the backbone of this thrust as the market leader in Broadband delivery, technology adoption and through our penchant for innovation. While we continue to invest in improving our existing services and catering to an increasing demand for data, we will also pursue new ventures that enable us to shape Sri Lanka's digital economy and its future. To this end your Company has embarked on strategic partnerships to expand our digital financial services, and the acquisition of Colombo Trust Finance (CTF) PLC, will enable us to enhance our scope and scale of operations in to mainstream digital financial services. We remain steadfast in our vision to ensure these nascent services are designed and delivered with inclusive business principles in mind.

During the year under review, we launched commercial operations of 4.5G services, establishing yet another milestone in the region's broadband technology landscape. We are also happy to inform you that we were the first in Sri Lanka to launch VoLTE services on international roaming, following the launch of VoLTE services on our 4G network, a first in the region.

On the back of a successful commercial launch of 4.5G services, your Company trialled 5G technology from the GSM suite of technologies for the first time in South Asia, showcasing Sri Lanka's progressive appetite for innovation and leadership as a regional hub in telecommunications. This next generation of

# Group Chief Executive's Review of Operations

wireless technology with speeds in excess of 35 Gbps was achieved in partnership with our technology partners Ericsson and Huawei. 5G connectivity delivers new opportunities for Sri Lanka to leapfrog legacy infrastructure by enabling digital disruption across multiple industries and sectors. The ultra-low latency offers a breakthrough in IoT related services and areas such as robotics, remote healthcare, autonomous transportation and next generation entertainment services. During 2017, your Company also focused its investment strategy on building capability on platform based digital services. We were the first operator in South Asia to introduce emerging technologies such as Narrowband IoT (NB-IoT), which provides seamless connectivity among devices using Low Power Wide Area (LPWA) technology. We are confident that the above investments will enable us to sustain data leadership in mobile and broadband networks and catalyse digital innovation in the country.

In keeping with our commitment to deliver the best in class data centre services and cloud computing facilities, I am pleased to note the launch of our Internet Data Centre (IDC), Sri Lanka's first tier III certified Data Centre and media hub at Malabe. The Dialog Data Centre supports bespoke hosting services to top enterprises across finance, manufacturing and other diversified sectors demanding high levels of data security and uptime. Dialog's tier III certified Data Centre was also recognised for being Sri Lanka's first Data Centre to receive the ISO 27001:2013 information security management certification, and reiterates our commitment to ensure best-in-class information security practices are delivered to enterprise customers.

## The Dialog Axiata Digital Innovation Fund

The startup landscape in Sri Lanka has seen significant entrepreneurial activity and investor interest in recent times with many angel investors fuelling the local startup ecosystem. Dialog is committed to help build a vibrant entrepreneurial ecosystem in Sri Lanka especially with respect to fostering digital startups. In line with this view, we launched the USD 15Mn (Rs. 2.3Bn) Digital Innovation Fund as Sri Lanka's first venture fund to focus exclusively on digital startups. The fund will be managed by BOV Capital, a fund management firm that has extensive experience in investing and

**“Dialog is committed to help build a vibrant entrepreneurial ecosystem in Sri Lanka especially with respect to fostering digital startups. In line with this view, we launched the USD 15Mn (Rs. 2.3Bn) Digital Innovation Fund as Sri Lanka's first venture fund to focus exclusively on digital startups.”**

building technology focused companies. In addition, the fund will also provide support for startups through mentoring, knowledge sharing and business development acumen. The fund will augment Dialog's existing avenues that enable aspiring entrepreneurs and promising businesses to pursue growth. To this end we continued to build out our open Application Programming Interface (API) agnostic platform, Ideamart, to developers and content providers to use Dialog network based features via shared APIs and monetise their efforts. The platform currently supports over 8,000 budding entrepreneurs.

## Empowering Sri Lankan Lives and Enterprises

The effectiveness and success of Sri Lanka's digital transformation will be underpinned by inclusivity and equitable access to the transformational outcomes. In the coming months we will increasingly witness companies that leverage nascent technologies such as Augmented Reality, Machine Learning and robotics with Big Data and Advanced Data Analytics to perform a myriad of immersive user experiences that connect people, devices, content and services. These emerging opportunities for a data centric future, place a significant onus on Dialog to deliver faster connectivity and wider coverage across our network.

We firmly believe that access to high speed data is the key to unlocking economic growth by fuelling the rise of the digital economy and in providing the necessary



space for digital businesses and startups to reach maturity. We are happy to note that the Government of Sri Lanka has recognised this potential and has sought to reduce the tax burden on data since September 2017 by removing the telecom levy on internet services.

Another phrase that has entered the lexicon of digital disruption is the rise of IoT. This could mean that everything from cars to household appliances and industrial machines will be connected to the internet via wireless services. This offers an exciting opportunity for telecommunication service providers, to offer unique and innovative products to consumers. We deployed a dedicated network that supports NB-IoT, once again, the first such network in South Asia. This was further augmented with the launch of our own IoT platform for developers, I Say You DO ([www.isayyoudo.io](http://www.isayyoudo.io)), and the introduction of 'Dialog SmartLife' which supports a number of innovative digital lifestyle applications such as 'Connected Home' and 'Car Connect'.

### **Leading the way in Digital Services**

We believe that empowering digital services when deployed inclusively in society will be a significant driver of Sri Lanka's future development. In this direction, it is vital that an innovation focus takes centre stage on the Group's product and revenue strategy blueprint.

We remain committed to delivering on our agenda of inclusive digital empowerment, which focuses on delivering advanced technologies and connectivity in an affordable manner to all Sri Lankans across the country. True to this vision, we spearheaded many initiatives such as the collaboration between Dialog and the Australian Department of Foreign Affairs and Trade (DFAT) on a project that delivers the convenience of our internationally acclaimed mobile money service 'eZ Cash', to the underbanked communities in the Northern region of Sri Lanka. I am happy to note that innovative partnerships and collaborations such as the DFAT partnership has enabled us to deliver an inclusive digital services portfolio which will continue to play an enabling role in the digital transformation of the national economy.

### **Mobile Payment Solutions**

In the year under review, eZ Cash, now in its fifth year of operation reached a significant milestone of 3 million mobile payment subscribers, comprising of users from Dialog, Etisalat and Hutch networks. These consumers transacted a total of Rs. 25.5Bn over the eZ Cash network in 2017, which represents a 42% YoY growth. This growth is sustained on the back of continuous innovations such as the launch of the Quick Response (QR) code feature on the eZ Cash app which for the first time allows eZ Cash customers to use 'Scan to Pay' and 'Scan to Transfer' features. During the period under review we also launched the beta version of 'Genie', an innovative digital wallet payment solution that enables online mobile payments via stored credit cards and bank transfers. Genie is Sri Lanka's first and only Payment Card Industry Data Security Standard (PCI DSS) certified digital payment platform.

### **Ideamart, Digital Commerce and Digital Advertising**

In 2017, Ideamart reached a unique milestone when it became the largest developer ecosystem in Sri Lanka with the integration of Airtel and Etisalat networks in addition to Hutch, which was already live at the time of launch. In December 2017 the unique user base of Ideamart exceeded 1.6 million. Dialog also hosted the world's largest Google I/O extended event in Sri Lanka, in collaboration with the Google developer community of Sri Lanka. Our digital advertising services also recorded a significant milestone during the year with the launch of Freezone.lk, a web-portal developed by Dialog to empower corporates to provide digital rewards to customers as part of their marketing campaigns. Our digital commerce platform, wOw.lk continues to extend its position as the largest e-commerce website in Sri Lanka, recording a 28% growth in its Gross Merchandise Value in 2017.

### **Digital Health and Education**

The digital medical appointments booking platform 'Doc990', a joint venture with the Asiri Group of Hospitals showed appreciable growth during the period under review. Since its launch in 2016, Doc990 has grown into an integrated and comprehensive digital service platform.

# Group Chief Executive's Review of Operations

Dialog continued to maintain a noteworthy contribution to the digital education sector in Sri Lanka via Headstart (Pvt) Ltd., a multi-faceted digital education destination, Guru.lk. While the online learning platform enables an interactive learning experience, the 'Nenasa' distance learning delivered through Dialog Television continued to play a vital role in extending access to education.

## Delivering Shared Value through Inclusive Capitalism

Underpinned by our vision to enrich and empower all Sri Lankans and enterprises equitably, we continue to be guided by our founding principles of inclusion and innovation across all facets of our business. To this end, we have continued to explore ways to deploy our core competencies and services to create social and environmental impact through innovative services that deliver positive outcomes for all Sri Lankans. Our efforts to deliver social impact were supported through strategic partnerships that enabled us to scale our impact by leveraging additional resources and networks. In 2017 we continued to deliver social and economic value in agriculture, education, health, retail and financial services as business integral initiatives. Our efforts to support communities that we operate in were not limited to core business integral initiatives. In 2017, we responded to post natural disaster events through the provision of relief aid and continued our support of charities through our philanthropic activities. Our Sustainability Report for 2017 discusses these initiatives and our organisations efforts to integrate sustainable outcomes in greater detail, which underscores our commitment towards leveraging digital technologies to empower communities.

## Strengthening Local Livelihoods and Businesses

'Govi Mithuru' - Sri Lanka's primary mobile agricultural information service offered by Dialog, to help uplift crop security and the yield of local farmers, currently services over 400,000 smallholder farmers throughout the island. The service which provides tailor-made information to farmers based on their individual farming requirements was enhanced further by partnering with the Industrial Technology Institute (ITI). The mobile advisory service for farmers addresses market failure and operates under the theme of providing secure crops and family health related

advisory information. In 2017, Govi Mithuru was recognised for its impact as the largest e-agriculture service in the country and awarded the e-Swabhimani award for inclusion and empowerment by the Information Communication Technology Agency (ICTA) of Sri Lanka.

On the philanthropic front, we continued Seneha Siyapatha (SS), an initiative launched in 2016 to provide relief for victims of natural perils. Following the floods that engulfed many parts of Sri Lanka along with landslides in May 2017, we joined hands with the Ministry of Defence and the Ministry of Disaster Management, to provide relief to those affected. Under the SS 2017 programme, we raised a total of Rs. 67.5Mn comprising of Rs. 16.53Mn raised through the generosity of our customers and Rs. 33.47Mn funded directly by your Company. These funds were directed towards the construction of 37 houses in Eheliyagoda and Kotapala for the victims affected by floods and landslides. Civil construction services were contributed at no cost by the Ministry of Defence with participation from Tri-forces personnel of Sri Lanka. Dialog is also part of the Humanitarian Charter set up by the GSMA and continues to play an active role in this advocacy group.

## Equipping the Next Generation with the Right Tools to Succeed

The use of digital technologies in the classroom is becoming more ubiquitous with elements such as online learning platforms and gamification of learning becoming more popular within the education sphere. We remain firm in our support towards achieving this objective as we continue to grow our partnership with the Government to transform 250 smart schools by 2020 with an online learning platform, empowering teachers and students with modern learning tools through our Nenasa Smart School initiative. This is in addition to the Nenasa digital television initiative which helps to bridge the urban-rural divide in the country's education system and provides a high-quality education experience to students across the island. Dialog has invested over Rs. 430Mn to date in this initiative and remains committed to furthering its support to the Ministry of Education. The programme which is jointly operated by the Ministry of Education, National Institute of Education and the Dialog Group,



now broadcasts two education channels complete with state-of-the-art bilingual features. The year 2017 also saw the disbursement of the Dialog Merit Scholarship, a programme which has seen us invest in excess of Rs. 100Mn since 2003, towards supporting top performers at Advanced Level and Ordinary Level streams from across all districts in Sri Lanka. The programme has offered over 700 scholarship opportunities to date.

### Supporting National Sports

Dialog has always been a prolific supporter of sports. In 2017, our investments were directed towards promoting Sri Lanka cricket as well as football, rugby and volleyball. We sponsored and hosted various sporting events, including, the Sri Lanka Rugby Super 7's. We also supported the Football Champion's Trophy for the 12th consecutive year and consolidated Dialogs patronage for club football in Sri Lanka.

### Helping Our Community - Volunteerism at Dialog

We continued to support our employees to contribute their time and resources in support of community initiatives through their acts of volunteerism and commitment. These projects were funded by Dialog, empowering the volunteers to work alongside local stakeholders in supporting the activities of various institutions ranging from schools, hospitals and community facilities. The volunteer network at Dialog is estimated to have impacted approximately 5,000 community members during the year.

### An Enriching Workplace and Senior Leadership

As an agile 3,350 strong team, we are driven by greater purpose to lead transformation in Sri Lanka through connectivity, while enriching Sri Lankan lives and enterprises. Since our people are behind every aspect of our strategy, it is imperative we develop and retain high performing employees. We are committed to scaling up existing digital expertise and provide critical digital competencies through initiatives such as the Axiata Digital Jam and the introduction of a library of courses to upskill employees, through e-learning portal, Lynda. Dialog was placed ahead of all Axiata operating countries in the Digital Jam 2017, which speaks volumes of the talent that we continue to nurture. The senior leadership team spearheads all functions including; strategy planning and execution,

**“Dialog has always been a prolific supporter of sports. In 2017, our investments were directed towards promoting Sri Lanka cricket as well as football, rugby and volleyball.”**

expanding our market and technology leadership, driving financial performance, strengthening our brand equity, ensuring good succession planning and advancing talent. Dialog is backed by a leadership team that has clear divisions of responsibility and is collectively responsible for the long-term success of your Company. The Sustainability Report for 2017 discusses the contribution from our people towards driving your Company forward.

### Outlook of the Future

The fourth industrial revolution of technological advancement that we are currently in which encompasses IoT, AI, Cloud Computing, Gigabit Connectivity and Big Data will drive the future growth of the global economy. Hence, in the short term we will continue to invest in driving mass adoption of mobile and broadband services. To make full use of the potential presented to us from the fourth industrial revolution, it is essential that the regulator and the policy makers act swiftly to create enabling regulatory platforms, which can propel Sri Lanka's development trajectory. We look forward to working together with policy makers and regulators on this shared journey towards a digital future.

En route to arriving at the most anticipated mirror-digit year, our forward thinking vision is simple and comprehensive in delivery. Three outcomes will define our stance as the market leader; data leadership, exponential growth in digital services and delivering the best-in-class experiences and innovations to our customers. We will focus on delivering smarter solutions, leaner business processes and impactful and meaningful experiences to our customers. Our journey to simplify digitalisation initiatives and prepare for a new playing field, pose challenges that will not

# Group Chief Executive's Review of Operations

**"I am humbled by the support of the senior leadership team and everyone at Dialog. The determination to always deliver the best towards advancement of the Company and community shines through their passion and enthusiasm."**

be within a single sector but cross-industry. We will continue to echo responsible leadership behind every aspect of our strategies and commit to delivering superior network performance and providing a world class customer experience.

## **Appreciation and Gratitude**

2017 was an outstanding year in terms of the financial and market performance by the Dialog team. I am truly fortunate and grateful to have received support and guidance from my predecessor, Dr. Hans Wijayasuriya, in his capacity as the Corporate Executive Vice President and Regional Chief Executive for South Asia of Axiata Group Berhad. I am humbled by the support of the senior leadership team and everyone at Dialog. The determination to always deliver the best towards advancement of the Company and community shines through their passion and enthusiasm. I would also like to express my sincere gratitude for the support and encouragement extended to us by the Government of Sri Lanka and its agencies - in particular, the Telecommunications Regulatory Commission of Sri Lanka, the Board of Investment of Sri Lanka, the Central Bank of Sri Lanka, the Ministry of

Telecommunications and Digital Infrastructure, the Information Communication Technology Agency and the Ministry of Mass Media and Information.

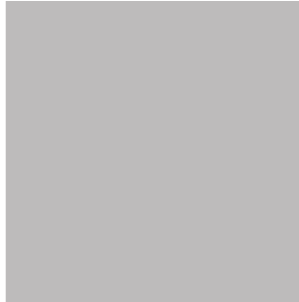
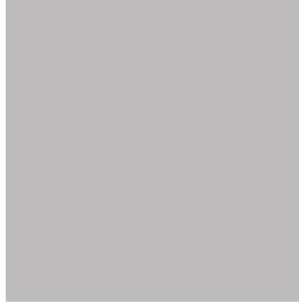
In closing I extend my gratitude to our Chairman, Datuk Azzat Kamaludin and my fellow Board members for their strategic insight, direction and invaluable counsel made available to me in abundance at all times.



**Supun Weerasinghe**  
*Group Chief Executive*

31 March 2018

# Board of Directors



# Board of Directors

1

## **DATUK AZZAT KAMALUDIN**

**Chairman / Non-Independent, Non-Executive Director**

Datuk Azzat Kamaludin was appointed to the Board of Dialog Axiata as Chairman and Director on 21 July 2008.

Datuk Azzat is a Senior Independent Non-Executive Director of Axiata Group Berhad, and is a partner in the law firm of Azzat and Izzat, Malaysia.

Datuk Azzat served as an administrative and diplomatic officer with the Ministry of Foreign Affairs, Malaysia from 1970 to 1979 and has also served as a member of the Securities Commission, Malaysia from 1993 to 1999. Datuk Azzat is presently a Director of several public listed and private limited companies in Malaysia.

Datuk Azzat graduated from the University of Cambridge, United Kingdom, with degrees in Law and International Law, and was admitted as a Barrister-at-Law of the Middle Temple, London in 1970. Datuk Azzat was admitted as an advocate and solicitor of the High Court of Malaya in 1979.

2

## **DR. HANS WIJAYASURIYA**

**Non-Independent, Non-Executive Director**

Dr. Hans Wijayasuriya was appointed to the Board of Dialog Axiata on 19 January 2001 and functioned as the Group Chief Executive of the company during the period 01 September 1997 to 31 December 2016.

Dr. Wijayasuriya was appointed to the role of Regional Chief Executive Officer for the South Asia Region of the Axiata Group in January 2016 and also holds the position of Corporate Executive Vice President of the Axiata Group.

Dr. Wijayasuriya serves on the Boards of several Axiata Group Companies and also represents the Axiata Group on the Board of the Global TM Forum. He also serves on the Board of the Sri Lanka Institute of Nano Technology (SLINTEC) and on the Board of John Keells Holdings PLC. Dr. Wijayasuriya is presently the Vice Chairman of the Ceylon Chamber of Commerce and is also a past Chairman of GSM Asia Pacific – the regional interest group of the GSM Association.

In 2016, the GSMA, the worldwide association governing the Global Mobile Industry, honoured Dr. Wijayasuriya with the 'Outstanding Contribution to Asian Mobile Industry' Award - the highest honour at the Asia Mobile Awards. In 2008, Dr. Hans Wijayasuriya was named the 'Sri Lankan of the Year' by Sri Lanka's premier business journal the LMD.

Dr. Wijayasuriya holds a degree in Electrical and Electronic Engineering from the University of Cambridge, UK, an MBA from the University of Warwick UK and a PhD in Digital Mobile Communications from the University of Bristol, UK. Dr. Wijayasuriya is a Fellow of the Institute of Engineering Technology of the UK (IET), and a Chartered Professional Engineer.



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### MR. SUPUN WEERASINGHE

Group Chief Executive/Non-Independent, Executive Director

Mr. Supun Weerasinghe was appointed as the Group Chief Executive and as a Member of the Board of Dialog Axiata on 01 January 2017.

Mr. Weerasinghe commenced his career in telecommunications at Dialog Axiata in 1999 and held multiple roles, such as Head of Strategy and CEO of the Mobile Business before being appointed as Group Chief Operating Officer of Dialog Axiata in 2010.

In 2013, he was seconded to Axiata Group Berhad in Malaysia as its Group Chief Strategy Officer. At Axiata, he also served as the Head of Network Transformation Strategic Business Unit under which he led Group Technology, Carrier Collaboration and the Axiata Intelligence Unit. From January 2014 to October 2016, he functioned as the CEO and Managing Director of Robi Axiata Limited in Bangladesh, the second largest mobile network provider in Bangladesh with 33 million subscribers.

Mr. Weerasinghe is a Fellow Member of the Chartered Institute of Management Accountants, UK and holds a Bachelor of Science in Accountancy and Financial Management from the University of Sri Jayewardenepura, Sri Lanka. Mr. Weerasinghe also holds an MBA from the University of Western Sydney, Australia and is an alumnus of the Harvard Business School.

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### MR. MOHAMED MUHSIN

Independent, Non-Executive Director

Mr. Mohamed Muhsin was appointed to the Board of Dialog Axiata 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 and Chief Information Officer of the World Bank, he was responsible for aligning information technology with the organisation's business strategy. Mr. Muhsin successfully implemented major reforms in global telecommunications, video conferencing, information management and enterprise business systems, and the work he accomplished is featured in a Harvard Business School Case Study.

Mr. Muhsin has also worked in senior positions in the private sector in Sri Lanka and served for several years as the Group Financial Director of Zambia's Industrial and Mining Conglomerate (ZIMCO) and as advisor on state enterprise reform in the Office of the then President of Zambia, Dr. Kenneth Kaunda. Mr. Muhsin is a Fellow of the Institute of Chartered Accountants of Sri Lanka.

# Board of Directors

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## **MR. JAMES MACLAURIN**

**Independent, Non-Executive Director**

Mr. James Maclaurin was appointed to the Board of Dialog Axiata on 10 May 2011.

Mr. Maclaurin currently serves as an Advisor and Consultant to various telecoms and technology companies in Asia and Europe. Prior to this, he functioned as the Group Chief Financial Officer of Axiata Group Berhad from April 2011 to December 2013 and thereafter as the Founding Chief Executive Officer of Edotco Group SDN Berhad, the infrastructure spinout of Axiata. Mr. Maclaurin has worked in the telecommunications industry for over 20 years and has held a number of senior finance leadership positions including Group CFO of Axiata, CFO for Africa and Central Europe at Vodafone, Group CFO of Celtel, the pan-African mobile operator, Group CFO of UbiNetics, the 3G technology developer and EVP Finance of Marconi, the UK-based telecoms vendor. In the mid 90's he worked in Asia and served as the Finance Director of General Electric Co. of Singapore and prior to this he was the Finance Director of the General Electric Co. of Bangladesh. Mr. Maclaurin currently serves on the Boards of a number of international public listed and private limited companies.

Mr. Maclaurin is a member of the Institute of Chartered Accountants of Scotland and holds degrees in Engineering and Finance from Scottish universities.

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## **DESHAMANYA MAHESH AMALEAN**

**Independent, Non-Executive Director**

Mr. Mahesh Amalean was appointed to the Board of Dialog Axiata on 15 May 2014.

Mr. Amalean is the Co-Founder/Chairman of MAS Holdings (Private) Limited ("MAS"), a Sri Lanka-based global concept-to-delivery apparel services provider, with a 30 year tradition of working with the best global fashion brands, and a global presence across North America, Europe, Middle East, Far East and South Asia providing employment to over 93,000 associates.

In recognition of his service to the nation through the National Committee of Economic Development and the Task Force for Rebuilding the Nation, and his continuous initiatives to rebuild and develop the economic and social standards of Sri Lanka, Mr. Amalean was conferred the title Deshamanya in 2005 by the President of Sri Lanka. [Deshamanya (Pride of the Nation) is the second highest national civil honor awarded by the Government of Sri Lanka. It is awarded for "highly meritorious service"].

In 2011, The Open University of Sri Lanka conferred an honorary doctorate (honoris causa) to him in recognition of his contribution to the Country. In 2013, Mr. Amalean was one of the 5 global business leaders recognised with a UN Award at the WEP's (Women's Empowerment Principles) inaugural Leadership Awards presentation where he received the award for Cultural Change for Empowerment. Mr. Amalean is a recipient of the CNBC-IIFA Global Leadership Award (2010) and is ranked amongst the Top 20 Progressive Asian Leaders by the World Business Magazine.

Mr. Amalean completed his executive education on Strategic Leadership from Columbia University in New York (USA); and holds a Bachelor of Technology Degree in Chemical Engineering from the University of Madras (India).

## MR. THANDALAM VEERAVALLI THIRUMALA CHARI (CHARI TVT)

**Non-Independent, Non-Executive Director**

Mr. Chari TVT was appointed to the Board of Dialog Axiata on 19 September 2014.

Mr. Chari currently serves as a consultant to a large listed airport company in Malaysia and a high-tech semiconductor pure play fabrication company. He is also an advisory member of the Malaysia Institute of Accountants Subcommittee and serves as an Advisor to a UK based listed software company. Mr. Chari presents papers at many external forums and assists the next generation by mentoring and coaching.

Mr. Chari served as the Group Chief Financial Officer of Axiata Group Berhad from January 2014 to December 2016, during which he was responsible for corporate finance policies, influenced group portfolio strategies, business planning, managing investor relations and mergers and acquisitions. Mr. Chari has been the recipient of awards from Finance Asia Hong Kong and for the best Sukuk issuance awarded by the Central Bank of Malaysia.

Prior to this, he served as Chief Financial Officer of Celcom Axiata Berhad, a subsidiary of Axiata. During his time, he was instrumental for many initiatives that contributed to the excellent financial performance of Celcom, making it one of the most profitable companies in Malaysia. Prior to this assignment, he was the Vice President, Sales at HP Financial Services Asia Pacific and Japan. Mr. Chari had an illustrious career in HP for over 20 years, of which 10 years was in senior finance positions in various countries (Hong Kong, Malaysia, Thailand and Singapore) and 10 years heading Sales and Marketing for Asia Pac and a large business unit with revenue of close to USD 1Bn.

Mr. Chari holds a Master's in Business Administration from the State University of New York at Buffalo, USA. Mr Chari is also a Fellow Member of the Chartered Institute of Management Accountants, UK (CIMA) and an Associate Member of the Institute of Chartered Accountants (ACA) and Institute of Cost and Works Accountants (ICWA) from India.

## MR. DOMINIC PAUL ARENA

**Non-Independent, Non-Executive Director**

Mr. Dominic Paul Arena was appointed to the Board of Dialog Axiata on 01 June 2016.

Mr. Arena is presently the Group Chief Strategy & Marketing Officer of Axiata Group Berhad, and is a Member of the Australian Institute of Company Directors (MAICD).

Mr. Arena has over 24 years' experience in the telecoms, media & technology sectors having held executive roles with global telecom operators – including Vodafone, Orange and British Telecom – as well as for leading strategic advisory firms. Mr. Arena has lived and worked in Singapore, Malaysia and Thailand for the majority of the past 16 years providing strategic advice and corporate development support to operators, financial institutions and Government agencies across Asia.

Prior to joining Axiata, he was the Group Managing Director of AEC Advisory, a regional strategic and corporate advisory firm headquartered in Singapore serving telecom, media, technology and Government clients in strategy, market entry, M&A, transformation and regulatory policy. Preceding this he has held several senior corporate advisory roles as a Global Equity Partner of Value Partners Management Consulting, as Regional Director APAC for BT Global Services consulting group, as a Director of KPMG in Australia and a Director with KPMG Consulting in SE Asia in charge of telecom and media advisory.

Mr. Arena's experience as a trusted strategic adviser spans a broad network of international and regional operators in the Telecom, Media, Satellite and Digital Services industries as well as the Government sector, and he has been widely published and referenced in the media.

Mr. Arena holds a Bachelor of Engineering in Telecommunications (Honours) and a Graduate Diploma in Engineering Management (Dip. Eng. Prac., Honours) from the University of Technology, Sydney, Australia.

# Board of Directors

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## **MR. WILLEM LUCAS TIMMERMANS**

**Non-Independent, Non-Executive Director**

Mr. Willem Lucas Timmermans was appointed to the Board of Dialog Axiata on 10 May 2017.

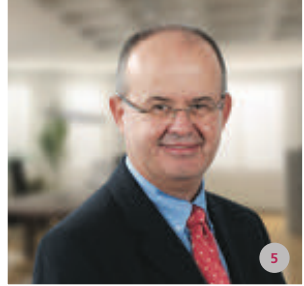
Mr. Timmermans served as a Director and Chief Corporate Transformation Officer of PT XL Axiata TBK, a subsidiary of Axiata Group Berhad from 2006 to March 2018.

Mr. Timmermans commenced his career as an expert in Finance at TVM Insurance Company and held strategic positions in KPN Netherlands from 1988 until 1997. Mr. Timmermans furthered his career and served as Finance Director of PT Bakrie Elektronik (Indonesia) and was appointed Vice President Business Control and Investor Relation of PT Telkomsel prior to his appointment as Director and Chief Financial Officer of PT XL Axiata (Indonesia) in 2006. In 2011, he served as a Director and Chief Operating Officer and in 2015 as Director and Chief Strategic & Transformation Officer of XL.

Mr. Timmermans also served as a Non-Executive Director of Celcom Axiata Berhad from 2011 to 2017.

Mr. Timmermans holds degrees in Business Administration from the Business Administration and Economics School from the State University Groningen, Netherlands and Business Economics and Financing from the State University of Groningen, Netherlands.

# Corporate Management Team



# Corporate Management Team

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## **PRADEEP DE ALMEIDA**

### **Group Chief Technology Officer**

Pradeep leads the Technology function of the Dialog Group. In addition, he chairs the Technical Expert Working Group across South Asian Region covering Bangladesh, Nepal and Pakistan. His portfolio spans the planning, development and operation of multiple networks and services including but not limited to the Group's Mobile, Broadband, Fixed Line, Digital Television and International Telecommunications infrastructures.

Pradeep joined Dialog Axiata in 1996 and holds a Bachelor of Science degree in Electronic and Telecommunication Engineering from the University of Moratuwa, Sri Lanka and is a Member of the Institution of Engineers of Sri Lanka. He is a Chartered engineer by profession. Over the course of his 22 year career in technology management, Pradeep has garnered extensive experience across multiple generations of mobile telephony technology leading up to the most recent 4.5G technologies, based on which the Dialog Group has implemented Mobile FD-LTE and Fixed TD-LTE networks. Pradeep is a regular speaker at Technology forums.

2

## **DR. RAINER DEUTSCHMANN**

### **Group Chief Operating Officer**

Rainer is Dialog's Group Chief Operating Officer and overlooks the Group's Business Units, Corporate Planning, M&A, and Corporate Strategy. He has over 20 years of in-depth experience in Telecommunications, Online, Cloud and IT Services, Media and Entertainment, e-Commerce, Digital Marketing and Corporate Strategy in mature and emerging markets, across start ups and multinationals.

Prior to joining Dialog Axiata, he served as the Chief Product and Innovation Officer at Reliance Jio, India, and was directly responsible for setting up Jio's business units and leading the launch program. Preceding Reliance Jio, he was the Senior Vice President Core Telco Products at Deutsche Telekom AG, Germany, building and leading Deutsche Telekom's core product portfolio across 14 European markets. He also served as Chairman of the Board of Directors, Deutsche Telekom UK Ltd, as Senior Vice President Mobile Products, Deutsche Telekom AG, as Senior Vice President Mobile Internet, T-Mobile International AG, and as Vice President Strategy Development, Deutsche Telekom AG. During his 5 years at McKinsey & Company, he served high-tech and telco clients across Europe.

Rainer holds a doctoral degree (Dr. rer. nat.) in Physics from the University of Technology Munich, and worked as a computation and neuroscience researcher at California Institute of Technology (Caltech) / USA.

3

## **SANDRA DE ZOYSA**

### **Group Chief Customer Officer**

Sandra De Zoysa is Dialog's Group Chief Customer Officer and a pioneer Customer Service and CE Practitioner with over 30 years of experience in the Mobile Industry. Director on the board of Dialog Business Services, Sponsor - Lean Six Sigma Practice, Digitisation Programme Owner, Chairperson - Customer Experience Excellence Group Leadership Committee of Dialog and Customer Intimacy and CE Expert Working Group, Axiata SA region.

Sandra received recognition as one of Sri Lanka's Top Woman Leaders at the 2017 Best Employer Brand awards and was also a recipient of the Super Woman Achiever Award at the 4th World Women Leadership Awards, Mumbai. At the Professional & Career Women Awards 2016 organised by Women



In Management (WIM) she won the Gold Award for Leadership Excellence for her exceptional contribution & achievements in the field of Customer Service and in 2015, received the Customer Experience Impact Award presented by Customer Experience Professionals Association, USA making her one among seven service practitioners across the globe to have received this recognition.

In 2013 she was ranked 7th among the top 10 most powerful business women in Sri Lanka by the Echelon magazine and in 2011 and was honoured with the Industry Champion Award for Sri Lanka at the Contact Centre World Conference in Australia. Sandra was also instrumental in achieving CMMI Institute's Capability Maturity Model Integration for services, making Dialog the only company in Sri Lanka to receive the P-CCMI Certification standard.

Sandra is a Founding member and a Director of SLASSCOM, the national IT-BPO chamber and Head of Quality Forum (2012-2017), Founding member and VP of SLISM (Sri Lanka Institute of Service Management), Certified Lean Six Sigma Quality practitioner and CCXP (USA) Certified Customer Experience Professional. She is on the Customer Advisory Board of CX Network, IQPC UK. An avid conference speaker within the Global Customer Experience/ Telecom Industry and visiting lecturer at the University of Colombo School of Computing since 2009.

4

## UPALI GAJANAIKE

**Group Chief Officer - Programme Management and Tele-Infrastructure**

Upali currently holds the position of Group Chief Officer – Programme Management and Tele-Infrastructure. His portfolio includes Enterprise Programme Management, Material Management & Warehouse Operations, Quality Systems & Process Management, and Transmission Infrastructure Management including related commercial operation.

Upali joined Dialog in 1994 and his experience largely covers management of Telecommunication and IT networks & systems. Prior to being appointed to the current role, he served the group in the capacities of Chief Operating Officer Dialog Broadband Networks and General Manager – Engineering Operations & Information Technology.

He holds a Bachelor of Science in Electronic and Telecommunication Engineering from the University of Moratuwa, Sri Lanka and a Master of Business Administration from the University of Colombo, Sri Lanka. Upali is a Member of the Institution of Engineering & Technology (IET) UK, a Corporate Member of the Institution of Engineers Sri Lanka (IESL), and a Senior Member of the Australian Computer Society (ACS) Australia. He is a Chartered Engineer registered with the Engineering Council (UK).

# Corporate Management Team

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## JEREMY HUXTABLE

### Group Chief Officer – Dialog Enterprise

Jeremy was appointed to the position of Group Chief Officer – Enterprise Business of Dialog Axiata PLC with effect from 19th April, 2012.

He counts a total of 20 years industry experience in telecommunications on the backdrop of a multi-country and multi-sector management career spanning over 3 decades.

Jeremy joined the Group Senior Management Team of Dialog following a stint close upon 7 years as the Managing Director of Suntel Ltd.

Prior to taking the helm at Suntel in 2005, he held several senior management positions in the Scandinavian region with Orange International, the mobile arm of France Telecom including that of CEO of Orange Sweden, a 3G green-field start up and that of Director for Strategy and Planning at Orange Denmark. Prior to joining Orange, he held the position of Vice President at Fortunecity.com an internet start-up that was listed on the German Neuer Market.

Jeremy also serves as a Board Member of Asiri Hospital Holdings.", Dialog Broadband Networks (Private)Limited and Director on the Board of Headstart (Pvt) Ltd.

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## SHAYAM MAJEED

### Group Chief Corporate Officer

Shayam currently holds the position of Group Chief Corporate Officer of the organisation. Shayam's current portfolio spans Group Human Resources, Group Supply Chain Management, Group Legal and Contract Management, Group Sustainability and Group Corporate Services.

Shayam has previously served in the capacities of Group Chief Officer – Commercial and Programme Management, Group Chief Programme Officer, Group Senior Vice President - Access Network/Technology Resource Planning, and Head - Network Planning of the company prior to being appointed to his current role.

Shayam holds a Master of Science in Electrical Engineering specialising in Wireless Communications from the University of Texas – Arlington, USA and a Bachelor of Science in Computer Systems specialising in Telecommunications from the University of Houston - Clear Lake, Texas, USA. He is a Member of the Institute of Electrical and Electronic Engineers (IEEE) - USA, a member of the Institution of Engineering & Technology (IET) – UK, and a Chartered Engineer registered with the Engineering Council (UK).



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## AMALI NANAYAKKARA

### Group Chief Marketing Officer

Amali is one of Sri Lanka's most renowned marketing professionals and a business leader, drawing from over two decades of experience in senior management positions both in Sri Lanka and overseas attached to leading global multi-nationals.

Named one of Sri Lanka's 10 Most Powerful Women in Business as ranked by Echelon Magazine, Amali is an honours graduate from the University of Colombo. She began her career at Unilever Sri Lanka, where she traversed multiple leadership roles, before her appointment to the Board in the capacity of Director, Foods & Personal Care.

Following her tenure at Unilever, Amali transitioned to the telecommunications sector where she was Managing Director and Chief Executive Officer of Bharthi Airtel Lanka, before taking over as Group Chief Marketing Officer of Dialog. At Dialog, her portfolio encompasses the Marketing and Sales functions of the Group's multiple businesses.

8

## ANTHONY RODRIGO

### Group Chief Innovation Officer & Chief Architect

Anthony has been with Axiata Group of companies since 2010 as the Group Chief Information Officer and Chief Digital Services Officer of Dialog Axiata. He was appointed Chief Information Officer of Axiata Group in August 2017 and continues as Chief Innovation Officer & Chief Architect of Dialog Axiata

Prior to joining the Dialog Group, Anthony was the Head of the North America Systems Integration Business for Nokia Siemens Networks. He was responsible for Solution Development, Systems

Integration and Business Management of converged Fixed and Wireless solutions for communication service providers in North America. Anthony counts over two decades of experience in Europe, Asia and the Americas in Operations Support Systems/Business Support Solutions and Systems Integration, holding leadership positions at British Telecom, AT&T, Nokia, NSN and Hayleys.

Anthony holds a B.Eng from Kings College London, and an MBA from Regis University Denver, CO. USA. He holds several European and United States Patents in the area of Charging and Speech Recognition technology.

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## LUCY TAN

### Group Chief Financial Officer

Lucy joined Dialog Axiata in November 2010 as the Group Chief Financial Officer. Prior to joining Dialog, Lucy was the Financial Controller for Maxis Berhad, Kuala Lumpur. She was with Price Waterhouse, Malaysia before joining Sime Darby Berhad Group where she worked for eight years, holding various senior financial management positions including that of the Group's Chief Accountant and the Head of Group Shared Services. Lucy is a Chartered Accountant and is a member of the Malaysian Institute of Accountants and the Australian Institute of Certified Public Accountants (CPA). She also holds a B.Sc (Hons) Degree in Chemistry and a Diploma in Education, both from University of Malaya.

# Business and Financial Review

2017 proved to be a challenging year, with intense competition and the enforcement of multiple regulatory reforms, which had a significant impact on the telecommunications industry. Despite multifaceted challenges, the Dialog Group consolidated its position as Sri Lanka's premier connectivity provider, continuing its strong financial performance to deliver growth across all key performance indicators.

The consolidated financial performance of Dialog Group comprises Dialog Axiata PLC ("the Company") and the Dialog Axiata Group ("the Group").

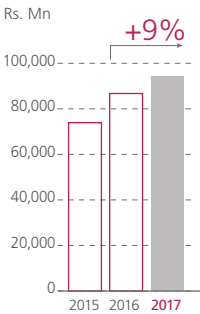
Continuing its strong performance trajectory, the Group delivered a consolidated revenue of Rs. 94.2Bn for FY 2017, a growth of 9% Year-on-Year (YoY), on

the backdrop of strong market performance across all key business segments.

The negative effects of Value Added Tax (VAT) and Nation Building Tax (NBT) was seen throughout the year, significantly impacting consumer consumption. The said indirect taxes pushed the effective tax rate on Voice, VAS, CDMA and TV service offerings from 27.6% to 49.7% whilst on Data it increased from 12.2% to 31.7%, and subsequently reduced to 19.7% in September 2017. The increased consumption taxes and growing usage of OTT services (Over-The-Top) had a collective impact on revenue growth momentum in 2017.

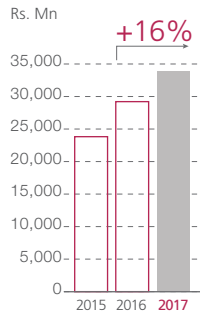
Group total operating cost grew by only a moderate 5% YoY driven by rise in revenue driven cost

## Group Revenue



- Revenue growth continued its upward trajectory up 9% YoY
- 2017 Group revenue excluding International Termination revenue grew by 13% YoY
- DBN revenue up 33% YoY led by growth in fixed broadband revenue
- DTV revenue marginally declined impacted by increase in consumption taxes

## Group EBITDA



- Improvement in Group EBITDA driven by growth in revenue and cost efficiencies
- Group EBITDA margin improved 2.3pp to 36%
- DBN EBITDA grew by 74% driven by growth in fixed broadband revenue
- DTV EBITDA grew 49% driven via aggressive cost management initiatives

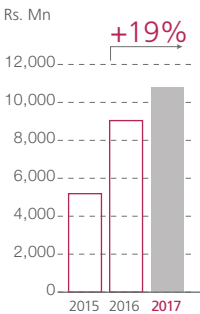


and increase in network related costs. On-going operational and structural cost rescaling initiatives carried out during the year resulted in significant realisation of cost savings exceeding Rs. 4.0Bn.

Underpinned by strong revenue growth as well as disciplined cost management and operational efficiencies, Group Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) for FY 2017 delivered a strong growth of 16% YoY to reach Rs. 33.9Bn. The Group EBITDA margin for FY 2017 was accordingly improved to 36.0% from 33.7% in FY 2016.

Downstream of strong growth across all operational performance metrics, the Group recorded a significant Net Profit After Tax (NPAT) of Rs. 10.8Bn for FY 2017, a growth of 19% YoY.

## Group NPAT



- NPAT growth underpinned by improvement in EBITDA
- Lower non-cash translational forex loss further supported NPAT growth

Group NPAT growth was also supported by lower non-cash translational forex loss of Rs. 0.4Bn compared to a loss of Rs. 0.8Bn during FY 2016. The Sri Lankan Rupee (LKR) depreciated against the United States Dollar (USD) by 2.3% in FY 2017 compared to 3.9% in FY 2016.

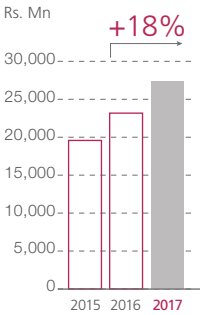
The Dialog Group continued to be a significant contributor to state revenues, remitting a total of Rs. 35.7Bn to the Government of Sri Lanka (GoSL) during the financial year ended 31st December 2017, representing an increase of 13% YoY. Total remittances included direct taxes and levies (Rs. 9.0Bn) as well as consumption taxes collected on behalf of the GoSL (Rs. 26.7Bn).

Group capital expenditure for FY 2017 was recorded at Rs. 27.3Bn and was in line with the Group's strategic aspiration to further strengthen its leadership in Sri Lanka's Broadband sector. This will cater to the burgeoning demand for data consumption driven by growing popularity and affordability of smartphones, increased adoption of 4G enabled handsets along with increased usage supported by availability of rich content. Accordingly, capital expenditure was directed primarily towards investments in High-Speed Broadband infrastructure focusing on the expansion of 4G alongside the extension of the Group's Optical Fibre Network to support robust seamless connectivity.

On the backdrop of the 18% increase in YoY Capex, Operating Free Cash Flow (OFCF) for FY 2017 was marginally negative at Rs. 0.3Bn. Notwithstanding the negative OFCF, the Group's net cash position (after deducting Rs. 3.3Bn classified as bank overdraft under short term borrowings) stood at a healthy Rs. 5.1Bn as at end 2017 as a result of the diligent and focused working capital management initiatives carried out throughout the year. Underpinned by improved profitability and capital investment requirements being funded through internally generated funds, the Group's Net Debt to EBITDA ratio improved to 0.83x as at end December 2017. Accordingly, the Group's USD:LKR borrowing mix was maintained at 70:30 by end 2017.

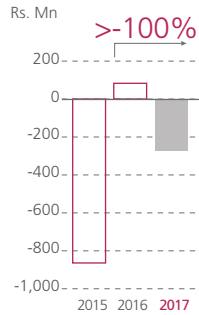
# Business and Financial Review

## Capex



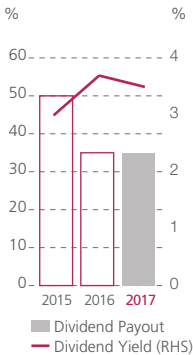
- Capex directed towards further strengthening Group's position in the Broadband sector
- Capex intensity of 29%

## Operating Free Cash Flow (OFCF)



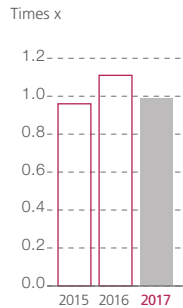
- OFCF turned marginally negative in 2017 due to significantly higher investments
- Proposed dividend for FY 2017 of Rs. 3.7Bn

## Dividend Payout & Dividend Yield



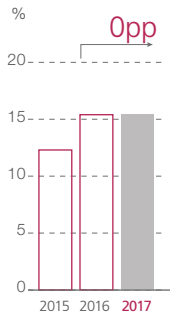
- Dividend Payout Ratio of 35% translating to a Dividend per Share of 46 cents
- Dividend Yield at an attractive 3.5%

## Group Gross Debt to EBITDA



- Group continued to maintain a structurally strong balance sheet with gearing ratio declining YoY
- Net Debt to EBITDA at 0.83x

## ROIC



- ROIC remained stable at 15.4% despite the expansion of capital investments

## GROUP FINANCIAL INDICATORS

Rs. Mn	2017	2016	YoY
Revenue	94,196	86,745	9%
EBITDA <sup>1</sup>	33,866	29,212	16%
NPAT	10,785	9,041	19%
Capex <sup>2</sup>	27,323	23,173	18%
Operating Free Cash Flow (OFCF) <sup>3</sup>	(269)	83	>-100%

## GROUP FINANCIAL RATIOS

	2017	2016	YoY
EBITDA Margin	36.0%	33.7%	2.3pp
NPAT Margin	11.4%	10.4%	1.0pp
Capex to Revenue	29.0%	26.7%	2.3pp
OFCF to Revenue	-0.3%	0.1%	-0.4pp
ROIC <sup>4</sup>	15.4%	15.4%	0.0pp
Debt / Equity Ratio	0.54	0.60	0.06

- 1 EBITDA : Earnings before interest, taxation, depreciation and amortisation
- 2 Capex : Capex excluding Customer Premises Equipment (CPE) investments and intangibles
- 3 OFCF : EBITDA - Capex including CPE & intangibles - Tax excluding deferred taxation
- 4 ROIC : EBIT after tax divided by average invested capital

# Business and Financial Review

## DIALOG AXIATA PLC

Dialog Axiata PLC is a diversified telecommunications services provider operating in Mobile, International, Tele-infrastructure and Digital Service related businesses. 2017 saw another stellar performance as it further consolidated its position as the market leader in Sri Lanka despite adverse tax revisions and intense competition in the mobile and data space. Albeit multifaceted challenges, the Company continued to remain the undisputed leader whilst further strengthening its subscriber market share by 1.1pp with a subscriber base of over 12.7 million.

## Industry Outlook

Sri Lanka has witnessed rapid transformation in the telecommunication space across high-speed data connectivity, cloud storage, digital services and digitisation. The future of telecoms has seen the advancement of two phrases over the years - the Internet of Things (IoT) and Over-The-Top content (OTT). The popular nomenclature has increased the strong focus in the market for high-speed data, along

with the need to access data from any location, at any time. This is underlined by the increase in 3G and 4G adoption rates, and the need to roll out 5G expansion strategies whilst consumers continue to contribute towards the steady increase in smartphone penetration.

Focusing on the future, moving towards digital, the telecommunications industry too continues to shift its business model from delivering organic telecommunication services, to advancing the digital age.

Customer spend on entertainment is expected to increase over the next few years, with the affordability of data and device compatibility. Supplemented by this, an increase in demand for content, both local and international can be expected.

## Usage Drive

Coinciding with the influence of Global OTT operators and the rise of smartphones, the Company continued to witness a decline in traditional voice services,

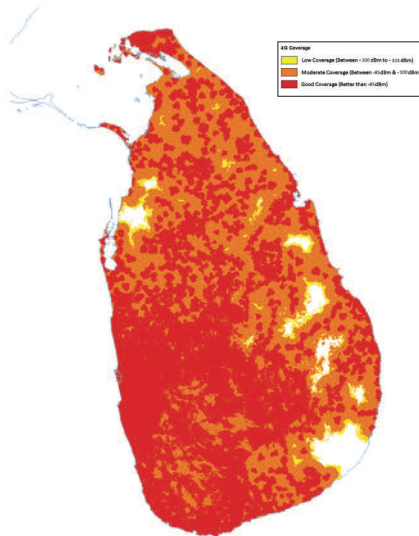


Figure 1: 2G Coverage

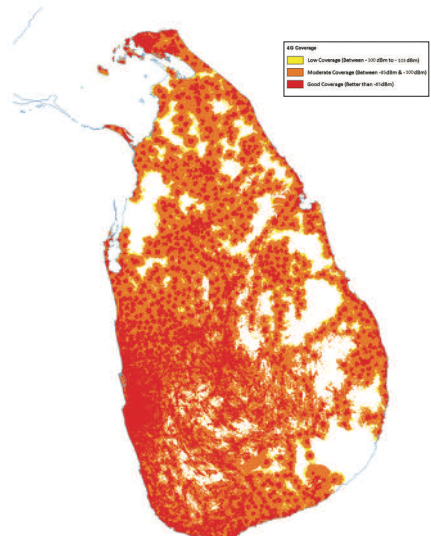


Figure 2: 3G Coverage



supplemented by the increase in data usage, with customers moving towards using applications such as WhatsApp and Viber for voice calls. Disruptive OTT operators continue to gain ground and are challenging core voice and messaging revenue.

During the year, the Company continued the Mega Wasana consumer promotion with over one million winners. The promotion was relaunched mid-year with the introduction of a Rs. 10Mn prize winner to the campaign. Further, the Dialog Blaster Package and Prashansa Pensioners Postpaid Packages have been introduced during 2017, targeting government servants and pension holders, by offering free devices and bundle Data and Voice services with the continued goal of servicing all segments of society.

The launch of the Dialog Mega Run gaming application, made Dialog the first operator in South Asia to introduce a gaming application of this nature i.e. giving subscribers the opportunity to win Data prizes by way of continuous engagement in the game.

The Data Wasana consumer promo was launched in September 2017 with the focus of driving data revenue. Over 600,000 prize winners have been awarded over 600,000GBs of free data given throughout the promotion. Data revenue continues to display a strong growth with a YoY 39% increase, while the mobile broadband subscriber base showed a 16% YoY growth.

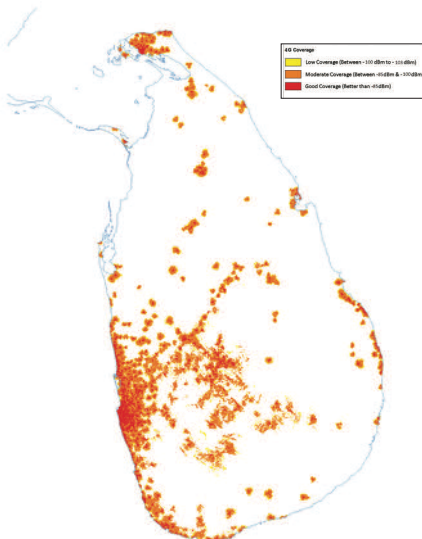


Figure 3: Mobile 4G-LTE FDD Network

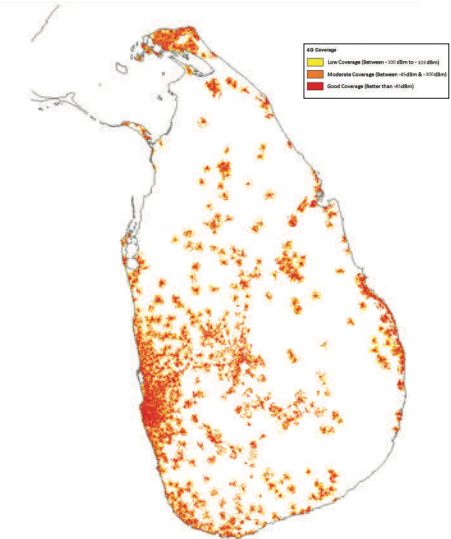


Figure 4: Mobile 4G-LTE TDD Network

# Business and Financial Review

## Device Penetration

Smartphone adoption within the Dialog network grew by 7pp during 2017.

Dialog was the first and only operator to establish a network partnership for Voice over Long-Term Evolution (VoLTE) services with global brands such as Samsung, Huawei and Apple and the first to launch VoLTE devices in Sri Lanka. Additionally, Dialog was the only operator to launch the most affordable 4G and VoLTE enabled smartphones in Sri Lanka, the Dialog Infinity Pro (Rs. 14,990) and the Dialog Blaze (Rs. 10,990). Both devices were launched in 2017 with unique features focused on tapping into the entry level smartphone segment, in order for 4G conversion to take place.

## Network Expansion

Continuing Dialog's commitment to providing users with the widest island wide coverage, the Company invested in expanding 4G network coverage while simultaneously upgrading 3G network coverage. In 2017, Dialog further strengthened its network leadership status in all 2G, 3G and 4G domains with over 3,000 2G/3G sites and over 1,500 4G sites. All towers in the network were 3G enabled to provide data services to consumers in all parts of the island, while all key urban and sub-urban areas were covered with high-speed 4G network capabilities, providing users with an unmatched data usage experience.

Once again Dialog showcased its dominance as a regional contender with the demonstration of 5G technology for the first time in South Asia, paving the way for the next generation of wireless connectivity with speeds of over 35 Gbps (Gigabits per second). 5G connectivity offers ultra-low latency, which will enable major breakthroughs in areas such as robotics, remote surgery, autonomous transport and next generation entertainment. During the launch, Dialog demonstrated its capabilities in massive MIMO (Multiple-Input and Multiple-Output), cloud radio and futuristic technology applications such as IoT based smart parking, real time 4K video streaming, industry automation and augmented reality using robots.

## Roaming and IDD Services

Propelled by innovation, the introduction of VoLTE roaming services was another first in Sri Lanka, enabling high-definition voice and video calls and minimising delays when connecting calls over corresponding networks. The VoLTE service also allows real-time switching between HD voice and video calls and allows users the option of sharing multimedia content during voice calls.

The Big Talk Plan was introduced in mid-2017 and is a revolutionary voice roaming pack, offering subscribers 100 minutes talk time and unlimited SMS for USD 5 per day, enabling customers to keep in touch from anywhere in the world.

With the commissioning of the Bay of Bengal Gateway in 2016, Dialog can currently provide international capacity and internet uplinks services using the Bay of Bengal Gateway submarine cable system to most operators in Sri Lanka. In addition Dialog was able to monetise the investment in the international bandwidth corridors such as Singapore, India and Middle East Segments.

Dialog continued to strengthen its presence beyond borders by successfully expanding its international roaming network. Dialog's overall voice roaming collaboration reached 670 operators and 230 destination countries around the globe. The Company signed roaming agreements with fifteen GSM operators and added three destinations to its roaming footprint during the year. During the course of the year, the



Company also expanded its LTE roaming footprint and coverage to 210 operators and 88 destinations. During 2017, Dialog became the first operator in South Asia to launch VoLTE Roaming, with three operators in three countries. The Mithra app was also launched during the year 2017 with the goal of assisting migrant workers to keep in touch with their loved ones.

## Content

The ViU app, the central hub for content disbursement, currently has 700,000 app downloads and underwent a relaunch during the year with an upgraded user interface and user experience.

The Vinode app that was launched in 2016 with the intention of bringing Sinhala and Tamil movies and tele dramas to the mobile screen, witnessed the production of 4 dramas - Thrimana, Muthat Kanave, Managala Thagga and Sunday 3to6.

MyTV continues to grow its customer base exponentially and has a download base of 1.9 million, making it the first Dialog app to reach this milestone. Iflix currently has a registered base of 98,000 in Sri Lanka.

The Open Mic Contest focused on talent discovery and the production of original, localised content to promote Dialog Music, resulting in the recruitment of twelve new artists.

The Dialog Gaming app was launched in 2017, making Dialog the first Telecom operator in Sri Lanka to launch a gaming platform. The app includes international games, exclusive titles and locally developed edutainment games in the local languages along with other features such as the ability to register for local eSports events and leaderboards. Dialog Gaming also launched the first Massive Multiplayer Online (MMO) game in Sri Lanka. The app, in partnership with gamer.lk, further empowers local eSports in order to bring international eSports to the local pro-gaming community.



ThePapare.com won two awards at the Presidential Sports Awards for Best Sports Production of the Year and Sports Photographer of the Year. For the first time in Sri Lanka ThePapare.com introduced new features such as Television Match Official (TMO) for rugby and the 3rd Umpire for cricket, in local schools, club rugby and national cricket matches.

## Dialog Tele Infrastructure Arm (DTI)

The Company's infrastructure services arm continues to be the frontrunner in provision of active and passive telecommunication infrastructure services in Sri Lanka. It serves all licensed operators and broadcasters with their passive infrastructure and transmission requirements. In view of providing high capacity and reliable access and aggregation transmission services, Dialog modernised its transport network, and expanded the Optical Fibre Network across the country, connecting all main cities and metropolitan areas.

## Digital Services

Dialog's aspiration to become the leader in Sri Lanka's growing digital services industry was further augmented via aggressive investments in new technologies to further expand and strengthen the digital infrastructure and digital service ecosystem.

eZ Cash, the country's first mobile solution offering, completed its fifth year of operations in 2017 and closed the year with 3 million registered customers across three mobile networks. It also onboarded the fourth mobile network operator, Airtel as a merchant

# Business and Financial Review



for bill payments. As part of its ethos to propel digital and financial inclusion in the country, Dialog and Australia's Department of Foreign Affairs and Trade (DFAT) have collaborated to launch the country's first state-of-the-art digital payment retail system in the Northern province to reach and support underbanked communities.

Genie, a payment processing solution for customers, was developed and obtained the Payment Card Industry Data Security Standard (PCIDSS) certification during the year, facilitating the storage, processing and transmission of cardholder data to ensure the highest level of data security. Genie was trialed on the 7th July, 2017 to assess and enhance efficiency and experience, prior to its commercial launch.

The Dialog Self Care App recorded 1.3 Million downloads in 2017 which is a 1.7x growth YoY.

In September 2017, the Company completed the acquisition of the shares in Colombo Trust Finance (CTF) PLC. The acquisition of CTF will facilitate the expansion of the scope of operations of the Dialog Group in the sphere of mainstream Digital Financial Services. Dialog aims to bring together the realms of advanced digital connectivity and cutting edge Financial Technology (FinTech) to deliver a revolutionary suite of products and services which will expand the vistas of financial inclusion in Sri Lanka. Significant within the envisaged inclusion drive will be a focus on financing solutions aimed at increasing the affordability, and accelerating the adoption of digital devices and services by a wide spectrum of consumers and businesses.

The Doc990 platform, owned by Digital Health Private Limited was commercially launched with the Asiri Group of Hospitals in April 2016 and currently caters to over 125,000 customers across the island. Having secured 78

leading private hospitals, Doc990 has evolved into an integrated, comprehensive digital service platform that enables users to obtain a number of healthcare related services and information via the web or their mobile phone (app & IVR) while facilitating the option for users to channel doctors digitally from 800 locations, get medicine delivered to their doorstep and view lab test results at key laboratories, ensuring Sri Lankans with affordable access to healthcare.

IdeaMart went live with Airtel and Etisalat during the year, in addition to Hutch which was already live at the time of launch, creating the largest developer ecosystem in Sri Lanka with over 8,000 developers and 14,630 active apps. By December 2017, the unique user base of IdeaMart had reached over 1.6 million. IdeaMart conducted their first-ever international Hackathon in collaboration with Smart Cambodia using IdeaMart APIs. This was to expose IdeaMart's API capability to the Cambodian developer community with the aim of creating locally relevant and innovative product ideas for the Cambodian market. IdeaMart in collaboration with the Google Developer Group of Sri Lanka, organised the world's largest Google I/O extended event in Sri Lanka with over 3,000 attendees for the conference only, which also coincided with a first of its kind Innovation Exhibition running parallel to the main event. The exhibition allowed local software companies to showcase some of their latest innovations to over 8000 walk-in attendees. The event also hosted Sri Lanka's first-ever robot battle, titled 'Chromium Collision' that showcased the robotics skills of many young talent.

In its fifth year of operation, the Touch Corporate Fuel solution was expanded to provide approximately 500 corporates with an automated mechanism to distribute and manage fuel benefits and allowances for staff. The solution now has an island wide network of 200 fuel stations. The Touch Travel Card obtained approval to expand the Sahasara Solution nationally in August 2017, under the presidential directive issued to the Ministry of Megapolis and Ministry of Transport.

Digital advertising recorded a significant milestone with the launch of Freezone.lk. Freezone is a web-portal developed by Dialog to empower corporates to manage their own digital promotional activities engaging with relevant target groups. The web-portal



also allows corporates to digitally reward participants for completing activities.

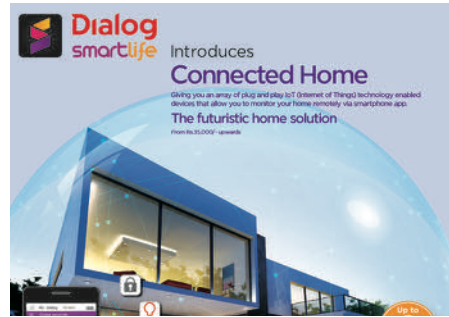
Digital Commerce Lanka Ltd, Dialog's wholly owned subsidiary that operates Sri Lanka's largest e-commerce site (wOw.lk), recorded a robust YoY growth in terms of a Gross Merchandise Value of 28%. wOw.lk offers a portfolio of over 15,000 products and services.

Dialog's presence in the Digital Insurance sphere continues to grow with its subscriber base surpassing 3.4 million in both accident and hospitalisation support packages. With insurance penetration in Sri Lanka remaining low, Dialog's mobile insurance products are considered the most viable and affordable option in terms of reaching the Sri Lankan masses.

Dialog continues to uplift Digital Education in Sri Lanka via the Company's multifaceted digital education destination, Guru.lk. Additionally, the stake acquired in HeadStart, a leading e-learning content provider for secondary, professional and corporate market segments in Sri Lanka, further strengthens this pillar. During 2017, HeadStart collaborated with the Ministry of Education, Microsoft Sri Lanka and the Commercial Bank of Ceylon PLC in the SMART School initiative with the objective of transforming 250 smart schools enabling an online learning platform empowering teachers and students with modern learning tools.

Dialog's IoT Service Portfolio, "Smartlife" revolutionised the IoT technology landscape in Sri Lanka during the year, through the introduction of a suite of innovative digital lifestyle applications supporting IoT solutions such as Connected Home and Car Connect. With the introduction of NB-IoT – the LTE based network support layer to facilitate uninterrupted connectivity for multiple Smartlife services, Dialog continues to lead in innovation across the IoT space. Through a simple smartphone app and website, Smartlife consumers can create sequences of conditional statements called 'scenes' to automate their IoT devices, creating a Smart Home environment.

Sri Lanka's first venture fund of USD 15Mn (Rs. 2.3Bn), to focus exclusively on digital startups is anchored by Dialog and was launched during the year. The Digital Innovation Fund will invest in startups that have strong business models and proven product market fit, demonstrating the ability to expand in Sri Lanka and



have the potential to become market shaping digital businesses in the country and beyond. The Digital Innovation Fund aims to deploy a corpus of Rs. 2.3Bn into high potential

Sri Lankan startups and will invest most of the fund into early stage companies with each investment ranging between Rs. 50Mn to Rs. 200Mn per company. The fund will also set aside 20% of its total amount to invest in startups in their seed stage, especially those which are looking for investments below Rs. 40Mn per company.

### Financial Review

The Company's key businesses, Mobile, International, Tele-infrastructure and Digital Services, which contributed to 83% of the Group revenue. Notwithstanding the increase in consumption taxes, the revenue was recorded at Rs. 77.6Bn for FY 2017, on the back of its strong subscriber base of over 12.7 million. The revenue increase of 6% was driven by growth in mobile data, digital services as well as device sales. The Company continued to maintain its market leadership position with 8% YoY growth in mobile subscribers.

During the year, the voice revenue remained stable YoY owing to aggressive regional campaigns carried out, positive traction gained from new product launches and the relaunch of Dialog Mega Wasana.

Data revenue continued its strong growth momentum during the year to record 39% growth YoY driven by continued growth in smartphone penetration and 4G device penetration supported by rapid 4G conversion, coverage expansion and upgrades to data related infrastructure.

# Business and Financial Review

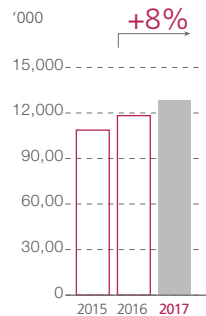
In a forward-looking move towards improving affordability and the creation of a digital Sri Lanka, the Government reduced taxes on data by removing the 10% Telco Levy for mobile and fixed data services in September 2017. Accordingly, the effective indirect tax on data services reduced from 31.7% to 19.7%.

The Minutes of Use (MOU) declined YoY as increased consumption taxes (currently at 49.7% for voice) constrained consumer consumption, coupled with usage pattern shifting from voice to data. The marginal drop in Average Revenue Per User (ARPU) is due to the decline in voice usage.

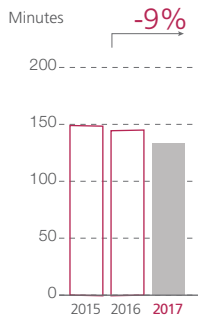
Underpinned by strong revenue growth combined with operational efficiencies derived through disciplined cost management adopted throughout the year resulted in the Company EBITDA recording a growth of 8% YoY to reach Rs. 27.0Bn for FY 2017, translating to an EBITDA margin of 34.8%, up 0.5pp YoY.

The Company NPAT recorded a growth of 2% YoY to reach Rs. 10.5Bn on the backdrop of improved EBITDA and lower translational forex losses relative to the previous year.

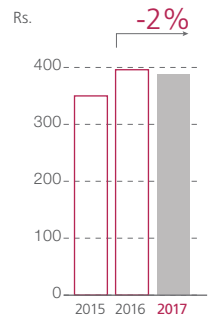
## Mobile Subscribers



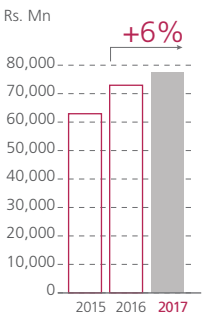
## Blended MOUs



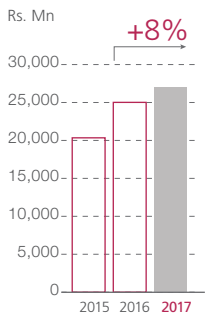
## Blended ARPUs



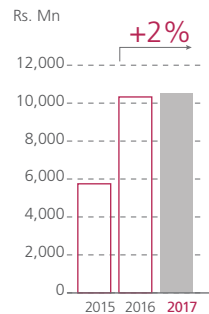
## Revenue



## EBITDA



## NPAT





## DIALOG BROADBAND NETWORKS

Dialog Broadband Networks (DBN) serves over 700,000 individuals and corporates, providing multiple services including fixed telephony, hosted PABX offerings, broadband, internet leased lines, data communication, Internet Data Centre (IDC), converged ICT solutions, telecommunication infrastructure, transmission and backbone services. DBN commercially launched 4.5G technology in June 2017, establishing yet another milestone in the region's broadband technology landscape featuring download speeds in excess of 100 Mbps. The fixed LTE demonstrated accelerated growth, where the customer base grew by 59% in 2017, surpassing 300,000 subscribers. DBN launched Prepaid LTE in July 2017, the only Prepaid option for Home Broadband (HBB) to cater to the mass market. Additionally, VoLTE services were launched on HBB routers by end of 2017, providing crystal clear voice solutions.

DBN received the ISO 27001:2013 Information Security Management Certification becoming the first certified commercialised Tier III Data Centre in the country. The certification reiterates Dialog's commitment to ensuring best-in-class information security practices are delivered to its enterprise customers. The certification governs all Dialog Data Centres, operations and service delivery. These Data Centres are designed to provide tailor-made hosting services to enterprises

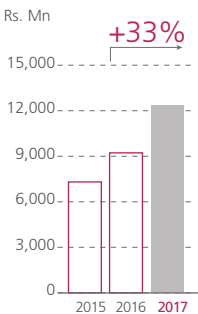
across finance, manufacturing and other diversified sectors demanding high levels of data security. The certification further strengthens Dialog's capability as a leading Data Centre service provider in the region. DBN currently provides public and private cloud solutions focusing on Infrastructure as a Service (IaaS), Platform as a Service (PaaS) and Software as a Service (SaaS).

## Financial Review

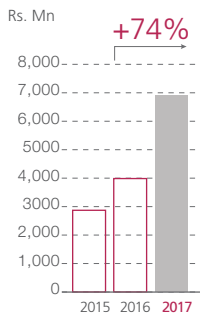
DBN continued its growth momentum in FY 2017 to deliver a revenue growth of 33% YoY to record a revenue of Rs. 12.4Bn for FY 2017, which contributed 11% to Group revenue. Strong revenue growth was predominantly driven by growth in the Fixed Home Broadband segment as a result of expanding LTE network coverage, aggressive subscriber acquisition and reconnection drives carried out during the year. Fixed Broadband revenue grew by 53% YoY while revenue from Data and Leased lines grew by 21% YoY.

Downstream of strong revenue performance along with operating cost efficiencies, DBN EBITDA grew by a significant 74% YoY to reach Rs. 6.9Bn in FY 2017. On the back of healthy EBITDA performance, DBN NPAT turned positive to record at Rs. 1.8Bn for FY 2017 against a Net Loss of Rs. 385Mn recorded in FY 2016.

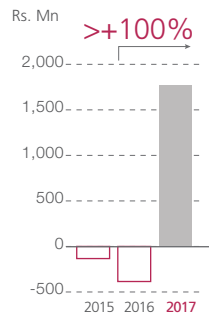
### Revenue



### EBITDA



### NPAT



# Business and Financial Review

## DIALOG TELEVISION

Dialog Television (DTV), the Group's Digital Pay Television business continues to be at the forefront of the Pay Television industry in Sri Lanka. DTV subscribers grew by 17% as DTV celebrated another successful year ending with over 980,000 subscribers. High quality service, a variety of channels and multiple payment options to appeal to all customers, made DTV the preferred way to watch television.

The year 2017 marked the launch of the ViU Hub Set-Top-Box offering Time Shift TV, Catch Up TV, Video on Demand, and multiple features to enhance the user experience.

The first ever online market place for advertising, "Adhub.lk" was also launched in 2017 giving advertisers the opportunity to directly purchase advertising space from DTV online. During the year, DTV also launched Internet Protocol Television (IPTV) for the leisure sector and condominium customers. DTV also introduced Prepaid Channel Cards allowing customers to purchase VAS bundles of their choice.

Dialog TVGO mobile app delivers a rich content experience for Dialog Television and Mobile customers offering up to 60 channels revolutionising the

'Anytime - Anywhere' entertainment segment catering to the sophisticated consumer who is increasingly becoming digital.

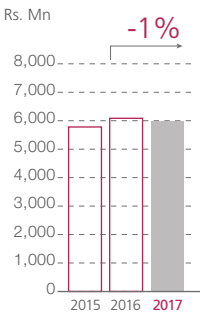
DTV has an extensive assortment of more than 131 Standard Definition (SD) and High Definition (HD) channels, both local and international channels to satisfy the entertainment needs of Sri Lankans.

## Financial Review

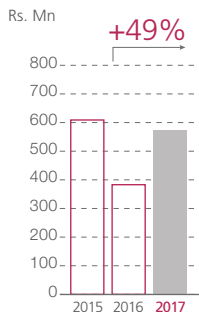
DTV continued to consolidate its position in the digital pay television space to record a revenue of Rs. 6.0Bn for FY 2017, which contributed 6% to Group revenue. Revenue declined marginally by 1% YoY on the back of increase in consumption taxes, as DTV subscribers now pay an effective tax of 49.7% for Pay TV services. Healthy subscriber acquisitions during the year grew subscription revenue by 3% YoY.

On the back of aggressive cost initiatives carried out during the year, DTV EBITDA for FY 2017 recorded a significant 49% YoY growth to reach Rs. 572Mn. DTV Net Loss increased 14% YoY to end the year at Rs. 736Mn for FY 2017 relative to a Net Loss of Rs. 644Mn in FY 2016.

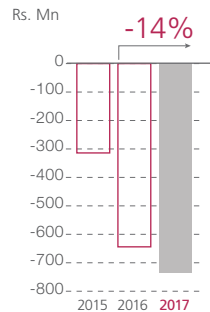
## Revenue



## EBITDA



## NPAT



# Corporate Governance Report

## INTRODUCTION

The Board of Directors of the Company is committed towards maintaining good corporate governance whilst pursuing its corporate objectives to enhance long term shareholder value and sustainable growth. In addition to the requirements outlined in the Listing Rules of the Colombo Stock Exchange (CSE) and other relevant regulations, the Company complies with Dialog's Code of Corporate Governance, which is an internally developed code, based on international corporate governance principles and best practices and is applicable to the Group and governs the activities of the Board, how the Group conducts its business operations, its relationships with all of its stakeholders while providing for accountability and sound internal control systems.

The Board confirms that the Company is compliant with the requirements stipulated in the Code, the Rules on Corporate Governance contained in the Listing Rules of the CSE and the requirements stipulated in the Companies Act, No. 7 of 2007. This report outlines the Corporate Governance framework,

application and practice within the Group for the year 2017.

## 1. THE BOARD

The Company's business and Group operations are managed under the supervision of the Board. The role of the Board includes:

- ▶ Providing entrepreneurial leadership to the Group;
- ▶ Providing strategic guidance and evaluating, reviewing and approving corporate strategy and the performance objectives for the Company;
- ▶ Approving and monitoring financial and other reporting practices adopted by the Group;
- ▶ Effectively reviewing and constructively challenging management performance in meeting the agreed goals, monitoring the reporting of performance and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives.

The composition of the Board of Directors as at 31 December 2017, was as follows:

Name of Director	Date of Appointment to the Board	Position
Datuk Azzat Kamaludin	21 July 2008	Chairman
Mr. Supun Weerasinghe	1 January 2017	Group Chief Executive Officer/Director
Dr. Hans Wijayasuriya	19 January 2001	Non-Independent, Non-Executive Director
Mr. Mohamed Muhsin	14 June 2006	Independent, Non-Executive Director
Mr. James Maclaurin	10 May 2011	Independent, Non-Executive Director
Deshamanya Mahesh Amalean	15 May 2014	Independent, Non-Executive Director
Mr. Chari TVT	19 September 2014	Non-Independent, Non-Executive Director
Mr. Dominic Paul Arena	1 June 2016	Non-Independent, Non-Executive Director
Mr. Willem Timmermans	10 May 2017	Non-Independent, Non-Executive Director

Table 1 – Composition of the Board as at 31 December 2017

# Corporate Governance Report

Mr. Moksevi Prelis, who was an Independent, Non-Executive Director retired from the Board of the Company, at the conclusion of the last Annual General Meeting (AGM) effective 9 May 2017.

Since the last AGM, Mr. Willem Timmermans was appointed to the Board effective 10 May 2017 as a nominee Director of Axiata Group Berhad.

The profiles of each Director are found on pages 16 to 20 of this Report.

## ► **Composition and Balance of the Board**

The Board comprises of 09 Directors, of which 08 are Non-Executive Directors and 01 is an Executive Director, who is also the Group Chief Executive Officer ("GCEO"). The composition mix of the executive and Non-Executive Directors satisfies the requirements of the Listing Rules of the CSE.

The Non-Executive Directors provide a considerable depth of knowledge collectively gained from experiences, whilst serving in a variety of public and private companies in various industries. The Board includes four qualified Chartered Accountants who provide the Board with the requisite financial acumen and knowledge on financial matters.

The Board considers that the composition and expertise of the Board is sufficient to meet the present needs of the Group, but will continue to review the composition and the mix of skills and expertise on an ongoing basis to align it to the business needs and complexity of the Group's operations.

## ► **Board Independence**

Based on the declarations made annually by each of the Non-Executive Directors in accordance with the requirements set out in the Listing Rules of the CSE, Deshamanya Mahesh Amalean and Mr. James MacLaurin are considered independent. Furthermore, the Board considers Mr. Mohamed Muhsin as 'independent', given his objective and unbiased approach to matters of the Board notwithstanding that he has completed more than 9 consecutive years. These Directors are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their judgment.

The Board considers the other 05 Non-Executive Directors, namely Datuk Azzat Kamaludin, Dr. Hans Wijayasuriya, Mr. Chari TVT, Mr. Dominic Paul Arena and Mr. Willem Timmermans as non-independent, as they are nominees of Axiata Group Berhad, the major shareholder of the Company.

## ► **Division of Responsibilities**

The roles of the Chairman and the GCEO are separate with a clear distinction of responsibilities between them, which ensures the balance of accountability and authority between the running of the Board, and the executive responsibility for the running of the Group's businesses.

The role of the Chairman, Datuk Azzat Kamaludin, is to provide leadership to the Board, for the efficient organisation and conduct of the Board's function, and to ensure the integrity and effectiveness of the relationship between the Non-Executive and Executive Director(s).

The role of the GCEO, Mr. Supun Weerasinghe, is to implement policies and strategies approved by the Board, and develop and recommend to the Board the business plans and budgets that support the Group's long-term strategy and vision that would lead to the maximisation of shareholder value.

## ► **Board Meetings and Attendance**

The Board meetings for each financial year are scheduled in advance to enable the Directors and management to plan accordingly and fit the year's Board meetings into their respective calendars. The Board's annual meeting calendar (including Board meetings and Board Committee meetings) is prepared with the consensus of all Directors and is tabled at the Board meeting in the fourth quarter of each preceding year.

To ensure that Board meetings are conducted effectively and efficiently, the time allocation for each agenda item is determined in advance. Members of the management and external advisors are invited as and when required to attend Board meetings to present proposals and provide further clarity to the Board.



The Board meets quarterly with a view to discharging its duties effectively. In addition, special Board meetings are also held whenever necessary to deal with specific matters. A total of 06 meetings were held in 2017, which included 02 special meetings. The attendance of Directors at these meetings is set out in the table below:

Name of Director	Attendance
Datuk Azzat Kamaludin	6/6
Dr. Hans Wijayasuriya	6/6
Mr. Moksevi Prelis*	2/2
Mr. Mohamed Muhsin	6/6
Mr. James Maclaurin	6/6
Deshamanya Mahesh Amalean	4/6
Mr. Chari TVT	5/6
Mr. Dominic Paul Arena	6/6
Mr. Willem Timmermans**	4/4

Table 2 - Board Meeting Attendance

\* Retired with effect from 9 May 2017.

\*\* Appointed with effect from 10 May 2017.

#### ► Access to Information

To enable the Board to make informed decisions, the Board is supplied with complete and adequate information in advance of each meeting, which includes an agenda, minutes, board papers with background or explanatory information, financial and operational performance reports. The Board also receives regular review reports and presentations on business development, risk profiles and regulatory updates. Any additional information may be requested by any Director as and when required.

The Board has separate and independent access to the Group's Senior Management. All Directors have access to the advice and services of the Group Company Secretary, who is responsible to the Board for ensuring that Board procedures and applicable rules and regulations are complied with.

The Directors, especially Non-Executive Directors, have access to independent professional advice in

the course of fulfilling their responsibilities, at the Company's expense.

#### ► Professional Development and Performance Evaluation

The Directors are provided with the opportunity to update and enhance their skills and knowledge through training conducted by both external and in-house facilitators, and are periodically briefed on changes to relevant laws, regulations and accounting standards which impact the Group's business and the Directors.

The Nominating and Remuneration Committee (NRC) is responsible for evaluating the Board's performance and decides how the Board's performance may be evaluated and also proposes the objective criteria.

#### ► Delegation of Authority and Board Committees

Other than the matters reserved for the Board, the Board has adopted a Group Policies and Limits of Authority (LOA) framework applicable to the Group, by which the Board has delegated authority to its Board Committees and management. The Group Policies state the principles and set out the tone by which business is to be conducted, whereas the primary purpose of the LOA is to set out clear guidance to management as to the matters over which the Board reserves authority and those which it delegates to management. The LOA has established a sound framework of authority and accountability, which facilitates timely, effective and quality decision-making at the appropriate level.

The Board is supported by the following Board Committees which have been delegated with certain specific responsibilities:

1. Board Audit Committee
2. Nominating and Remuneration Committee
3. Related Party Transactions Review Committee
4. Capital Investment and Procurement Management Committee

# Corporate Governance Report

All Board Committees have written Terms of Reference approved by the Board, and the Board receives reports of their proceedings and deliberations. In instances where Committees have no authority to make decisions on matters reserved for the Board, recommendations are highlighted for approval by the Board. The Chairpersons of each of the Board Committees report the outcome of the Committee meetings to the Board and the relevant decisions are incorporated in the minutes of the Board meetings. The Group Company Secretary acts as secretary to all Board Committees.

A brief description of each Board Committee is provided below:

## a) Board Audit Committee (BAC)

The BAC ensures that the Group complies with applicable financial standards and laws. In addition, it ensures high standards of transparency and corporate disclosure and endeavours to maintain appropriate standards of corporate responsibility, integrity and accountability to the shareholders. The appointed members of the BAC are required to exercise independent judgment in carrying out their functions.

The activities conducted by the BAC are set out in the BAC Report on pages 46 to 48.

## b) Nominating and Remuneration Committee (NRC)

The role of the NRC is to identify, consider and propose suitable candidates for appointment as Directors and for senior management positions and to formulate, review, approve and make recommendations to the Board with regard to the remuneration of the executive and Non-Executive Directors and key positions within the senior management.

The NRC ensures that the Directors appointed to the Board possess the background, experience and knowledge in business, technology, finance and/or management, so as to maintain an appropriate balance of skills and experience on the Board, and also to ensure that each Director brings to the Board an independent and objective perspective to ensure that balanced and well-considered decisions are made.

The NRC also ensures that it receives quarterly updates from the Group HR Division on staff related matters.

The NRC comprises 03 Non-Executive Directors, namely Datuk Azzat Kamaludin (Chairman), Mr. Mohamed Muhsin and Deshamanya Mahesh Amalean.

The NRC held 04 meetings during the financial year ended 31 December 2017 and the attendance at these meetings is set out below:

Name of Director	Attendance
Datuk Azzat Kamaludin (Chairman)	4/4
Mr. Mohamed Muhsin	4/4
Deshamanya Mahesh Amalean	2/4

Table 3 - NRC Meeting Attendance

## c) Related Party Transactions Review Committee (RPTRC)

The role of the RPTRC is to review related party transactions as prescribed by Section 9 of the Listing Rules of the CSE. As per the Listing Rules, the RPTRC shall meet at least once a financial quarter.

The activities conducted by the RPTRC are set out in the RPTRC Report on page no 49.

## d) Capital Investment and Procurement Management Committee (CIPMC)

The role of the CIPMC is to support the Board in the performance of its duties by considering and approving, or recommending to the Board, strategic, operational and financial matters and procurement proposals.

The CIPMC comprises 04 representatives of the Board, namely Mr. James Maclaurin (Chairman), Mr. Mohamed Muhsin, Dr. Hans Wijayasuriya and Mr. Supun Weerasinghe, and 02 ex-officio members who are drawn from the membership of the Senior Management of Dialog and Axiata.

The CIPMC held 03 meetings during the financial year ended 31 December 2017.



The above Board Committees are supported by a comprehensive and effective internal governance structure, consisting of the Group Senior Management Committee (GSMC), headed by the GCEO, to oversee the overall operations of the Group. Reporting to the GSMC are Group Leadership Committees that oversee the effective management of core functional areas and are headed by senior management members heading the respective functional area.

► **Re-appointment and Re-election**

In accordance with the Company's Articles of Association, Directors who were appointed during the year must submit themselves to the shareholders for re-election at the first AGM following their appointment and one-third of the Directors (excluding the executive Director) are subject to retirement and re-appointment by rotation at every AGM. The Directors who retire by rotation are those who have been longest in office since their appointment/re-appointment.

The Directors retiring by rotation and eligible for re-election this year are mentioned in the Notice of the AGM on page 146.

## 2. REMUNERATION

The Company's remuneration policy endeavours to attract, retain and motivate Directors of the quality and experience commensurate with the stature and operational complexity of the Dialog Group. The remuneration policy for Directors is proposed, evaluated and reviewed by the NRC, in keeping with criteria of reasonability.

The remuneration of Non-Executive Directors comprises a monthly fixed allowance and meeting allowances paid in accordance with the number of meetings attended during the year 2017. The monthly fixed allowance of Non-Executive Directors was revised in 2017 to bring in line with current market rates.

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

remuneration have been designed to align the interests of the executive Director with those of shareholders and link rewards to corporate and individual performance. Thus, the variable component of the executive Director's remuneration is based on the achievement of two dimensions – company performance against company targets and individual performance against a pre-determined set of Key Performance Indicators (KPI). These KPIs comprise of qualitative and quantitative targets and the evaluation of the achievement of the KPIs is reviewed by the NRC and the recommendations are tabled for approval of the Board.

A total of Rs. 78.8Mn was paid to the Directors as emoluments for the financial year 2017.

## 3. ACCOUNTABILITY AND AUDIT

► **Financial Reporting**

The Board believes that independent verification is necessary to safeguard the integrity of the Group's accounting and financial reporting.

The Board aims to provide and present a balanced and understandable assessment of the Group's position and prospects. Therefore, the Board has established a formal and transparent process to independently verify and safeguard the integrity of the Group's accounting and financial reporting and internal control systems, which are periodically reviewed and monitored to ensure effectiveness.

The GCEO and the Group Chief Financial Officer ("GCFO") 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 operational results are stated in accordance with relevant accounting standards.

## 4. RECOGNISE AND MANAGE RISK

► **Internal Control**

The Board acknowledges its overall responsibility in ensuring that a sound system of internal control is maintained to safeguard shareholders' investment and the Group's assets.

# Corporate Governance Report

The BAC conducts a review of the effectiveness of the Group's system of internal controls and reports its findings to the Board. The review covers all material controls, including financial, operational and compliance controls and risk management systems. Upon receiving confirmation from the heads of units, the GCEO and GCFO provide the BAC with a certificate of compliance confirming compliance with all applicable statutory and regulatory requirements on a quarterly basis.

## ► Risk Management, Compliance & Control

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

- Oversight of the risk management system;
- Examination of the Company's risk profile which contains a description of the material risks faced by the Company including financial and non-financial matters;
- Assessment of compliance and control;
- Assessment of effectiveness - mechanism to review, at least annually, the effectiveness of the Company's implementation of the risk management system.

The Enterprise Risk Management Group Leadership Committee is responsible for monitoring the risks and reporting the same to the BAC and Board on a periodic basis, or as and when a significant risk arises.

## ► Internal Audit

Internal audits are conducted by the Group Internal Audit Division which is independent of management. The Internal Auditor has access to management and the authority to seek information, records, properties and personnel relevant to the subject of audit/review. Once an audit/review is completed, a report is submitted to the BAC.

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

In order to ensure independence, objectivity, and enhance performance of the internal audit function, a

direct reporting line has been created from the internal audit function to the BAC. The BAC is responsible for the appointment and dismissal of the Group Chief Internal Auditor. The activities of the Group's internal audit are detailed in the BAC Report on pages 46 to 48.

## ► Cyber Security


In line with the Company's consistent focus and commitment on cyber/information security since 2008, a groupwide Information Security and Governance Framework (ISGF) programme was implemented in 2015. Pursuant thereto, a Cyber Security Division was set up which follows the ISO 27001:2013 and NIST (National Institute of Standards and Technology) Cyber security framework to safeguard information. The Company is also equipped with an inhouse 24x7 Security Operations Center with up to date technology and expertise in order to effectively detect and respond to cyberattacks.

To promote a cyber security awareness culture and to foster engagement with staff on cybersecurity each division was assigned an IS (Information Security) champion tasked with managing basic cyber security aspects within their own division and promptly escalating more complex issues raised by employees, to the Cyber Security Division for necessary action.

## 5. RESPONSIBLE DECISION-MAKING

The Group's Code of Business Ethics and Employee Code of Conduct actively promote ethical and responsible decision-making and endeavour to influence and guide the Directors, employees and other stakeholders of the practices necessary to maintain confidence in the Group's integrity and to demonstrate the commitment of the Group to ethical practices.

The Group has in place an Insider Trading Policy which deals with the trading practices of Directors, officers and employees of the Group in the Company's securities. The Insider Trading Policy 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.



The Group also has a Whistleblowing Administration Policy wherein an independent reporting party (KPMG) is employed to administer the whistleblowing hotline service.

## **6. RESPECT FOR THE RIGHTS OF SHAREHOLDERS**

The Company is committed to having regular, proactive and effective communication with investors and shareholders. The Company respects the rights of the shareholders and seeks to empower them by communicating effectively and providing ready access to balanced information about the Company.

### **► Communication with shareholders**

The Company communicates with the shareholders through the following means of communication:-

#### **1. Annual General Meeting (AGM)**

The AGM is the main event for the shareholders to meet with the Board which allows reasonable opportunity for informed shareholders to communicate their views on various matters affecting the Company and the forthcoming AGM will be used to effectively communicate with shareholders. The AGM is also attended by the Senior Management, External Auditors and External Legal Counsel.

#### **2. Announcements to the Colombo Stock Exchange (CSE)**

Announcements of quarterly interim financial results, press releases and various announcements on corporate actions are disclosed to the CSE in a prompt and timely manner in compliance with the Listing Rules of the CSE.

#### **3. Media Releases**

The Company ensures that media releases are made to the media on all significant corporate developments and business initiatives through its Group Corporate Communications Unit.

#### **4. Company Website**

Information on the Company's performance, financial information, press releases, annual reports, all relevant announcements made to the CSE, related information

and other corporate information is made available on the Company's website at <http://www.dialog.lk/financial-announcements>.

### **► Investor Relations**

The Group Investor Relations (IR) Unit proactively disseminates relevant information about the Company to the investor community, specifically the institutional fund managers and analysts. The IR Unit maintains close contact with the investor community by means of road shows, company visits, one-on-one meetings, teleconferences and emails, etc., to ensure that the Group's strategies, operational activities and financial performance are well understood and that such information is made available to them in a timely manner.

In the year 2017, the Company actively participated in 06 overseas investor conferences held in New York, London, Dubai, Singapore, Bangkok and Hong Kong. The Company also took part in 02 local forums for clients of reputed global financial services institutions. In addition, the Company has conducted 23 one-on-one meetings and conference calls with key local and foreign investors on a regular basis.

The Company held earnings calls via teleconference every quarter to brief local and foreign analysts and investors on the results achieved in that quarter. These sessions not only provide analysts and investors with a comprehensive review of the Group's financial performance, but also gave them the opportunity to clarify related queries they may have. The contents of these briefings are posted on the Company's website at [www.dialog.lk/quarterly-reports](http://www.dialog.lk/quarterly-reports).

### **► Major Transactions**

There were no transactions during the year deemed as a "major transaction" in terms of the definition stipulated in the Companies Act, No. 7 of 2007.

# Report of the Board Audit Committee

## ROLE OF THE COMMITTEE

The Board Audit Committee (BAC) is a formally constituted sub-committee of the Board of Directors (Board). It reports to and is accountable to the Board.

The primary role of the BAC is to implement, address issues and support the oversight function of the Board in relation to the Group's financial results, audits, corporate risks and internal controls. It ensures compliance with international best practices, accounting standards as defined by the Institute of Chartered Accountants of Sri Lanka and applicable local laws and regulations and the requirements of the Listing Rules of the Colombo Stock Exchange (CSE).

The Terms of Reference (ToR) of the BAC, as formulated by the Board, is reviewed annually. The effectiveness of the BAC is evaluated annually by each member of the BAC. The work practices and performance of the external auditors are also reviewed.

## COMPOSITION

The BAC comprises three Non-Executive Directors, of whom a majority are Independent Directors. The BAC is chaired by Mr. Mohamed Muhsin, who is a Fellow member of the Institute of Chartered Accountants of Sri Lanka. The composition meets the requirements stipulated in the Listing Rules of the CSE. The Group Company Secretary functions as the Secretary to the BAC.

Mr. Moksevi Prelis who was a member of the BAC retired from the Board on 9 May 2017 and accordingly relinquished his membership in the BAC effective 9 May 2017. Mr. James Maclaurin was appointed to the BAC in place thereof effective 10 May 2017.

The BAC wishes to place on record its sincere appreciation to Mr. Moksevi Prelis for his invaluable contribution and counsel to the BAC, as its member and former Chairman.

The members of the BAC as at 31 December 2017 were:

1. Mr. Mohamed Muhsin - Independent, Non-Executive Director (Chairman)
2. Mr. Thandalam Veeravalli Thirumala Chari - Non-Independent, Non-Executive Director
3. Mr. James Maclaurin - Independent, Non-Executive Director

## MEETINGS

The BAC held six meetings during the year 2017, which included two special meetings. The meeting attendance of the members is set out in the table below.

Name of Member	Date of Appointment / Resignation during the year	Attendance
Mr. Mohamed Muhsin – Chairman	-	6/6
Mr. Moksevi Prelis	Retired with effect from 9 May 2017	2/2
Mr. Thandalam Veeravalli Thirumala Chari	-	5/6
Mr. James Maclaurin	Appointed with effect from 10 May 2017	4/4



The Group Chief Executive Officer, the Group Chief Financial Officer and the Group Chief Internal Auditor, attended these meetings on invitation. The external auditors also attended meetings, on invitation, to brief the BAC on specific issues. In addition, the BAC had private executive discussions with the external auditors without the presence of management.

The Board is apprised of the significant issues deliberated and considers and adopts, if thought fit, the recommendations of the BAC.

## SUMMARY OF PRINCIPAL ACTIVITIES OF THE BAC DURING THE YEAR

During the year, in addition to the routine activities, the BAC reviewed risks, control issues and legal risks of emerging businesses and subsidiaries and also focused on reviewing cyber security strategies and framework, billing system operations, impact of the tax proposals under the budget of the GoSL and the assessment of capex deployment efficiency pertaining to the years 2015 and 2016, within the Dialog Group.

The BAC further reviewed the Whistleblower Policy, which was further revamped to strengthen the whistleblowing process and Messrs. KPMG was appointed the independent reporting party to administer the whistleblowing hotline service.

The following include other key routine activities carried out by the BAC during 2017:

## FINANCIAL REPORTING

In relation to the BAC's primary function to provide assurance on the reliability of financial statements through an independent review of risks, controls and the governance process, it reviewed the quarterly and annual financial statements, in consultation with the external and internal auditors, prior to making recommendations to the Board for approval. Particular consideration was given to -

- a) changes in or implementation of accounting policies and practices;
- b) significant or material adjustments with financial impact arising from the audit;
- c) significant unusual events or exceptional activities;
- d) compliance with relevant accounting standards and other statutory and regulatory requirements.

## RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the BAC reviewed and monitored reports furnished by the internal auditors, the external auditors and the management, including;

- ▶ Enterprise risk management reports on significant risk exposures and risk mitigation plans and updates on cyber security risks dashboard;
- ▶ Management Audit Leadership Committee reports on the progress of the management actions to resolve significant internal control issues as highlighted by the internal and external auditors;
- ▶ Certificate of compliance attested by the GCEO and GCFO, confirming compliance with all applicable statutory and regulatory requirements;
- ▶ Legal and regulatory reports on significant litigation and regulatory issues impacting the Dialog Group.

## EXTERNAL AUDIT

The BAC reviewed the External Audit Plan including the scope and the fee for the annual audit and had discussions with the external auditors prior to the year-end audit to discuss their audit approach and procedures, including matters relating to the scope of the audit.

# Report of the Board Audit Committee

The BAC reviewed the results of the external audit and the recommendations contained in the Management Letter arising from the audits of the quarterly and annual financial statements, and ensured appropriate follow up actions were taken.

The independence and objectivity of the external auditors were reviewed by the BAC, which held the view that the services outside the scope of the statutory audit provided by the external auditors have not impaired their independence.

The BAC recommended to the Board that Messrs. PricewaterhouseCoopers be re-appointed as the external auditors for the ensuing financial year.

## INTERNAL AUDIT

The BAC is supported by the Group Internal Audit Division, which is headed by Mr. Aroshan Indujeeva (DBA – Reading, MBA, ACMA, CGMA, Dip M, ACIM, PMP). The Internal Audit team has a mix of expertise in the disciplines of Finance, Information Technology, Network Engineering, Digital Services and Sales and Marketing. The Division leverages global best practices and has an ongoing knowledge sharing and training program with the Axiata Group.

The Division's audit plans are reviewed and approved by the BAC and follow up actions are monitored. The performance of the Internal Audit Division is appraised by the BAC on an annual basis against the audit plan and pre-determined key performance indicators. The Group Chief Internal Auditor's periodic reports detailing control issues and recommendations are reviewed by the BAC and follow-up action on past and present recommendations is monitored.

During the year under review, the Group Internal Audit Division performed 20 audit assignments and highlighted key risk issues with recommendations for action. In addition, the Division co-ordinated and updated the follow-up action reviews on external audit issues.

## CONCLUSION

The BAC is satisfied that the Group's accounting policies, internal controls and risk management processes are adequate to provide reasonable assurance that the financial affairs of the Group are managed in accordance with Group policies and accepted accounting standards.

On behalf of the Board Audit Committee.



**Mohamed Muhsin, FCA**  
*Chairman, Board Audit Committee*

31 March 2018

# Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee (the Committee) was established on 1 January 2016 in terms of the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC). The Committee is a formally constituted sub-committee of the Board of Directors (Board) and reports to the Board.

## COMPOSITION

The Committee comprises of three Non-Executive Directors, of whom a majority are Independent Directors. The composition meets the requirements stipulated in the Listing Rules of the CSE. The Group Company Secretary functions as the Secretary to the Committee.

Mr. Moksevi Prelis who was a member of the Committee retired from the Board on 9 May 2017 and therefore relinquished his membership on the Committee effective 9 May 2017. Mr. James Maclaurin was appointed to the Committee in place thereof effective 10 May 2017.

The members of the Committee as at 31 December 2017 were:

1. Mr. Mohamed Muhsin - Independent, Non-Executive Director (Chairman)
2. Mr. Thandalam Veeravalli Thirumala Chari - Non-Independent, Non-Executive Director
3. Mr. James Maclaurin - Independent, Non-Executive Director

## FUNCTION OF THE COMMITTEE

The primary function of the Committee is to review Related Party Transactions (RPTs) as prescribed in Section 9 of the Listing Rules of the CSE, in order to ensure that transactions with related parties are on normal commercial terms, similar to those afforded to non-related parties.

The Terms of Reference of the Committee was formulated and approved by the Board in 2016.

## MEETINGS

The Committee had four meetings during the year 2017. The meeting attendance of the members is set out in the table below:-

Name of Member	Date of Appointment / Resignation during the year	Attendance
Mr. Mohamed Muhsin – Chairman	-	4/4
Mr. Moksevi Prelis	Retired with effect from 9 May 2017	2/2
Mr. Thandalam Veeravalli Thirumala Chari	-	4/4
Mr. James Maclaurin	Appointed with effect from 10 May 2017	2/2

## POLICIES & PROCEDURES

Declarations are obtained from each Director / Key Management Personnel of the Company for the purpose of identifying parties related to them. Based on the information furnished in these declarations, the related party transactions are identified from information maintained with the Company.

All forecasted recurrent RPTs are submitted by Management on a quarterly basis to the Committee for consideration and review. Non-recurrent RPTs are also reviewed and approved by the Committee prior to the transaction being entered into or if the transaction is expressed to be conditional on such review, prior to the completion of the transaction and the recommendation communicated to the Board for consideration.

The Committee is satisfied that all RPTs have been reviewed by the Committee during the year 2017 and have communicated their observations to the Board.

On behalf of the Related Party Transactions Review Committee.



**Mohamed Muhsin, FCA**  
Chairman, Related Party Transactions Review Committee

31 March 2018

# DIAL Share Information

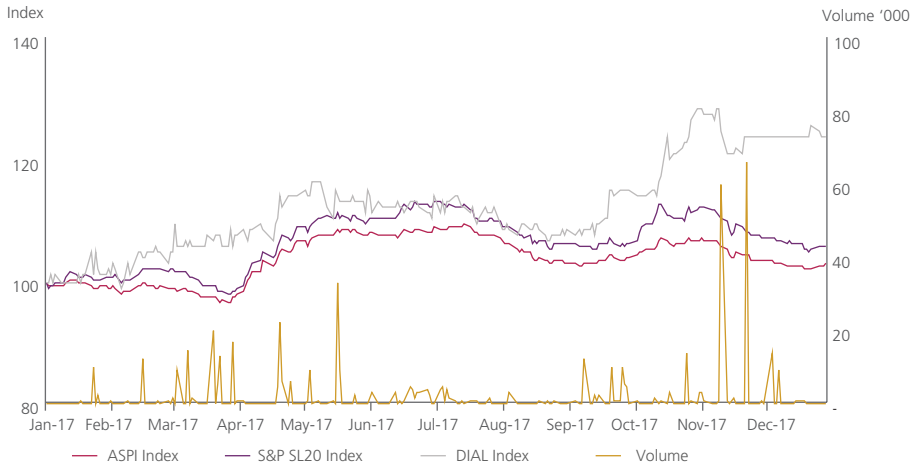


Figure 1: Share Volumes & Relative Performance Vs. Market

## THE DIAL SHARE

The Colombo Stock Exchange (CSE) recorded a growth in 2017 ending a two-year continuous decline in indices. The ASPI and S&P SL 20 gained 2.3% and 5.0% respectively. The growth in indices was predominantly driven by increased foreign participation.

The first half of the year benefited from multiple tailwinds. The market was perceived as trading at cheap valuations which drew in foreign interest resulting in net foreign inflows exceeding Rs. 17.6Bn during the year. Pakistan being upgraded to 'MSCI Emerging Market Index' led to passive funds reallocating its positions in Pakistani stocks across the remaining frontier market countries including Sri Lanka which also assisted foreign inflows.

However, second half of the year witnessed a slowdown in the market driven by factors that in combination dampened overall earnings expectations. Unfavourable weather conditions impacted GDP growth whilst increased focus on fiscal consolidation by the government led to tax increases and rationalisation of

government expenditure. The resulting high inflation, constrained consumer consumption and decline in aggregate demand led to pressure on CSE indices.

The DIAL share outperformed the market during 2017 and traded between a high of Rs. 13.60 and a low of Rs. 10.40 to close the year at Rs. 13.00. The share gained 23.8% on the back of improved financial performance making it one of the best performing stocks and to be among the top ten companies in terms of total market turnover in 2017.

## MARKET CAPITALISATION

The total market capitalisation of the Company increased by 23.8% to Rs. 105.9Bn during the year compared to Rs. 85.5Bn in 2016. Consequently, DIAL's contribution to overall market capitalisation on CSE improved 0.6 percentage points to record 3.7% by end 2017. DIAL further consolidated its position as a premier stock on the CSE as it improved to number 4 position on the list of companies with highest market capitalisation.

	2017	Q4	Q3	Q2	Q1	2016
<b>Share Information</b>						
Highest Price (Rs.)	13.6	13.6	12.2	12.3	11.6	11.8
Lowest Price (Rs.)	10.4	12.0	11.1	11.1	10.4	9.7
Closing Price (Rs.)	13.0	13.0	12.1	12.0	11.3	10.5
<b>Trading Statistics of DIAL</b>						
Number of Transactions	5,717	1,634	1,112	1,642	1,329	6,331
Number of Shares Traded (Mn)	482	180	69	124	110	414
Total Shares Traded (%)	5.7	11.1	2.9	4.6	6.2	5.8
Public Float (%) (Note1)	35.5	13.2	5.1	9.1	8.1	30.5
<b>Turnover</b>						
Turnover (Rs. Mn)	5,899	2,372	819	1,476	1,233	4,491
Avg. Daily Turnover (Rs. Mn)	24.5	39.5	13.2	25.9	19.9	18.7
Total Market Turnover (%)	2.7	4.4	1.5	2.2	2.7	2.5
<b>Market Capitalisation</b>						
Market Capitalisation (Rs. Mn)	105,869	105,869	98,540	97,725	92,025	85,510
Total Market Capitalisation (%)	3.7	3.7	3.4	3.2	3.5	3.1

Table 1: Market Information on DIAL Share

Note 1: The total number of shares traded as a percentage of the public float

## DIVIDENDS

Dialog has maintained a progressive dividend over the years, after taking into consideration the Group performance and forward investment requirements to maintain leadership position in the market.

The Board of Directors has resolved to propose for consideration by the Shareholders of the Company, a cash dividend to ordinary shareholders amounting to Forty Six cents (Rs. 0.46) per share for FY 2017. The said dividend, if approved by shareholders, would translate to a payout of 35% of consolidated Group Net Profit After Tax for FY 2017. The total dividend proposed in FY 2017 is Rs. 3.7Bn compared to Rs. 3.2Bn declared and paid out for the FY 2016, representing an increase of 18%.

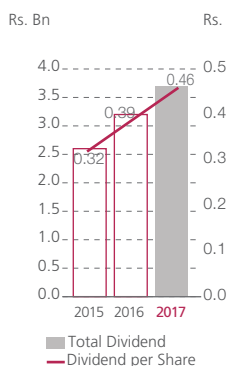


Figure 2: Distribution to Shareholders and Dividend per Share

# DIAL Share Information

## TOTAL SHAREHOLDER RETURN

The Total Shareholder Return (TSR) for the share was 27.5% in 2017 due to the share price appreciation of 23.8% and Dividend per Share of 0.39 cents paid during the year. The TSR for the DIAL share outperformed the Market TSR (based on ASPI) and TSR based on S&P SL20 which recorded growth of 2.7% and 8.6% respectively in 2017.

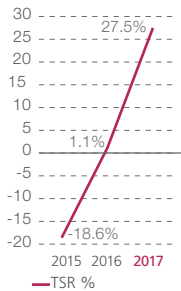


Figure 3: Total Shareholder Return (%)

## EARNINGS PER SHARE

The basic Earnings per Share (EPS) for the year was Rs. 1.32 compared to the EPS of Rs. 1.11 recorded in FY 2016, an increase of 19.3% YoY. EPS is calculated by dividing the net profit attributable to shareholders by the number of ordinary shares in issue during the year.

## PRICE EARNINGS RATIO

DIAL share was trading at 9.8x earnings as at 31 December 2017 compared to 9.5x as at 31st December 2016 as the share price grew at a higher rate than EPS reflecting the growing interest of investors on the share. However, DIAL share was trading at a lower earnings multiple to the market, which was recorded at 10.6x as at 31 December 2017.

	2017	2016	2015
Market Cap (Rs. Bn)	105.9	85.5	87.1
Market Value Added Positive / (Negative) - (Rs. Bn)	20.3	(1.6)	(21.2)
Enterprise Value (Rs. Bn)	134.1	111.7	105.6
EV/EBITDA (x)	4.0	3.8	4.4
Basic EPS (Rs.)	1.3	1.1	0.6
PER (x)	9.8	9.5	16.8
Price to Book (x)	1.7	1.6	1.8
Dividend Yield (%)	3.5	3.7	3.0

Table 2: Trading Multiples

## RETURN ON EQUITY AND RETURN ON INVESTED CAPITAL

The Return on Equity (ROE) for the Group increased to 18.6% in 2017 from 17.8% in 2016. Return on Invested Capital (ROIC) for the Group remained stable at 15.4% in 2017.

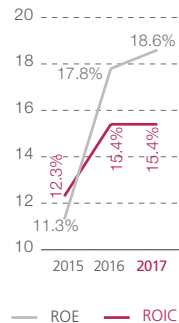


Figure 4: Return on Equity and Return on Invested Capital

## PRICE TO BOOK RATIO

The Price to Book ratio of the Group as at 31 December 2017 was 1.7 times, compared to 1.6 times last year.



## LIQUIDITY

The liquidity level of the share improved in terms of both turnover and volume during the year. Total turnover was recorded at Rs. 5.98n for FY 2017 representing an increase of 31.3% YoY with DIAL's turnover accounting for 2.7% of total market turnover, higher than 2.5% recorded in the previous year. The average daily turnover for the share was Rs. 24.5Mn during 2017 which represented a 30.8% increase from previous year. On volume basis, liquidity improved with 482.1 million shares being traded in FY 2017, up 16.5% YoY.

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 and shares held by Directors of the Company was 16.68%, remaining unchanged from previous year's close.

## COMPOSITION OF SHAREHOLDERS

The total number of Shareholders of DIAL decreased to 20,082 as at 31 December 2017 compared to the 20,793 during the previous year.

The public float of DIAL was at 16.68% as at 31 December 2017. In terms of composition of the

public float, foreign investors held 67% of the float, 29% was held by local institutional investors and 4% by local retail investors.

2017 witnessed an increase in foreign investor interest in DIAL, accordingly foreign investor composition increased to 67% in 2017 compared to 63% in the previous year.

## Composition of Shareholders

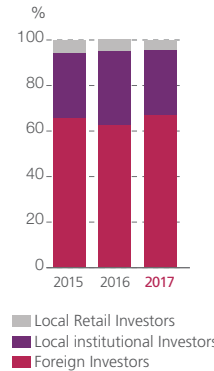


Figure 5: Trend in Composition of Shareholders

## DISTRIBUTION OF SHAREHOLDERS

	31 December 2017				31 December 2016			
	No. of Shareholders	%	No. of Shares Held	%	No. of Shareholders	%	No. of Shares Held	%
1 to 1,000	10,947	54.51	5,179,578	0.06	11,113	53.45	5,372,276	0.07
1,001 to 10,000	8,233	41.00	19,394,730	0.24	8,664	41.67	20,842,643	0.26
10,001 to 100,000	729	3.63	22,369,019	0.27	813	3.91	25,260,714	0.31
100,001 to 1,000,000	101	0.50	30,316,183	0.37	126	0.61	38,180,549	0.47
Over 1,000,000	72	0.36	8,066,518,895	99.05	77	0.37	8,054,122,223	98.90
<b>Total</b>	<b>20,082</b>	<b>100.00</b>	<b>8,143,778,405</b>	<b>100.00</b>	<b>20,793</b>	<b>100.00</b>	<b>8,143,778,405</b>	<b>100.00</b>

\* The issued Ordinary Shares of Dialog Axiata PLC are listed on the Colombo Stock Exchange.

\* Stock exchange ticker symbol for Dialog Axiata shares : DIAL

\* Newswire codes

Bloomberg : DIAL.SL

Dow Jones : DIAL.SL

Reuters : DIAL.CM

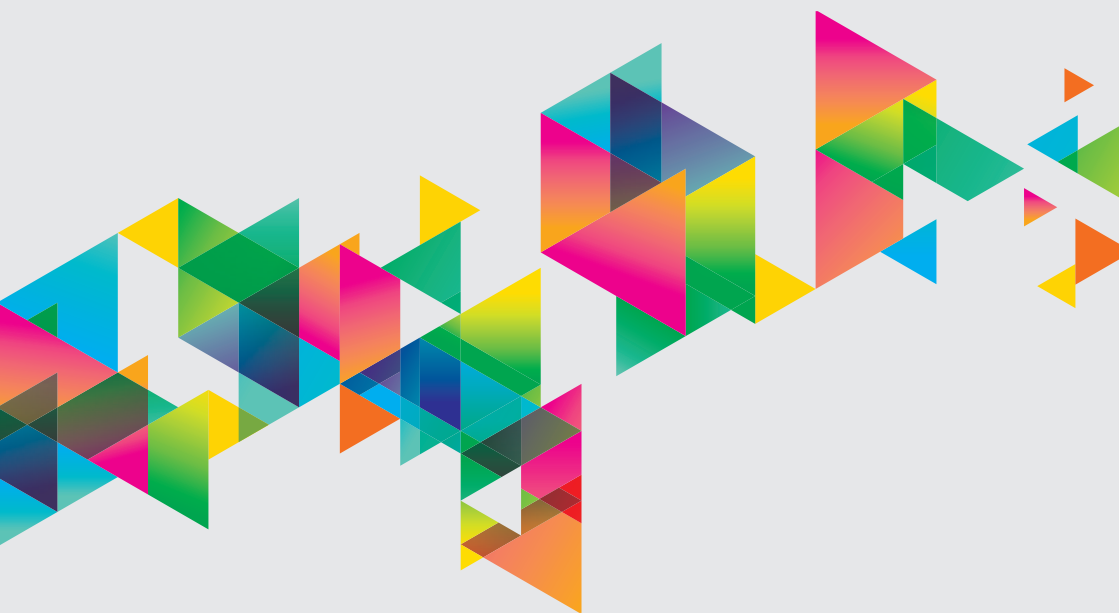
Table 3: Distribution of Shareholders

# DIAL Share Information

## TWENTY LARGEST SHAREHOLDERS OF THE COMPANY

No	Name of Shareholder	No. of Shares as at 31-Dec-2017	% of Holding	No. of Shares as at 31-Dec-2016	% of Holding
1	Axiata Investments (Labuan) Limited	6,785,252,765	83.3	6,785,252,765	83.3
2	Employees Provident Fund	180,787,158	2.2	180,787,158	2.2
3	Citibank New York S/A Norges Bank Account 2	132,214,879	1.6	101,608,012	1.2
4	BNYM RE - UT Saga Tree LLC	118,595,642	1.5	-	0.0
5	HSBC Intl Nom Ltd - JPMCB-Scottish ORL SML TR GTI 6018	83,426,021	1.0	69,063,921	0.8
6	Pershing LLC S/A Auerbach Grayson & Co	63,039,981	0.8	35	0.0
7	HSBC Intl Nom Ltd - MSIP - Saga Tree Asia Master Fund	60,862,436	0.7	39,471,988	0.5
8	BNYMSANV RE - CF Ruffer Investment Funds : CF Ruffer Pacific Fund	57,314,300	0.7	57,314,300	0.7
9	HSBC Intl Nom Ltd - MSIP - Vittoria Fund - ST, L.P.	54,512,186	0.7	35,257,160	0.4
10	HSBC Intl Nom Ltd - JPMLU - T Rowe Price Funds SICAV	43,947,914	0.5	-	0.0
11	Northern Trust Company S/A Hosking Global Fund PLC	43,931,249	0.5	20,489,569	0.3
12	CB NY S/A International Finance Corporation	40,253,205	0.5	64,086,800	0.8
13	HSBC Intl Nom Ltd - State Street Luxembourg C/O SSBT - Alliancebernstein Next 50 Emerging Markets (Master) Fund Sicav - Sif S.C.SP.	38,024,290	0.5	-	0.0
14	Rubber Investment Trust Limited A/C # 01	32,168,830	0.4	32,168,830	0.4
15	Mellon Bank N.A. - UPS Group Trust	18,880,000	0.2	18,880,000	0.2
16	The Ceylon Investment PLC A/C # 02	18,797,647	0.2	18,797,647	0.2
17	HSBC Intl Nom Ltd - BBH - Prusik Asian Smaller Companies Fund Public Limited Company	18,200,000	0.2	-	0.0
18	HSBC Intl Nom Ltd - SSBT - Parametric Emerging Markets Fund	17,294,868	0.2	18,848,970	0.2
19	The Ceylon Guardian Investment Trust PLC A/C # 02	16,470,454	0.2	16,470,454	0.2
20	HSBC Intl Nom Ltd - SSBT - Parametric Tax - Managed Emerging Markets Fund	15,786,381	0.2	15,786,381	0.2

Table 4: Twenty Largest Shareholders



## Financial Statements

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# Annual Report of the Board of Directors for the year ended 31 December 2017

The Board of Directors ('the Board') of Dialog Axiata PLC ('DAP' or 'the Company') is pleased to present herewith the Annual Report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as 'the Group') for the financial year ended 31 December 2017 as set out on pages 64 to 140.

This Annual Report of the Board on the affairs of the Company contains the information required in terms of the Companies Act, No. 07 of 2007 ('Companies Act') and the Listing Rules of the Colombo Stock Exchange (CSE) and is guided by recommended best practices.

## FORMATION

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

The Company was incorporated in Sri Lanka on 27 August 1993, under the Companies Act, No.17 of 1982, as a private limited liability company bearing the name MTN Networks (Private) Limited.

MTN Networks (Private) Limited changed its name to Dialog Telekom Limited on 26 May 2005 and was listed on the CSE on 28 July 2005. Pursuant to the requirements of the Companies Act, the Company was re-registered on 19 July 2007 and was accordingly renamed as Dialog Telekom PLC and bears registration number PQ38. Dialog Telekom PLC changed its name to Dialog Axiata PLC on 7 July 2010 in accordance with the provisions of the Section 8 of the Companies Act.

The Company and its subsidiaries have entered into a number of agreements with the Board of Investment of Sri Lanka ('BOI') and enjoy concessions under Section 17 of the BOI Act.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are to provide communication services (mobile, fixed, broadband, international gateway services), telecommunication infrastructure services (tower infrastructure and transmission services), media (digital television services based on multiple media - satellite, cable, terrestrial), digital services [including but not limited to digital commerce (mobile and eCommerce), electronic payments (including mobile payment), digital health, education, navigation, enterprise services and financial services] and business process outsourcing services.

## FINANCIAL STATEMENTS

The financial statements which include the statements of financial position, statements of comprehensive income, statements of changes in equity, statements of cash flows and notes to the financial statements of the Company and the Group for the year ended 31 December 2017 are set out on pages 64 to 140.

## INDEPENDENT AUDITOR'S REPORT

The independent Auditor's report is set out on page 63.

## ACCOUNTING POLICIES

The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards ('SLFRS'), Sri Lanka Accounting Standards ('LKAS'), relevant interpretations of the Standing Interpretations Committee ('SIC') and International Financial Reporting Interpretations Committee ('IFRIC'). The significant accounting policies adopted in the preparation of financial statements are given on pages 69 to 87.

## STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors are responsible for preparing and presenting the financial statements of the Company and the Group to reflect a true and fair view of the state of affairs. The Directors are of the view that these financial statements have been prepared in conformity

with the requirements of Sri Lanka Accounting Standards, the Companies Act and the Listing Rules of the CSE. The detailed statement of Directors' responsibility is included in page 62.

## REVIEW OF BUSINESS

The state of affairs of the Company and the Group as at 31 December 2017 is set out in the statements of financial position on page 64. An assessment of the financial performance of the Company and the Group is set out in the statements of comprehensive income on page 65.

## PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment during the year are set out in note 8 to the financial statements.

## MARKET VALUE OF PROPERTIES

The Directors are of the view that the carrying values of properties stated in note 8 to the financial statements reflect their fair value.

## RESERVES

The aggregate values of reserves and their composition are set out in the statements of changes in equity of the Company and the Group on pages 66 and 67 to the financial statements.

## SUBSTANTIAL SHAREHOLDINGS

The parent company, Axiata Investments (Labuan) Limited, held 83.32% of the ordinary shares in issue of the Company at 31 December 2017. The main shareholders of the Company and the corresponding holding percentages are set out below:

Name of Shareholder	2017		2016	
	No. of shares	% Holding	No. of shares	% Holding
1 Axiata Investments (Labuan) Limited	6,785,252,765	83.32%	6,785,252,765	83.32%
2 Employees' Provident Fund	180,787,158	2.22%	180,787,158	2.20%
3 CITI Bank New York S/A Norgens Bank Account 2	132,214,879	1.62%	101,608,012	1.20%
4 BNYM RE - UT Saga Tree LLC	118,595,642	1.46%	-	-
5 HSBC Intl Nom Ltd - JPMCB - Scottish ORL SML TR GTI 6018	83,426,021	1.02%	69,063,921	0.80%
6 Pershing LLC S/A Auerbach Grayson and Co.	63,039,981	0.77%	35	0.00%
7 HSBC Intl Nom Ltd - MSIP - Saga Tree Asia Master Fund	60,862,436	0.75%	39,471,988	0.50%
8 BNYMSANV RE - CF Ruffer Investment Funds: CF Ruffer Pacific Fund	57,314,300	0.70%	57,314,300	0.70%
9 HSBC Intl Nom Ltd - MSIP - Vittoria Fund - ST, L.P.	54,512,186	0.67%	35,257,160	0.40%
10 HSBC Intl Nom Ltd - JPMLU - T Rowe Price Funds SICAV	43,947,914	0.54%	-	-

The percentage of shares held by the public as at 31 December 2017 was 16.68%, in the hands of 20,078 public shareholders (2016 - 16.68% in the hands of 20,787 public shareholders).

The Company is in compliance with the Minimum Public Holding requirement as per the Listing Rules of the CSE and the directive of the SEC.

# Annual Report of the Board of Directors for the year ended 31 December 2017

## DIRECTORS

The Directors of the Company as at 31 December 2017 were;

Datuk Azzat Kamaludin (*Chairman*)

Mr. Supun Weerasinghe  
(*Group Chief Executive*)

Dr. Hansa Wijayasuriya

Mr. Mohamed Muhsin

Mr. James Maclaurin

Deshamanya Mahesh Amalean

Mr. Thandalam Veeravalli Thirumala Chari (*Chari TVT*)

Mr. Dominic Paul Arena

Mr. Willem Lucas Timmermans

Tan Sri Jamaludin Ibrahim

(*Alternate Director to Mr. Dominic Paul Arena*)

During the year under review, the following changes took place on the Board:

- ▶ Retirements from the Board:  
Mr. Moksevi Prelis retired with effect from 9 May 2017
- ▶ Appointments to the Board  
Mr. Supun Weerasinghe was appointed with effect from 1 January 2017  
Mr. Willem Lucas Timmermans was appointed with effect from 10 May 2017

Mr. Supun Weerasinghe who was appointed to the Board effective 1 January 2017 offered himself for re-election and was re-elected at the Annual General Meeting held on 9 May 2017.

As Mr. Willem Lucas Timmermans was appointed to the Board since the last Annual General Meeting which was held on 9 May 2017, he will submit himself for re-election at the forthcoming Annual General Meeting pursuant to Article 109 of the Articles of Association of the Company.

In accordance with the Articles of Association of the Company, Deshamanya Mahesh Amalean and Mr. Thandalam Veeravalli Thirumala Chari (Chari TVT) retire by rotation and are eligible for re-election at the forthcoming Annual General Meeting.

Mr. Mohamed Muhsin who attained the age of 74 years on 16 October 2017 and Datuk Azzat Kamaludin who attained the age of 72 years on 8 September 2017 retire pursuant to Section 210 of the Companies Act and resolutions that the age limit of 70 years referred to in Section 210 of the Companies Act shall not be applicable to Mr. Mohamed Muhsin and Datuk Azzat Kamaludin will be proposed at the forthcoming Annual General Meeting.

## INTERESTS REGISTER

The Company has maintained an interests register as required by the Companies Act. The names of the Directors who were directly or indirectly interested in a contract or a proposed transaction with the Company or the Group during the year were disclosed by the Directors and updated in the interests register.

## REMUNERATION AND OTHER BENEFITS OF DIRECTORS

The remuneration and other benefits of the Directors are given in note 27 to the financial statements.

## LONG TERM INCENTIVE PLAN

The terms of the Long-Term Incentive Plan which was established as an alternative employee share scheme with the approval of the shareholders in 2013, were amended by way of a Special Resolution passed by the Shareholders on 9 May 2017.

## DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

The details of direct and indirect shareholdings of Directors as at 31 December are as follows:

	As at December	
	2017	2016
Dr. Hansa Wijayasuriya	43,010	43,010
Mr. Mohamed Muhsin	18,040	18,040
Deshamanya Mahesh Amalean (*)	15,091,350	15,091,350

\* Shares were held by MAS Capital (Private) Limited in which Deshamanya Mahesh Amalean is a Director/ Shareholder.

None of the Directors other than those disclosed above directly or indirectly held any shares of the Company.

### **AMOUNTS PAYABLE TO THE FIRM HOLDING OFFICE AS INDEPENDENT AUDITOR**

The remuneration paid/payable by the Company and its subsidiaries to the independent Auditor is given in note 27 to the financial statements.

### **STATED CAPITAL**

The stated capital of the Company as at 31 December 2017 was Rs. 28,103,913,434 (2016 - Rs. 28,103,913,434) comprising 8,143,778,405 ordinary shares (2016 - 8,143,778,405 ordinary shares).

### **CORPORATE GOVERNANCE**

The Directors place great emphasis on instituting and maintaining internationally accepted corporate governance practices and principles with respect to the management and operations of the Company and the Group, in order to develop and nurture long-term relationships with key stakeholders. The Directors confirm that the Company is in compliance with Section 7.10 of the Listing Rules of the CSE on corporate governance.

### **RELATED PARTY TRANSACTIONS**

There were no other non-recurrent related party transactions entered into by the Company except those disclosed in note 37(g) in which the aggregate value exceeded the lower of 10% of the equity or 5% of the assets as per 31 December 2016 audited financial statements, which require additional disclosure in terms of Rule 9.3.2 of the Listing Rules of the CSE on related party transactions and the Code of Best Practices on related party transactions published in accordance with the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

There were no recurrent related party transactions carried out during the financial year ended 31 December 2017, the aggregate value of which exceeded 10% of the revenue.

Details of all related party transactions carried out during the year are disclosed in note 37 to the financial statements.

### **CERTIFICATION OF COMPLIANCE WITH TRANSFER PRICING REGULATIONS**

It is certified that the Company has complied with the Transfer Pricing Regulations issued under Section 104 of the Inland Revenue Act, No. 10 of 2006. The information pursuant to these Regulations is given under the certificate produced under Section 107(2)(a) of the said Inland Revenue Act. The Directors believe that the records of transactions entered into with associated undertakings during the period from 1 January 2017 to 31 December 2017 are at arm's length and not prejudicial to the interests of the Company. The transactions were entered into on the basis of a transfer pricing policy adopted by the Company.

All transactions have been submitted to the independent auditors for audit. No adverse remarks have been made in their report on the audit of such transactions.

### **STATUTORY PAYMENTS**

The Directors confirm that, to the best of their knowledge having made adequate inquiries from management, all taxes, duties, levies and statutory payments payable by the Company and its subsidiaries and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries as at the date of the statements of financial position have been duly paid, or where relevant provided for, except as disclosed in note 34 to the financial statements.

# Annual Report of the Board of Directors for the year ended 31 December 2017

## **RISK MANAGEMENT AND INTERNAL CONTROLS**

The Directors are responsible for the Company's and the Group'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 and to provide reasonable assurance against material misstatement or loss. The Directors further confirm that there is an on-going process to identify, evaluate and manage significant business risks.

## **ENVIRONMENTAL PROTECTION**

The Company and the Group make every endeavour to comply with the relevant environmental laws, regulations and best practices applicable in the country. After making adequate inquiries from management, the Directors are satisfied that the Company and its subsidiaries operate in a manner that minimises the detrimental effects on the environment and provide products and services that have a beneficial effect on the customers and the communities within which the Company and the Group operate.

## **DONATIONS**

The total donations made by the Company and its subsidiaries during the year amounted to Rs. 124,284,029 (2016 - Rs. 108,939,633).

## **GOING CONCERN**

The Directors are satisfied that the Company and the Group have adequate resources to continue its operations for the foreseeable future to justify adopting the going concern basis in preparing these financial statements.

## **FUTURE DEVELOPMENTS**

In line with its corporate vision to be a leader in multisensory connectivity as manifested in a quadruple play business and technology formulation, the Group will continue to be aggressive in establishing customer facing technology and service delivery infrastructures spanning mobile, fixed line, broadband, digital television and digital services sectors. The Company and the Group will continue to employ an up-to-date portfolio of access and core network technologies in keeping with a dynamic and regularly reviewed technology and service delivery roadmap architected in keeping with global best practices and technology evolution.

The Company will also continue to develop and consolidate its service delivery capability footprint across Sri Lanka in terms of the establishment of basic physical infrastructures such as domestic fibre optic transmission backbone, transmission towers and Internet Protocol (IP) transport networks capable of supporting the delivery of the multiple and converged connectivity services provided by the Group. The Company will also focus on simplification of internal processes and digitisation to further improve customer experience. Further the Group will expand its scope of operations in mainstream digital financial services.

## **INDEPENDENT AUDITOR**

Messrs PricewaterhouseCoopers Sri Lanka, Chartered Accountants, served as the independent Auditor during the year. The Directors are satisfied that, based on representations made by the independent Auditor to the Board, they did not have any relationship or interest with the Company and its subsidiaries that would impair their independence and objectivity.

Messrs PricewaterhouseCoopers Sri Lanka, Chartered Accountants, have expressed their willingness to continue as the independent Auditor of the Company and the Group and a resolution to reappoint Messrs PricewaterhouseCoopers as independent Auditor will be proposed at the forthcoming Annual General Meeting.

#### **EVENTS AFTER THE REPORTING PERIOD**

No other material events have occurred since the date of the statement of financial position which requires adjustments to or disclosures in the financial statements other than those disclosed in note 38 to the financial statements.

By Order of the Board



**Mr. Supun Weerasinghe**  
*Director*



**Dr. Hans Wijayasuriya**  
*Director*



**Ms. Viranthi Attygalle**  
*Group Company Secretary*

Colombo  
09 February 2018

# The Statement of Directors' Responsibility

The responsibility of the Directors in relation to the financial statements of the Company and the Group is set out in the following statement. The responsibility of the independent Auditor in relation to the financial statements prepared in accordance with the provisions of the Companies Act, No. 07 of 2007 ('the Companies Act'), is set out in the independent Auditor's Report on page 63.

The financial statements comprise:

- ▶ the statements of financial position, which presents a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of the financial year,
- ▶ the statements of comprehensive income, which presents a true and fair view of the profit or loss and/or other comprehensive income of the Company and its subsidiaries for the financial year.

In preparing these financial statements the Directors are required to ensure that:

- ▶ appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- ▶ all applicable accounting standards, as relevant, have been followed;
- ▶ reasonable and prudent judgments and estimates have been made; and
- ▶ information required by the Companies Act and the Listing Rules of the Colombo Stock Exchange has been disclosed.

The Directors are also required to ensure that the Company and its subsidiaries have adequate resources to continue their operations to justify applying the 'going concern' basis in preparing these financial statements. Further, the Directors have a responsibility to ensure that the Company and its subsidiaries maintain sufficient accounting records to disclose, with reasonable accuracy, the financial position of

the Company and of the Group, to ensure that the financial statements presented comply with the requirements of the Companies Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and its subsidiaries and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view of preventing and detecting fraud and other irregularities.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

## COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the date of the statements of financial position have been paid, or where relevant provided for, except as disclosed in note 34 to the financial statements covering contingent liabilities.

By Order of the Board



**Ms. Viranthi Attygalle**  
Group Company Secretary  
Colombo

9 February 2018

# Independent Auditor's Report



## TO THE SHAREHOLDERS OF DIALOG AXIATA PLC

### Report on the financial statements

- 1 We have audited the accompanying financial statements of Dialog Axiata PLC ("the Company"), the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31 December 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out in pages 64 to 140.

### Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

- 3 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In

making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

- 6 In our opinion, the financial statements of the Company and the consolidated financial statements of the Group give a true and fair view of the financial positions of the Company and the Group as at 31 December 2017, and of their financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

### Report on other Legal and Regulatory Requirements

- 7 These financial statements also comply with the requirements of Section 151 (2) and Section 153 (2) of the Companies Act, No. 07 of 2007.

**CHARTERED ACCOUNTANTS**  
COLOMBO

09 February 2018

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S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA, T.U. Jayasinghe ACA

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

# Statements of Financial Position

(all amounts in Sri Lanka Rupees thousands)

	Note	Group 31 December 2017	2016	Company 31 December 2017	2016
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	7	19,118,899	16,434,054	6,403,659	4,421,222
Property, plant and equipment	8	100,018,295	89,943,822	65,461,770	60,388,142
Deferred tax assets	23	3,572	-	-	-
Investment in subsidiaries	9	-	-	47,541,414	19,220,729
Investment in associates	10	106,211	72,230	27,742	27,742
Trade and other receivables	14	186,385	-	591,560	25,721,404
Other financial assets	12	287,269	40,000	466,655	310,000
		119,720,631	106,490,106	120,492,800	110,089,239
<b>Current assets</b>					
Inventories	13	863,252	676,916	107,303	295,384
Trade and other receivables	14	15,535,339	17,966,165	14,209,175	15,922,866
Other financial assets	12	775,059	-	-	-
Derivative financial instruments	21	14,311	-	14,311	-
Cash and cash equivalents	15	8,410,960	8,044,848	7,886,345	6,796,503
		25,598,921	26,687,929	22,217,134	23,014,753
<b>Total assets</b>		<b>145,319,552</b>	<b>133,178,035</b>	<b>142,709,934</b>	<b>133,103,992</b>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders</b>					
Stated capital	16	28,103,913	28,103,913	28,103,913	28,103,913
Reserves	17	33,583,241	25,902,547	46,178,818	38,652,221
Non-controlling interest	17	(6,158)	14,420	-	-
<b>Total equity</b>		<b>61,680,996</b>	<b>54,020,880</b>	<b>74,282,731</b>	<b>66,756,134</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	20	25,629,323	26,313,347	25,629,323	26,313,347
Other financial liabilities	19	297,205	-	-	-
Derivative financial instruments	21	-	14,535	-	14,535
Deferred revenue	22	1,394,415	1,657,561	1,133,841	1,327,709
Employee benefit payables	24	1,353,939	1,372,654	1,170,841	1,202,212
Provision for other liabilities	25	1,738,411	1,309,731	1,464,309	1,090,532
		30,413,293	30,667,828	29,398,314	29,948,335
<b>Current liabilities</b>					
Trade and other payables	18	41,098,872	39,743,581	28,873,036	28,460,743
Borrowings	20	10,966,157	7,872,230	9,319,590	7,066,838
Other financial liabilities	19	283,360	-	-	-
Derivative financial instruments	21	-	15,512	-	15,512
Current income tax liabilities		876,874	858,004	836,263	856,430
		53,225,263	48,489,327	39,028,889	36,399,523
<b>Total liabilities</b>		<b>83,638,556</b>	<b>79,157,155</b>	<b>68,427,203</b>	<b>66,347,858</b>
<b>Total equity and liabilities</b>		<b>145,319,552</b>	<b>133,178,035</b>	<b>142,709,934</b>	<b>133,103,992</b>
Net assets per share (Rs.)		7.57	6.63	9.12	8.20

The notes on pages 69 to 140 form an integral part of these financial statements.

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



**Ms. Lucy Tan**  
Group Chief Financial Officer  
9 February 2018

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

Approved and signed for and on behalf of the Board of Directors.



**Mr. Supun Weerasinghe**  
Director  
9 February 2018



**Dr. Hans Wijayasuriya**  
Director  
9 February 2018

# Statements of Comprehensive Income

(all amounts in Sri Lanka Rupees thousands)

	Note	Group		Company	
		Year ended 31 December		Year ended 31 December	
		2017	2016	2017	2016
Revenue	26	94,195,890	86,745,233	77,595,632	72,951,077
Direct costs	27	(49,242,786)	(45,977,932)	(40,555,282)	(37,282,297)
Gross profit		44,953,104	40,767,301	37,040,350	35,668,780
Distribution costs	27	(14,136,950)	(13,533,901)	(11,405,762)	(11,408,326)
Administrative costs	27	(16,059,113)	(14,390,290)	(11,823,908)	(10,730,158)
Other income	29	45,236	72,096	81,862	77,504
Operating profit		14,802,277	12,915,206	13,892,542	13,607,800
Finance income	30	244,612	367,008	286,046	386,958
Finance costs	30	(2,599,217)	(2,730,348)	(2,047,442)	(2,092,758)
Finance costs - net	30	(2,354,605)	(2,363,340)	(1,761,396)	(1,705,800)
Share of loss of associates - net of tax	10	(13,426)	(8,119)	-	-
Profit before income tax		12,434,246	10,543,747	12,131,146	11,902,000
Income tax expense	31	(1,674,491)	(1,517,352)	(1,629,875)	(1,574,061)
<b>Profit for the year</b>		<b>10,759,755</b>	<b>9,026,395</b>	<b>10,501,271</b>	<b>10,327,939</b>
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to profit or loss:</b>					
- remeasurement gains on defined benefit obligations		181,047	262,138	147,406	201,779
<b>Items that may be subsequently reclassified to profit or loss:</b>					
- net change in cash flow hedge		37,653	(8,599)	37,653	(8,599)
<b>Other comprehensive income for the year</b>		<b>218,700</b>	<b>253,539</b>	<b>185,059</b>	<b>193,180</b>
<b>Total comprehensive income for the year</b>		<b>10,978,455</b>	<b>9,279,934</b>	<b>10,686,330</b>	<b>10,521,119</b>
Profit/(loss) for the year is attributable to:					
- owners of the Company		10,785,424	9,041,278	10,501,271	10,327,939
- non-controlling interest		(25,669)	(14,883)	-	-
Total comprehensive income for the year is attributable to:					
- owners of the Company		11,004,124	9,294,817	10,686,330	10,521,119
- non-controlling interest		(25,669)	(14,883)	-	-
Basic earnings per share for profit attributable to the ordinary equity holders of the Company (Rs.)	32(a)	1.32	1.11	1.29	1.27

The notes on pages 69 to 140 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

	Attributable to owners of the Company			Total
	Stated capital	Reserves	Non- controlling interest	
Balance at 1 January 2017	28,103,913	25,902,547	14,420	54,020,880
Profit/(loss) for the year	-	10,785,424	(25,669)	10,759,755
Other comprehensive income	-	218,700	-	218,700
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>11,004,124</b>	<b>(25,669)</b>	<b>10,978,455</b>
Non-controlling interest on acquisition of subsidiary	-	-	88,761	88,761
Transactions with non-controlling interest	-	(163,697)	(83,670)	(247,367)
Employee share schemes - value of employee services	-	16,341	-	16,341
Dividends to equity shareholders	-	(3,176,074)	-	(3,176,074)
<b>Balance at 31 December 2017</b>	<b>28,103,913</b>	<b>33,583,241</b>	<b>(6,158)</b>	<b>61,680,996</b>
Balance at 1 January 2016	28,103,913	19,213,739	(697)	47,316,955
Profit/(loss) for the year	-	9,041,278	(14,883)	9,026,395
Other comprehensive income	-	253,539	-	253,539
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>9,294,817</b>	<b>(14,883)</b>	<b>9,279,934</b>
Dividends to equity shareholders	-	(2,606,009)	-	(2,606,009)
Issuance of new ordinary shares	-	-	30,000	30,000
<b>Balance at 31 December 2016</b>	<b>28,103,913</b>	<b>25,902,547</b>	<b>14,420</b>	<b>54,020,880</b>

The notes on pages 69 to 140 form an integral part of these financial statements.

# Company Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

	Attributable to owners of the Company		
	Stated capital	Reserves	Total
Balance at 1 January 2017	28,103,913	38,652,221	66,756,134
Profit for the year	-	10,501,271	10,501,271
Other comprehensive income	-	185,059	185,059
<b>Total comprehensive income for the year</b>	-	<b>10,686,330</b>	<b>10,686,330</b>
Employee share schemes - value of employee services	-	16,341	16,341
Dividends to equity shareholders	-	(3,176,074)	(3,176,074)
<b>Balance at 31 December 2017</b>	<b>28,103,913</b>	<b>46,178,818</b>	<b>74,282,731</b>
Balance at 1 January 2016	28,103,913	30,737,111	58,841,024
Profit for the year	-	10,327,939	10,327,939
Other comprehensive income	-	193,180	193,180
<b>Total comprehensive income for the year</b>	-	<b>10,521,119</b>	<b>10,521,119</b>
Dividends to equity shareholders	-	(2,606,009)	(2,606,009)
<b>Balance at 31 December 2016</b>	<b>28,103,913</b>	<b>38,652,221</b>	<b>66,756,134</b>

The notes on pages 69 to 140 form an integral part of these financial statements.

# Statements of Cash Flows

(all amounts in Sri Lanka Rupees thousands)

	Note	Group		Company	
		31 December		31 December	
		2017	2016	2017	2016
<b>Cash flows from operating activities</b>					
Cash generated from operations	33(a)	38,331,388	25,878,823	30,635,762	22,239,395
Interest received		254,019	380,536	244,641	372,146
Interest paid		(1,740,295)	(1,688,014)	(1,440,974)	(1,283,396)
Taxes paid		(1,635,272)	(1,498,605)	(1,575,933)	(1,466,580)
Employee benefits paid	24	(56,069)	(67,325)	(49,308)	(53,705)
<b>Net cash generated from operating activities</b>		<b>35,153,771</b>	<b>23,005,415</b>	<b>27,814,188</b>	<b>19,807,860</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(26,515,221)	(27,512,729)	(17,642,350)	(16,357,937)
Purchase of intangible assets		(3,844,823)	(811,007)	(3,545,927)	(780,636)
Acquisition of subsidiary, net of cash acquired	36(i)	(997,938)	-	(1,072,651)	-
Increase in interest in subsidiaries	17(c)	-	-	(247,367)	-
Advances to subsidiaries	37(b)	-	-	(1,006,000)	(7,739,700)
Loans to subsidiary	37(b)	-	-	(60,000)	(115,000)
Purchase of other financial assets		(26,273)	-	-	-
Proceeds from sales of available-for-sale financial assets		1,042	-	-	-
Proceeds from sale of property, plant and equipment		30,335	213,586	25,599	209,065
<b>Net cash used in investing activities</b>		<b>(31,352,878)</b>	<b>(28,110,150)</b>	<b>(23,548,696)</b>	<b>(24,784,208)</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings	33(b)	(7,107,399)	(8,686,031)	(6,164,055)	(8,279,075)
Proceeds from borrowings	33(b)	7,095,635	17,370,771	6,164,055	16,830,271
Dividends paid to ordinary shareholders		(3,176,074)	(2,606,009)	(3,176,074)	(2,606,009)
Transactions with non-controlling interests	17(c)	(247,367)	-	-	-
Proceeds from share issue - non-controlling interests		-	30,000	-	-
<b>Net cash (used in) / generated from financing activities</b>		<b>(3,435,205)</b>	<b>6,108,731</b>	<b>(3,176,074)</b>	<b>5,945,187</b>
<b>Net increase in cash and cash equivalents</b>		<b>365,688</b>	<b>1,003,996</b>	<b>1,089,418</b>	<b>968,839</b>
<b>Movement in cash and cash equivalents</b>					
At the beginning of year		8,044,848	6,992,782	6,796,503	5,779,594
Increase		365,688	1,003,996	1,089,418	968,839
Effect of exchange rate changes		424	48,070	424	48,070
<b>At end of year</b>	<b>15</b>	<b>8,410,960</b>	<b>8,044,848</b>	<b>7,886,345</b>	<b>6,796,503</b>

The notes on pages 69 to 140 form an integral part of these financial statements.

# Notes to the Financial Statements

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

## 1 CORPORATE INFORMATION

Dialog Axiata PLC ('the Company') and its subsidiaries (together 'the Group') provide communication services (mobile, fixed, broadband, international gateway services), telecommunication infrastructure services (tower infrastructure and transmission services), media (digital television services based on multiple media - satellite, cable, terrestrial), digital services [including but not limited to digital commerce (mobile and eCommerce), electronic payments (including mobile payment), digital health, education, navigation and enterprise services and financial services] and business process outsourcing services.

Dialog Axiata PLC is a public limited liability company incorporated and domiciled in Sri Lanka and is listed on Colombo Stock Exchange since 28 July 2005. The registered office of the Company is located at 475, Union Place, Colombo 2.

The Company's and the Group's financial statements are authorised for issue by the Board of Directors on 9 February 2018.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

### 2.1 Basis of preparation

The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards ('SLFRS'), Sri Lanka Accounting Standards ('LKAS'), relevant interpretations of the Standing Interpretations Committee ('SIC') and International Financial Reporting Interpretations Committee ('IFRIC'). These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are measured at fair value. The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's and the Group's accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's and the Group's financial statements are disclosed in note 5 to the financial statements.

### (a) New accounting standards, amendments and interpretations adopted in 2017

The following amendments to the Sri Lanka Accounting Standards that are relevant for the preparation of the Group's financial statements have been adopted by the Group for the first time with effect from financial year beginning on 1 January 2017.

- (i) Amendments to LKAS 7, 'Statement of Cash Flows - Disclosure Initiative', introduce an additional disclosure on changes in liabilities arising from financing activities.
- (ii) Amendments made to LKAS 12, 'Income Taxes', clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base.

### (b) New accounting standards, amendments and interpretations issued but not yet adopted.

- (i) Amendments to LKAS 28, 'Investments in Associates and Joint Ventures', clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. The amendments are effective for accounting periods beginning on or after 1 January 2018.

Amendments to LKAS 28, 'Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures', clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using SLFRS 9. The amendment is effective for the annual periods beginning on or after 1 January 2019.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.1 Basis of preparation (Contd.)

#### (b) New accounting standards, amendments and interpretations issued but not yet adopted (Contd.)

(ii) Amendments to LKAS 40, 'Investment Property', clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The amendments are effective for accounting periods beginning on or after 1 January 2018.

(iii) SLFRS 1, 'First-time Adoption of Sri Lanka Accounting Standards', deleted short-term exemptions covering transition provisions of SLFRS 7, LKAS 19 and SLFRS 10 which are no longer relevant. The amendments are effective for accounting periods beginning on or after 1 January 2018.

(iv) Amendments to SLFRS 2, 'Share Based Payments', clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in SLFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.

Entities with the following arrangements are likely to be affected by these changes:

- ▶ equity-settled awards that include net settlement features relating to tax obligations
- ▶ cash-settled share-based payments that include performance conditions, and
- ▶ cash-settled arrangements that are modified to equity-settled share-based payments.

The amendments to the standard are effective for accounting periods beginning on or after 1 January 2018. Earlier application is permitted.

- (v) SLFRS 9, 'Financial Instruments', replaces the multiple classification and measurement models in LKAS 39, 'Financial Instruments: Recognition and Measurement'. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

The adoption of SLFRS 9 will have an immaterial or no impact on the classification and measurement of the Group's and the Company's financial assets, financial liabilities and hedge accounting except the below.

- ▶ The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under LKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under SLFRS 15 Revenue from Contracts with Customers together with loan commitments and certain financial guarantee contracts.
- ▶ The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is continuing to analyse the impact of these changes and expects to be in a position to estimate the impact of SLFRS 9 early in the first quarter of the year commencing 1 January 2018.

- (vi) Amendments to SLFRS 9, 'Financial Instruments - Prepayment Features with Negative Compensation', confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2019.

- (vii) SLFRS 15, 'Revenue from Contracts with Customers', replace LKAS 18 which covers contracts for goods and services and LKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised.

Amendments to SLFRS 15, 'Revenue from contracts with customers' comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation permitted).

The standard and the amendment is effective for the annual periods beginning on or after 1 January 2018.

The following areas are the significant areas impacting as a consequence of adopting this standard:

- ▶ Revenue from bundled contracts: Some revenue will be recognised earlier, as a larger portion of the total consideration received in a bundled contract will be attributable to the component delivered at contract inception (i.e. typically a subsidised handset). Therefore, this will produce a shift from service revenue to the benefit of handset revenue.
- ▶ Revenue from goods and services which are not distinct: Some revenue will be recognised over the average customer retention period as certain goods and services provided by the Company and the Group are not distinct and are interrelated to obtaining future services.
- ▶ Accounting for contract cost: The costs that are directly related to the acquisition and fulfilment of customer contracts are eligible for capitalisation under SLFRS 15 as contract assets and amortized over the average customer retention period or the contract term, depending on the circumstances.

- ▶ Presentation of contract assets and contract liabilities in the balance sheet: SLFRS 15 requires separate presentation of contract assets and contract liabilities in the statement of financial position.

The Company and the Group has elected to apply the modified retrospective approach for the initial adoption of SLFRS 15. Changes highlighted above will have a material impact on the consolidated income statement and consolidated statement of financial position after the Group adopts SLFRS 15 on 1 January 2018. The Group is continuing to analyse the impact of these changes and expects to be in a position to estimate the impact of SLFRS 15 early in the first quarter of the year commencing 1 January 2018.

- (viii) SLFRS 16, 'Leases', will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.1 Basis of preparation (Contd.)

#### (b) New accounting standards, amendments and interpretations issued but not yet adopted (Contd.)

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted if SLFRS 15, 'Revenue from Contracts with Customers', is also applied. The impact of SLFRS 16, 'Leases' are still being assessed.

- (ix) IFRIC 22, 'Foreign Currency Transactions and Advance Consideration', clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

The interpretation is effective for accounting periods beginning on or after 1 January 2018.

- (x) IFRIC 23, 'Uncertainty over income tax treatments', clarifies how the recognition and measurement requirements of LKAS 12, 'Income taxes', are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The amendment is effective for the annual periods beginning on or after 1 January 2019.

Apart from SLFRS 9, SLFRS 15 and SLFRS 16, the adoptions of amendments to published standards are not expected to have a material impact to the financial statements of the Company and the Group.

There are no other standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact to the Company and the Group.

### 2.2 Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combination by the Group. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent

consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any Non-Controlling Interest ('NCI') in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the NCI's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

When initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in the financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group also recognises additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gain or loss arising from such remeasurement is recognised in the profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised in accordance with LKAS 39, in the profit or loss. Contingent consideration

that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred by the Group, the amount of any NCI in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, NCI recognised and previously held interest measured are less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

A listing of the Group's principal subsidiaries is set out in note 9 to the financial statements.

#### **(b) Changes in ownership interest in subsidiaries without change of control**

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in equity.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.2 Consolidation (Contd.)

#### (c) Disposal of subsidiaries

When the Group ceases to consolidate for an investment because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

#### (d) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides

evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group. When the Group ceases to equity account for an investment because of loss of significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a financial asset.

If the ownership interest in an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.7.

### 2.3 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 Lanka Rupees, which is the Company's and the Group's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within 'Finance costs - net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

## 2.4 Property, plant and equipment (PPE)

### (a) Measurement

PPE are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Cost of telecom equipment comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials, and direct labour and related directly attributable overheads. Cost of fixed line CDMA network includes customers' premises equipment including handsets. The cost of other PPE comprises expenditure directly attributable to the acquisition of the item. These costs include the costs of dismantling, removal and restoration, and the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period.

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 any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Borrowing costs directly incurred to finance the construction of PPE that takes more than twelve (12) months are capitalised as part of the cost of the assets during the period of time that is required to complete and prepare the qualified asset for its intended use.

Depreciation of asset begins when it is available for use. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to residual values over the estimated useful lives, as follows:

	<b>% per annum</b>
Buildings	2.5 to 4
Building - electrical installation	12.5
Building - leasehold property	Over lease period
Computer equipment	20 to 25
Telecom equipment	5 to 20
Customers' premises equipment	33 to 100
Office equipment	8 to 20
Office equipment - test phones	50
Furniture and fittings	12.5 to 20
Toolkits	10
Motor vehicles	20 to 25

Depreciation on assets under construction or capital work-in-progress commence when the assets are ready for their intended use.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the profit or loss.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.4 Property, plant and equipment (PPE) (Contd.)

#### (b) Asset exchange transaction

PPE may be acquired in exchange for a non-monetary asset or for a combination of monetary and non-monetary assets and is measured at fair value unless;

- ▶ the exchange transaction lacks commercial substance; or
- ▶ the fair value of neither the assets received nor the assets given up can be measured reliably.

The acquired item is measured in this way even if the Company and the Group cannot immediately derecognise the assets given up. If the acquired item cannot be reliably measured at fair value, its cost is measured at the carrying amount of the asset given up.

#### (c) Repairs and maintenance

Repairs and maintenance are charged to the profit or loss during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company and the Group. This cost is depreciated over the remaining useful life of the related asset.

### 2.5 Intangible assets

#### (a) Goodwill

Goodwill arises from a business combination and represents the excess of the aggregate of fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed on the acquisition date. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses. 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. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments. Goodwill is monitored at the operating segment level. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### (b) Licenses

Separately acquired licenses are shown at historical cost. Licenses acquired in a business combination are recognised at fair value at the acquisition date. Licenses have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives which is between five (5) to ten (10) years.

#### (c) Computer software

Acquired computer software licenses 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 two (2) years.

Costs associated with 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 are recognised as intangible assets when the following criteria are met:

- (i) it is technically feasible to complete the software product so that it will be available for use;
- (ii) management intends to complete the software product and use or sell it;

- (iii) there is an ability to use or sell the software product;
- (iv) it can be demonstrated how the software product will generate probable future economic benefits;
- (v) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- (vi) the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Costs recognised as intangible assets are amortised over their estimated useful lives, which do not exceed two (2) years. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

**(d) Other intangibles**

**(i) Subscriber acquisition costs**

Subscriber acquisition costs incurred in providing the customer free or subsidised devices, provided the customer signs a non-cancellable contract for a predetermined contractual period, are amortised over the contractual period on a straight-line method. Subscriber acquisition costs are assessed at each reporting date whether there is any indication that the subscriber acquisition cost may be impaired.

**(ii) Indefeasible right of use of assets**

Costs incurred to acquire the indefeasible right of use of SEA-ME-WE under-sea cable, is recognised at cost and amortised over its useful life of two (2) to fifteen (15) years.

**2.6 Investments in subsidiaries and associates**

In the Company's separate financial statements, investments in subsidiaries and associates are stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. On disposal of an investment, the difference between the disposal proceeds and its carrying amount is recognised in the profit or loss. Disposal related costs are expensed as incurred.

**2.7 Impairment of non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's Fair Value Less Costs to Sell ('FVLCs') and Value In Use ('VIU'). For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.8 Financial assets**

**(a) Classification**

The Company and the Group classify its financial assets in the following categories: at 'Fair Value Through Profit or Loss' ('FVTPL'), Loans and Receivables, 'Available-For-Sale' ('AFS') and 'Held-To-Maturity' ('HTM'). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and, in the case of assets classified as HTM, re-evaluates this designation at the end of each reporting period.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.8 Financial assets (Contd.)

#### (i) *Financial assets at FVTPL*

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term.

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve (12) months; otherwise, they are classified as non-current assets.

#### (ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve (12) months after the end of the reporting period. These are classified as non-current assets.

#### (iii) *HTM financial assets*

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's and the Group's management have the positive intention and ability to hold to maturity. If the Company and the Group were to sell other than an insignificant amount of HTM financial assets, the whole category would be tainted and reclassified as AFS. HTM financial assets are included in non-current assets, except for those with maturities less than twelve (12) months from the end of the reporting period, which are classified as current assets.

#### (iv) *AFS financial assets*

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve (12) months from the end of the reporting period.

#### (b) *Reclassification*

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### (c) *Recognition and initial measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Company and the Group commit to purchase or sell the asset.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

#### (d) *Subsequent measurement - gains and losses*

AFS financial assets and financial assets at FVTPL are subsequently carried at fair value. Loans and receivables and HTM financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at FVTPL, including the effects of currency translation are recognised in the profit or loss in the period in which the changes arise.

Changes in the fair value of AFS financial assets are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in the profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

**(e) Subsequent measurement - impairment of financial assets**

**(i) Assets carried at amortised cost**

The Company and the Group assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'Loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of

the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company and the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

When an asset is uncollectible, it is written off against the related accumulated impairment losses account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

**(ii) Assets classified as AFS**

If there is objective evidence of impairment for AFS financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as AFS increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.8 Financial assets (Contd.)

#### (f) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company and the Group have transferred substantially all risks and rewards of ownership.

When AFS financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

#### (g) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

#### (h) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company and Group designates certain derivatives as either:

- (i) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (ii) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (iii) Hedges of a net investment in a foreign operation (net investment hedge).

The Company and the Group document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions.

The Company and the Group also document the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve (12) months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve (12) months. Trading derivatives are classified as a current asset or liability. The fair values of various derivative instruments used for hedging purposes are disclosed in note 21. Movements on the hedging reserve in other comprehensive income are shown in note 17.

#### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the profit or loss over the period to maturity using a recalculated effective interest rate.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the 'Other comprehensive income' and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within 'Other income'.

Amounts accumulated in equity are reclassified to the profit or loss in the periods when the hedged item affects the profit or loss. The gain or loss relating to the effective portion of interest

rate swaps hedging variable rate borrowings is recognised in the profit or loss within 'Finance costs - net'.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss within 'Other income'.

**(iii) Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in 'Other comprehensive income' and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within 'Other income'. Gains and losses accumulated in equity are included in the profit or loss when the foreign operation is partially disposed of or sold.

## 2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises all expenses incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. In arriving at the net realisable value, due allowance is made for all obsolete and slow-moving items.

## 2.10 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one (1) year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current asset.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less accumulated impairment losses.

## 2.11 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three (3) months or less. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

## 2.12 Stated capital

### (a) Classification

Ordinary shares with discretionary dividends are classified as equity. Other shares are classified as equity or liability according to the economic substance of the particular instrument. Distribution to holders of a financial instrument classified as an equity instrument is charged directly to equity.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### (b) Share issue expenses

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

### (c) Dividends to shareholders of the Company

Dividends distribution is recognised as a liability in the Company's and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one (1) year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.14 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Company and the Group have an unconditional right to defer settlement of the liability for at least twelve (12) months after the end of the reporting period.

### 2.15 Borrowing cost

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the profit or loss under finance cost in the period in which they are incurred.

### 2.16 Current and deferred income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised 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 liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from the 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 end of the reporting period 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 is provided on temporary differences arising on investments in subsidiaries and associates, 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.

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 assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.17 Employee benefits

### (a) Defined benefit plan-gratuity

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The defined benefit plan comprises the gratuity provided under the payment of Gratuity Act, No.12 of 1983.

The liability recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligations at the end of the reporting period. The defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using the yield rate of long term government bonds that have terms to maturity approximating to the terms of the related defined benefit obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligations and included in employee benefit expense in the profit or loss.

The current service cost of the defined benefit plan reflects the increase in the defined benefit obligations resulting from employee service in the current year. It is recognised in the profit or loss in employee benefit expense, except where included in the cost of an asset.

Past service costs are recognised immediately in the profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise and will not be reclassified to the profit or loss. They are included in retained earnings in the statement of changes in equity and in the statement of financial position.

The assumptions based on which the results of the actuarial valuation were determined, are included in note 24 to the financial statements.

### (b) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company and the Group contribute 12% or 15% and 3% respectively, of basic or consolidated wage or salary of each eligible employee. The contributions are recognised as employee benefit expense when they are due. The Company and the Group have no further payment obligation once the contributions have been paid. The Company and the employees are members of these defined contribution plans.

### (c) Short-term employee benefits

Wages and salaries, paid annual leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company and the Group.

### (d) Termination benefits

Termination benefits are payable whenever the employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and the Group recognise 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 that is within the scope of LKAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than twelve (12) months after the end of the reporting period are discounted to present value.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.17 Employee benefits (Contd.)

#### (e) Share-based compensation

The Company and the Group operate an equity-settled, share-based compensation plan for its employees. Employee services received in exchange for the grant of the shares are recognised as an expense in the profit or loss over the vesting period of the grant, with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted:

- ▶ including any market performance conditions
- ▶ excluding the impact of any service and non-market performance vesting conditions; and
- ▶ including the impact of any non-vesting conditions.

Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of reporting period, the Company and the Group revise estimates of the number of shares that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the profit or loss, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited directly to the equity.

### 2.18 Deferred revenue

Deferred revenue comprises the unutilised balance of call time, telecast time and downloadable quota in respect of prepaid cards and services sold to customers. Such revenue amounts are recognised as revenue upon subsequent utilisation of call time, telecast time and downloadable quota by the customer or when the credit expires. This also comprises government grants as stated in note 2.21.

### 2.19 Provisions

Provisions are recognised when the Company and the Group have a present legal or constructive obligation as a result of past events, when it is more probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. 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.

Provisions for asset retirement obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

### 2.20 Contingent liabilities and contingent assets

The Company and the Group do not recognise contingent assets and liabilities other than those arising from business combinations, but disclose its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company and the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

However, contingent liabilities do not include financial guarantee contracts. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company and the Group. The Company and the Group do not recognise contingent assets but disclose its existence where inflows of economic benefits are probable, but not virtually certain.

The Group recognises separately the contingent liabilities of the acquirees as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions.

Subsequent to the initial recognition, the Group measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of LKAS 37, 'Provisions, contingent liabilities and contingent assets' and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with LKAS 18, 'Revenue'.

### **2.21 Government grants**

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company and its subsidiaries will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to property, plant and equipment are included in non-current liabilities as deferred revenue and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

### **2.22 Accounting for leases where the Company and the Group are the lessee**

#### **(a) Finance leases**

Leases of PPE where the Company and the Group assume substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

PPE acquired under finance leases are depreciated over the estimated useful life of the asset in accordance with the annual rates stated in note 2.4 to the financial statements. Where there is no reasonable certainty that the ownership will be transferred to the Company and the Group at the end of the lease term, the asset is depreciated over the shorter of the lease term or its estimated useful life.

Initial direct costs incurred by the Company and the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in the profit or loss over the lease term on the same basis as the lease expense.

#### **(b) Operating leases**

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged as an expense to the profit or loss on a straight-line basis over the lease period.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

### 2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Company's and the Group's activities. Revenue is stated net of all applicable taxes and levies, returns, rebates and discounts. The Group revenue is subject to elimination of sales within the Group.

The Company and the Group recognise 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 Company's and the Group's activities as described below. The Company and the Group base the estimates of return 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 service revenue and rental income

Revenue from telecommunications comprises amounts charged to customers in respect of monthly access charges, call time usage, messaging, the provision of other telecommunication services, including data services and information provision, fees for connecting users of other fixed lines and mobile networks to the Company's and the Group's network.

Revenue from Pay TV comprises amounts charged to customers in respect of monthly subscription revenue, telecast time usage and connection fees.

Access charges and airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as revenue over the related access period, with unbilled revenue resulting from services already provided from the billing cycle date to the end of each period accrued. The customers are charged Government taxes at the applicable rates and the revenue is recognised net of such taxes.

Revenue from the sale of prepaid cards on Mobile, CDMA, Broadband and Pay TV are deferred until such time the customer uses the call time, downloadable quota, telecast time or when credit expires.

#### (b) Revenue from other network operators and international settlements

The revenue from other network operators, local and international, for the use of the Company's and the Group's telecommunication network for completing call connections is recognised, net of taxes, based on traffic minutes/per second rates stipulated in the relevant agreements and regulations.

#### (c) Connection fees

Connection fees are recognised as revenue over the subscriber average stay in the network.

#### (d) Lease of passive infrastructure

Income from lease of passive infrastructure is recognised on an accrual basis based on prices agreed with customers upon completion of service.

#### (e) Equipment revenue

Revenue from equipment sales is recognised when the equipment is delivered to the end customer and the sale is considered complete. For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the device are transferred to the intermediaries and the intermediaries have no legal right to return.

#### (f) Sales of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts which is not marketing promotions. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

#### (g) Award credits

Award credits are separately identifiable component of the sales transaction in which they are granted. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale.

#### **(h) Interest income**

Interest income is recognised using the effective interest method. When a loan granted or a receivable is impaired, the Company and the Group reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

Interest income on bank balances and bank deposits is recognised on accrual basis.

#### **(i) Dividend income**

Dividend income is recognised when the right to receive payment is established.

#### **(j) Income from leases, hire purchases and term loans**

The excess of aggregated contract receivable over the cost of the assets constitutes the total unearned income at the commencement of a contract. The unearned income is recognised as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

#### **(k) Other revenues**

All other revenues are recognised net of rebates or discounts upon the rendering of services or sale of products, when the transfers of risks and rewards have been completed.

### **2.24 Comparatives**

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

## **3 FINANCIAL RISK MANAGEMENT**

### **3.1 Financial risk factors**

The Company's and the Group's activities are exposed to variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company's and the Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to

minimise potential adverse effects on the financial performance of the Company and the Group. Financial risk management is carried out through risk reviews, internal control systems, insurance programmes and adherence to the Company's and the Group's financial risk management policies. The Board of Directors regularly reviews these risks and approves the risk management policies, which covers the management of these risks. Hedging transactions are determined in the light of commercial commitments. Derivative financial instruments are used only to hedge underlying commercial exposures and are not held for speculative purposes.

#### **(a) Market risk consists of:**

- (i) Foreign currency exchange risk - risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.
  - (ii) Fair value interest rate risk - risk that the value of a financial instrument will fluctuate due to changes in market interest rates.
  - (iii) Cash flow interest rate risk - risk that future cash flows associated with a financial instrument will fluctuate due to changes in market interest rates. In the case of a floating rate debt instrument, such fluctuations result in a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.
  - (iv) Price risk - risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.
- (b)** Credit risk - risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.
- (c)** Liquidity risk (funding risk) - risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

# Notes to the Financial Statements

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

## 3 FINANCIAL RISK MANAGEMENT (CONTD.)

### 3.1 Financial risk factors (Contd.)

#### (a) Market risks

##### (i) Foreign currency exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

If Sri Lanka rupee fluctuates by 1% against United States dollar ('USD') as at 31 December 2017, with all other variables held constant, it will result in a net foreign exchange difference of Rs. 204Mn (2016 - Rs. 231Mn) on translation of USD denominated balances in the Group.

##### (ii) Cash flow and fair value interest rate risk

The Company and the Group have cash and bank balances including deposits placed with creditworthy licensed banks and financial institutions. The Company and the Group manage interest rate risk by actively monitoring the yield curve trend and interest rate movements for the various deposits, cash and bank balances.

The Company's and the Group's borrowings comprise borrowings from financial and non-financial institutions. The Company's and the Group's interest rate risk objective is to manage an acceptable level of rate fluctuation on the interest expense. In order to achieve this objective, the Company and the Group target a composition of fixed and floating borrowings based on assessment of its existing exposure and desirable interest rate profile. To obtain this composition, the Company and the Group use hedging instruments such as interest rate swap contracts. The Company and the Group analyse interest rate exposure on a dynamic basis.

If 3 months London Interbank Offer Rate ('LIBOR') on non-hedged syndicated term loan and 3 months Sri Lanka Interbank Offer Rate ('SLIBOR') on long term rupee loan had been lower/higher by 1% as at 31 December 2017, with all other variables held constant, it will result in a lower/higher interest expense of the Company and the Group amounting to Rs. 221Mn (2016 - Rs. 121Mn).

##### (b) Credit risk

Credit risk is managed on the Company and the Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables (net of held). Individual risk limits are set, based on internal or external ratings. The utilisation of credit limits is regularly monitored.

The Company and the Group place cash and cash equivalents with a number of creditworthy financial institutions. The Company's and the Group's policy limits the concentration of financial exposure to any single financial institution. The maximum credit risk exposure of the financial assets of the Company and the Group are approximately their carrying amounts as at the end of the reporting period.

The credit quality of the financial assets is disclosed in note 11 (b) to the financial statements.

##### (c) Liquidity risk (funding risk)

Prudent liquidity risk management implies maintaining sufficient liquid funds to meet its financial obligations.

In the management of liquidity risk, the Company and the Group monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Company's and the Group's operations and to mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Company and the Group aim at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available.

The table below analyses the Company's and the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps, the cash flows have been estimated using forward interest rates applicable at the end of the reporting period. These amounts may not be reconciled to the amounts disclosed on the statement of financial position for borrowings, trade and other payables and derivative financial instruments.

Group	Less than	Between	Between	Between	Over
	3 months	3 and 12 months	1 and 2 years	2 and 5 years	
<b>At 31 December 2017</b>					
Borrowings	5,168,217	5,844,766	10,559,791	14,762,239	-
Trade and other payables	28,976,430	6,972,344	-	-	-
Other financial liabilities	127,001	153,825	293,428	6,311	-
Net-settled derivative financial liabilities	-	-	-	-	-
<b>At 31 December 2016</b>					
Borrowings	3,348,297	4,554,272	6,724,086	19,508,927	-
Trade and other payables	23,705,934	9,619,141	-	-	-
Net-settled derivative financial liabilities	3,777	1,567	(9,846)	-	-
<b>Company</b>					
Company	Less than	Between	Between	Between	Over
	3 months	3 and 12 months	1 and 2 years	2 and 5 years	
<b>At 31 December 2017</b>					
Borrowings	3,521,650	5,844,766	10,559,791	14,762,239	-
Trade and other payables	23,627,266	707,641	-	-	-
Net-settled derivative financial liabilities	-	-	-	-	-
<b>At 31 December 2016</b>					
Borrowings	2,542,905	4,554,272	6,724,086	19,508,927	-
Trade and other payables	21,310,443	2,649,643	-	-	-
Net-settled derivative financial liabilities	3,777	1,567	(9,846)	-	-

# Notes to the Financial Statements

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

## 3 FINANCIAL RISK MANAGEMENT (CONTD.)

### 3.2 Capital risk management

The primary objective of the Company and the Group's capital risk management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder's value.

The Company and the Group manage the capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company and Group may or may not make dividend payments to shareholders, return capital to shareholders or issue new shares or other instruments.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt divided by total capital. Debt is calculated as 'Total borrowings' (including 'Current and non-current borrowings' as shown in the statements of financial position less bank overdrafts). Total capital is calculated as 'Total equity' as shown in the statements of financial position, including non-controlling interests.

The gearing ratios as at 31 December are as follows:

	Group		Company	
	2017	2016	2017	2016
Debt	33,268,014	32,550,959	33,084,190	32,355,371
Total capital	61,680,996	54,020,880	74,282,731	66,756,134
<b>Gearing ratio</b>	<b>0.54</b>	<b>0.60</b>	<b>0.45</b>	<b>0.48</b>

## 4 FAIR VALUE MEASUREMENT

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. The Company and the Group measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) at the end of the reporting period in an active market for an identical instrument;

Level 2: Valuation techniques based on observable inputs, either directly (i.e. prices) or indirectly (i.e. derived from prices); This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs; this category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The following table represents the fair value level of the financial assets and liabilities that are measured at fair value at the end of the reporting period.

	Measurement criteria and the fair value							
	Level 1		Level 2		Level 3		Total	
	Rs.'000		Rs.'000		Rs.'000		Rs.'000	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Financial assets</b>								
Available-for-sale financial assets:								
- Investment in unquoted convertible redeemable bonds	-	-	-	-	25,000	40,000	25,000	40,000
- Investment in unquoted shares	-	-	-	-	346	-	346	-
Derivative designated as hedging instrument								
- Interest rate swap	-	-	14,311	-	-	-	14,311	-
Financial assets at fair value through profit or loss								
- Investment in quoted equities	1,762	-	-	-	-	-	1,762	-
<b>Financial liabilities</b>								
Derivative designated as hedging instrument								
- Interest rate swap	-	-	-	30,047	-	-	-	30,047

**(a) Financial instruments in level 1**

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

**(b) Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (i.e. over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to assess the fair value an instrument are observable, the instrument is included in level 2.

The fair value of the interest rate swap is provided by the counterparty financial institution which is determined based on forward interest rates from observable yield curves over the duration of the interest rate swap and contracted interest rates discounted at a rate that reflects the credit risk of the counterparty.

# Notes to the Financial Statements

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

## 4 FAIR VALUE MEASUREMENT

### (c) Financial instruments in level 3

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques and if one or more of the significant inputs are not based on observable market data, the instrument is included in Level 3.

The fair value of the unquoted redeemable convertible bonds is determined based on discounted cash flows using interest rate of a similar nature financial instrument which was adjusted to reflect the investee's credit risk.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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 Company and the Group make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Impairment assessment of goodwill

The Group tests goodwill for impairment annually in accordance with its accounting policy stated in note 2.5 to the financial statements and whenever events or change in circumstances indicate that this is necessary within the financial year. The recoverable amounts of cash-generating units have been determined based on Value In Use ('VIU') and Fair Value Less Cost to Sell ('FVLCS') calculations. These calculations require the use of estimates and are disclosed in note 7 to the financial statements.

### (b) Estimated useful lives of PPE

The Company and the Group review annually the estimated useful lives of PPE based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of PPE would increase the recorded depreciation charge and decrease the PPE carrying value.

### (c) Taxation

#### (i) Income taxes

Judgment is involved in determining the Company's and the Group's provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company and the Group recognise liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred income tax provisions in the period in which such determination is made.

#### (ii) Deferred income tax assets

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. This involves judgment regarding future financial performance of a particular entity in which the deferred income tax asset has been recognised.

**(d) Fair value of derivatives and other financial instruments**

Certain financial instruments such as investments, derivative financial instruments and certain elements of borrowings are carried on the statement of financial position at fair value, with changes in fair value reflected in the statement of comprehensive income.

Fair values are estimated by reference in part to published price quotations and in part by using valuation techniques. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company and the Group use judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each financial reporting period.

**(e) Impairment of non-current assets**

The Company and the Group test annually the indicators to ascertain whether non-current assets (including intangibles) have suffered any impairment, in accordance with the accounting policy stated in note 2.5 and 2.7 to the financial statements. These calculations require the use of estimates.

**(f) Defined benefit plan**

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate, future salary increase rate, mortality rate, withdrawal and disability rates and retirement age. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company and the Group determine the appropriate discount rate at the end of each financial reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows, expected to be required to settle the defined benefit plan. In determining the appropriate discount rate, the Company and the Group consider the interest yield of long term Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit plan. Other key assumptions for defined benefit plan are based in part on current market conditions as disclosed in note 24 to the financial statements.

**(g) Asset retirement obligations ('ARO')**

ARO applies when there is a legal or constructive obligation associated with the retirement of tangible long-lived assets, and the liability can be reliably estimated. The assumptions used in determining the ARO include the discount rate and inflation rate as disclosed in note 25 to the financial statements.

**(h) Provisions**

The Company and the Group recognise provisions when they have a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at the end of each financial reporting period and adjusted to reflect the Company's and the Group's current best estimate.

**(i) Contingent liabilities**

Determination of the treatment of contingent liabilities in the financial statements is based on the management's view of the expected outcome of the applicable contingency. The Company and the Group consult with legal counsel on matters related to litigation and other experts both within and outside the Company and the Group with respect to matters in the ordinary course of business.

**(j) Impairment of trade receivables**

The Company and the Group assess at the end of each financial reporting period whether there is objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual and anticipated impairment.

## Notes to the Financial Statements

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

### 6 SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions. The revenue, cost, depreciation, amortisation, impairment, total assets, total liabilities and capital expenditure have been allocated to the respective segments based on the internal reporting basis under the below stated segments.

The reportable segments derive their revenue primarily from the provision of mobile services, data services, international direct dialling services, leasing of passive infrastructure, provision of interconnect services, pay television transmission services, provision of other data services and digital services.

At 31 December 2017, the Group is organised into three main business segments:

- ▶ Mobile operation
- ▶ Fixed telephony and broadband operation
- ▶ Television operation

The segment results for the year ended 31 December 2017 are as follows:

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Revenue from external customers	77,677,829	10,527,165	5,990,896	-	94,195,890
Inter-segment revenue	1,295,715	1,839,446	11,187	-	3,146,348
<b>Total segmental revenue</b>	<b>78,973,544</b>	<b>12,366,611</b>	<b>6,002,083</b>	<b>-</b>	<b>97,342,238</b>
Segment operating profit / (loss) for the year	13,057,950	2,119,080	(375,352)	599	14,802,277
Finance costs - net					(2,354,605)
Share of loss from associates - net of tax					(13,426)
Profit before income tax					12,434,246
Income tax expense					(1,674,491)
<b>Profit for the year</b>					<b>10,759,755</b>

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

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Depreciation, amortisation and impairment	13,207,571	4,833,565	1,067,938	-	19,109,074

The segment assets and liabilities at 31 December 2017 and capital expenditure for the year then ended are as follows:

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Assets	145,091,047	37,229,490	6,814,654	(38,971,625)	150,163,566
Inter-segment assets	(4,753,277)	(87,480)	(3,257)	-	(4,844,014)
<b>Total assets</b>	<b>140,337,770</b>	<b>37,142,010</b>	<b>6,811,397</b>	<b>(38,971,625)</b>	<b>145,319,552</b>
Liabilities	71,113,615	13,804,761	3,565,284	-	88,483,660
Inter-segment liabilities	(1,603,643)	(2,747,710)	(493,751)	-	(4,845,104)
<b>Total liabilities</b>	<b>69,509,972</b>	<b>11,057,051</b>	<b>3,071,533</b>	<b>-</b>	<b>83,638,556</b>
Capital expenditure	20,073,262	9,428,897	1,133,047	-	30,635,206

## Notes to the Financial Statements

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

### 6 SEGMENT INFORMATION (CONTD).

The segment results for the year ended 31 December 2016 are as follows:

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Revenue from external customers	72,454,862	8,210,170	6,080,201	-	86,745,233
Inter-segment revenue	1,151,210	1,113,070	4,573	-	2,268,853
<b>Total segmental revenue</b>	<b>73,606,072</b>	<b>9,323,240</b>	<b>6,084,774</b>	<b>-</b>	<b>89,014,086</b>
Segment operating profit /(loss) for the year	13,387,970	51,892	(525,613)	957	12,915,206
Finance costs - net					(2,363,340)
Share of loss from associates - net of tax					(8,119)
Profit before income tax					10,543,747
Income tax expense					(1,517,352)
<b>Profit for the year</b>					<b>9,026,395</b>

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

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Depreciation, amortisation and impairment	11,495,902	3,963,745	909,235	-	16,368,882

The segment assets and liabilities at 31 December 2016 and capital expenditure for the year then ended are as follows:

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Assets	133,939,253	32,016,930	6,685,369	(11,360,873)	161,280,679
Inter-segment assets	(27,789,512)	(4,445)	(308,687)	-	(28,102,644)
<b>Total assets</b>	<b>106,149,741</b>	<b>32,012,485</b>	<b>6,376,682</b>	<b>(11,360,873)</b>	<b>133,178,035</b>
Liabilities	67,557,494	33,215,903	6,911,657	-	107,685,054
Inter-segment liabilities	(863,096)	(23,760,514)	(3,904,289)	-	(28,527,899)
<b>Total liabilities</b>	<b>66,694,398</b>	<b>9,455,389</b>	<b>3,007,368</b>	<b>-</b>	<b>79,157,155</b>
Capital expenditure	16,549,643	8,567,298	1,246,429	-	26,363,370

## Notes to the Financial Statements

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

### 7 INTANGIBLE ASSETS

#### (a) Group

	Goodwill	Licenses	Computer software	Others	Total
At 1 January 2017					
Cost	9,289,898	10,536,634	5,911,289	1,305,885	27,043,706
Accumulated amortisation	-	(4,635,486)	(5,201,146)	(773,020)	(10,609,652)
<b>Net book amount</b>	<b>9,289,898</b>	<b>5,901,148</b>	<b>710,143</b>	<b>532,865</b>	<b>16,434,054</b>
Year ended 31 December 2017					
Opening net book amount	9,289,898	5,901,148	710,143	532,865	16,434,054
Acquisition through business combination	709,933	-	7,044	-	716,977
Additions	-	2,907,892	1,110,746	218,701	4,237,339
Write-off	-	-	-	(41,899)	(41,899)
Amortisation charge [Note 33(a)]	-	(1,132,872)	(914,584)	(180,116)	(2,227,572)
<b>Closing net book amount</b>	<b>9,999,831</b>	<b>7,676,168</b>	<b>913,349</b>	<b>529,551</b>	<b>19,118,899</b>
At 31 December 2017					
Cost	9,999,831	13,444,526	7,029,079	1,482,686	31,956,122
Accumulated amortisation	-	(5,768,358)	(6,115,730)	(953,135)	(12,837,223)
<b>Net book amount</b>	<b>9,999,831</b>	<b>7,676,168</b>	<b>913,349</b>	<b>529,551</b>	<b>19,118,899</b>
Year ended 31 December 2016					
Opening net book amount	9,289,898	6,873,255	665,545	512,715	17,341,413
Additions	-	-	837,691	123,694	961,385
Adjustments	-	(27,632)	-	-	(27,632)
Amortisation charge [Note 33(a)]	-	(944,475)	(793,093)	(103,544)	(1,841,112)
<b>Closing net book amount</b>	<b>9,289,898</b>	<b>5,901,148</b>	<b>710,143</b>	<b>532,865</b>	<b>16,434,054</b>
At 31 December 2016					
Cost	9,289,898	10,536,634	5,911,289	1,305,885	27,043,706
Accumulated amortisation	-	(4,635,486)	(5,201,146)	(773,020)	(10,609,652)
<b>Net book amount</b>	<b>9,289,898</b>	<b>5,901,148</b>	<b>710,143</b>	<b>532,865</b>	<b>16,434,054</b>

(b) Company

	Licenses	Computer software	Others	Total
At 1 January 2017				
Cost	5,884,659	5,588,385	1,182,189	12,655,233
Accumulated amortisation	(2,564,660)	(4,918,065)	(751,286)	(8,234,011)
<b>Net book amount</b>	<b>3,319,999</b>	<b>670,320</b>	<b>430,903</b>	<b>4,421,222</b>
Year ended 31 December 2017				
Opening net book amount	3,319,999	670,320	430,903	4,421,222
Additions	2,600,379	1,065,986	-	3,666,365
Amortisation charge [Note 33(a)]	(719,214)	(889,865)	(74,849)	(1,683,928)
<b>Closing net book amount</b>	<b>5,201,164</b>	<b>846,441</b>	<b>356,054</b>	<b>6,403,659</b>
At 31 December 2017				
Cost	8,485,038	6,649,318	1,182,189	16,316,545
Accumulated amortisation	(3,283,874)	(5,802,877)	(826,135)	(9,912,886)
<b>Net book amount</b>	<b>5,201,164</b>	<b>846,441</b>	<b>356,054</b>	<b>6,403,659</b>
Year ended 31 December 2016				
Opening net book amount	3,885,644	657,961	512,714	5,056,319
Additions	-	804,845	-	804,845
Disposals	-	(12,234)	-	(12,234)
Amortisation charge [Note 33(a)]	(565,645)	(780,252)	(81,811)	(1,427,708)
<b>Closing net book amount</b>	<b>3,319,999</b>	<b>670,320</b>	<b>430,903</b>	<b>4,421,222</b>
At 31 December 2016				
Cost	5,884,659	5,588,385	1,182,189	12,655,233
Accumulated amortisation	(2,564,660)	(4,918,065)	(751,286)	(8,234,011)
<b>Net book amount</b>	<b>3,319,999</b>	<b>670,320</b>	<b>430,903</b>	<b>4,421,222</b>

(c) Other intangible assets mainly include costs incurred to acquire the indefeasible right of use of SEA-ME-WE under-sea cable.

(d) Amortisation has been charged under following expense categories:

Expense categories:	Group		Company	
	2017	2016	2017	2016
Direct costs	1,180,558	1,031,028	794,063	647,456
Administrative costs	1,047,014	810,083	889,865	780,252
	<b>2,227,572</b>	<b>1,841,111</b>	<b>1,683,928</b>	<b>1,427,708</b>

# Notes to the Financial Statements

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

## 7 INTANGIBLE ASSETS (CONTD.)

### (e) Impairment tests for goodwill

The Group undertakes an annual test for impairment of its Cash-Generating Units (CGUs).

The following CGUs, being the lowest level of assets for which there are separately identifiable cash flows, have carrying amounts of goodwill that are considered for the impairment test.

	Company	
	2017	2016
Television operation	1,504,455	1,504,455
Fixed telephony and broadband operation	7,125,114	7,125,114
Digital commerce operation	660,329	660,329
Financial services operation	709,933	-
	<b>9,999,831</b>	<b>9,289,898</b>

The goodwill allocated to financial services operation CGU is acquired as a result of acquisition of Colombo Trust Finance PLC ('CTF') during current financial year.

The recoverable amounts of television operation's, fixed telephony and broadband operation's and financial services operation's CGUs are determined based on the Value In Use ('VIU') calculations and digital commerce operation's CGU is based on Fair Value Less Cost to Sell ('FVLCS').

The Group apply following methods for VIU and FVLCS calculations.

#### (i) *Discounted Cash Flow ('DCF') method*

The VIU of television operation and fixed telephony and broadband operation is calculated by applying DCF model using cash flow projections based on the forecasts and projections approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates as stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGUs operate.

In the DCF model, the Free Cash Flows ('FCF') have been discounted by pre-tax discount rate.

These forecasts and projections reflect management expectations of revenue growth, operating costs and margins for each CGU based on past experience and future plans and strategies.

#### (ii) *Gross Merchandise Value ('GMV') multiples method*

The FVLCS of digital commerce operation is calculated by applying GMV multiples.

#### (iii) *Residual Income ('RI') method*

The VIU of the financial services operations was determined using the RI method.

The following assumptions are applied in the VIU and FVLCS computation.

**(i) DCF method**

▶ **EBITDA margin**

Projected EBITDA margin is determined based on expected growth potential in fixed telephony and broadband operation and pay TV business tapping further into developing markets.

▶ **Free cash flow (FCF)**

FCF projections are based on EBITDA and Capital expenditure (Capex) projections. The expansion of fixed Long-Term Evolution (LTE) network and investments in Internet Data Centre (IDC) drives the higher Capex (in comparison to revenue) over next three years. Year-on-Year EBITDA growth and Capex (in comparison to revenue) stabilise post 2021.

▶ **Pre-tax discount rate**

The Group's long term Weighted Average Cost of Capital (WACC) is representative of discount rate and is used as the pre-tax discount rate to discount cash flow projections.

▶ **Terminal growth rate**

Terminal growth reflects the management expectations on the fixed telephony and broadband operation and television operation growth potential in Sri Lanka for the foreseeable future.

Given below are the projected variables used for the impairment test for 2017 and 2016 under DCF method:

	Fixed telephony and broadband operation		Television operation	
	2017	2016	2017	2016
EBITDA margin	51%	42%	24%	27%
Capex to revenue ratio	47%	38%	14%	15%
Pre-tax discount rate	14.41%	14.70%	14.41%	14.70%
Terminal growth rate	3%	3%	3%	3%

**(ii) GMV multiples method**

▶ **GMV multiple**

GMV multiple is calculated based on the average GMV multiples of selected peer companies by benchmarking the CGU against the businesses with similar characteristics, comparable growth potentials and comparable market enablers.

**(iii) RI method**

▶ **Profit growth**

Profit is projected considering the anticipated growth in new business (micro lending and deposit taking).

▶ **Discount rate**

The discount rate used is the risk-free rate adjusted by the addition of an appropriate risk premium.

Based on the impairment test performed, the recoverable amounts exceeded the carrying value. Hence no provision for impairment of goodwill was recognised as of 31 December 2017.

**(f) Impact of possible changes in key assumptions**

The Group's review includes an impact assessment of change in key assumptions. Sensitivity analysis shows that no impairment loss is required for the carrying value of the goodwill, including where realistic variances are applied to key assumptions.

# Notes to the Financial Statements

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

## 8 PROPERTY, PLANT AND EQUIPMENT

### (a) Group

	Land and buildings	Computer systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Capital work-in progress (CWIP)	Total
At 1 January 2017						
Cost	3,986,377	171,742,432	8,249,728	354,757	7,607,727	191,941,021
Accumulated depreciation / provision for impairment	(824,737)	(92,797,204)	(6,230,557)	(352,379)	(1,792,322)	(101,997,199)
<b>Net book amount</b>	<b>3,161,640</b>	<b>78,945,228</b>	<b>2,019,171</b>	<b>2,378</b>	<b>5,815,405</b>	<b>89,943,822</b>
Year ended 31 December 2017						
Opening net book amount	3,161,640	78,945,228	2,019,171	2,378	5,815,405	89,943,822
Acquisition through business combination	33,575	3,227	6,541	-	-	43,343
Additions	-	242,006	47,185	974	26,625,602	26,915,767
Transferred from CWIP	456,905	20,931,733	1,226,366	-	(22,615,004)	-
Disposals	-	(3,135)	-	-	-	(3,135)
Impairment (provision) / reversal and assets written off [Note 33(a)]	-	(128,417)	(31,198)	-	105,935	(53,680)
Depreciation charge [Note 33(a)]	(171,177)	(15,658,861)	(997,078)	(706)	-	(16,827,822)
<b>Closing net book amount</b>	<b>3,480,943</b>	<b>84,331,781</b>	<b>2,270,987</b>	<b>2,646</b>	<b>9,931,938</b>	<b>100,018,295</b>
At 31 December 2017						
Cost	4,481,628	192,665,184	9,492,307	313,864	11,608,327	218,561,310
Accumulated depreciation / provision for impairment	(1,000,685)	(108,333,403)	(7,221,320)	(311,218)	(1,676,389)	(118,543,015)
<b>Net book amount</b>	<b>3,480,943</b>	<b>84,331,781</b>	<b>2,270,987</b>	<b>2,646</b>	<b>9,931,938</b>	<b>100,018,295</b>
Year ended 31 December 2016						
Opening net book amount	2,808,700	62,607,360	2,130,965	5,245	11,508,005	79,060,275
Additions	-	110,803	37,844	1,514	25,468,443	25,618,604
Transferred from CWIP	479,871	29,637,069	738,211	-	(30,855,151)	-
Disposals	-	(40,616)	(827)	-	(165,843)	(207,286)
Impairment provision and assets written off [Note 33(a)]	-	(403,558)	(26,912)	-	(140,049)	(570,519)
Depreciation charge [Note 33(a)]	(126,931)	(12,965,830)	(860,110)	(4,381)	-	(13,957,252)
<b>Closing net book amount</b>	<b>3,161,640</b>	<b>78,945,228</b>	<b>2,019,171</b>	<b>2,378</b>	<b>5,815,405</b>	<b>89,943,822</b>
At 31 December 2016						
Cost	3,986,377	171,742,432	8,249,728	354,757	7,607,727	191,941,021
Accumulated depreciation / provision for impairment	(824,737)	(92,797,204)	(6,230,557)	(352,379)	(1,792,322)	(101,997,199)
<b>Net book amount</b>	<b>3,161,640</b>	<b>78,945,228</b>	<b>2,019,171</b>	<b>2,378</b>	<b>5,815,405</b>	<b>89,943,822</b>

**(b) Company**

	Land and buildings	Computer systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Capital work-in progress (CWIP)	Total
At 1 January 2017						
Cost	3,243,558	115,739,226	1,814,236	282,196	3,533,037	124,612,253
Accumulated depreciation / provision for impairment	(802,566)	(60,662,691)	(1,337,720)	(281,469)	(1,139,665)	(64,224,111)
<b>Net book amount</b>	<b>2,440,992</b>	<b>55,076,535</b>	<b>476,516</b>	<b>727</b>	<b>2,393,372</b>	<b>60,388,142</b>
Year ended 31 December 2017						
Opening net book amount	2,440,992	55,076,535	476,516	727	2,393,372	60,388,142
Additions	-	209,633	35,744	-	16,335,365	16,580,742
Transferred from CWIP	94,796	12,394,163	166,928	-	(12,655,887)	-
Disposals	-	(737)	-	-	-	(737)
Impairment (provision) / reversal [Note 33(a)]	-	(128,376)	-	-	60,933	(67,443)
Depreciation charge [Note 33(a)]	(138,266)	(11,101,367)	(199,062)	(239)	-	(11,438,934)
<b>Closing net book amount</b>	<b>2,397,522</b>	<b>56,449,851</b>	<b>480,126</b>	<b>488</b>	<b>6,133,783</b>	<b>65,461,770</b>
At 31 December 2017						
Cost	3,338,343	128,335,816	2,007,432	248,720	7,212,515	141,142,826
Accumulated depreciation / provision for impairment	(940,821)	(71,885,965)	(1,527,306)	(248,232)	(1,078,732)	(75,681,056)
<b>Net book amount</b>	<b>2,397,522</b>	<b>56,449,851</b>	<b>480,126</b>	<b>488</b>	<b>6,133,783</b>	<b>65,461,770</b>
Year ended 31 December 2016						
Opening net book amount	2,330,138	43,679,684	422,888	4,869	8,410,187	54,847,766
Additions	-	87,993	32,940	-	15,684,725	15,805,658
Transferred from CWIP	227,774	21,124,846	166,978	-	(21,519,598)	-
Disposals	-	(40,455)	(827)	-	(165,843)	(207,125)
Impairment provision [Note 33(a)]	-	(363,638)	-	-	(16,099)	(379,737)
Depreciation charge [Note 33(a)]	(116,920)	(9,411,895)	(145,463)	(4,142)	-	(9,678,420)
<b>Closing net book amount</b>	<b>2,440,992</b>	<b>55,076,535</b>	<b>476,516</b>	<b>727</b>	<b>2,393,372</b>	<b>60,388,142</b>
At 31 December 2016						
Cost	3,243,558	115,739,226	1,814,236	282,196	3,533,037	124,612,253
Accumulated depreciation / provision for impairment	(802,566)	(60,662,691)	(1,337,720)	(281,469)	(1,139,665)	(64,224,111)
<b>Net book amount</b>	<b>2,440,992</b>	<b>55,076,535</b>	<b>476,516</b>	<b>727</b>	<b>2,393,372</b>	<b>60,388,142</b>

# Notes to the Financial Statements

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

## 8 PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(c) Capital work-in progress mainly comprises network related assets.

(d) Depreciation expense has been charged under following expense categories:

Expense categories:	Group		Company	
	2017	2016	2017	2016
Direct costs	13,606,299	11,475,665	11,070,833	9,388,527
Administrative costs	3,221,523	2,481,587	368,101	289,893
	<b>16,827,822</b>	<b>13,957,252</b>	<b>11,438,934</b>	<b>9,678,420</b>

(e) Impairment (reversals) / provisions have been charged under following expense categories:

Expense categories:	Group		Company	
	2017	2016	2017	2016
Direct costs	(36,053)	99,582	-	-
Administrative costs	89,733	470,937	67,443	379,737
	<b>53,680</b>	<b>570,519</b>	<b>67,443</b>	<b>379,737</b>

(f) At 31 December 2017, property, plant and equipment include fully depreciated assets which are still in use, the cost of which amounted to Rs. 31,158,176,881 (2016 - Rs. 25,230,660,892) and Rs. 58,622,149,817 (2016 - Rs. 49,604,041,879), for the Company and the Group respectively.

(g) The land and buildings are not secured against any bank borrowings.

## 9 INVESTMENT IN SUBSIDIARIES

Name of the subsidiary	Note	% Holding	2017	2016
Dialog Television (Private) Limited ('DTV')	(a)	100	8,040,020	3,864,746
Dialog Broadband Networks (Private) Limited ('DBN')	(a)	100	37,786,658	14,961,264
Digital Holdings Lanka (Private) Limited ('DHL')		100	-	-
Dialog Device Trading (Private) Limited ('DDT')		100	-	-
Communiq Broadband Network (Private) Limited ('CBN')		100	-	-
Telecard (Private) Limited		100	-	-
Digital Commerce Lanka (Private) Limited ('DCL')		100	394,719	394,719
Dialog Business Services (Private) Limited ('DBS')		100	-	-
Digital Health (Private) Limited ('DH')		70	-	-
Colombo Trust Finance PLC ('CTF')	36(i)	98.87	1,320,017	-
Dialog Axiata Digital Innovation Fund (Private) Limited ('DADIF')	36(ii)	25	-	-
			<b>47,541,414</b>	<b>19,220,729</b>

**(a) Share issue by Dialog Broadband Networks (Private) Limited and Dialog Television (Private) Limited**

Shareholder advances amounting to Rs. 22,825,393,438 and Rs. 4,175,274,089 extended by the Company to its wholly owned subsidiaries Dialog Broadband Networks (Private) Limited and Dialog Television (Private) Limited, were capitalised in the form of 2,282,539,344 and 417,527,409 ordinary shares respectively, in favour of the Company on 30 June 2017. This share issue has not changed the composition of the Group.

Name of the subsidiary	Principal activities	Country of incorporation and place of business
Dialog Television (Private) Limited	Television broadcasting services and direct-to-home satellite pay television service	Sri Lanka
Dialog Broadband Networks (Private) Limited	Data and backbone, fixed wireless and transmission infrastructure	Sri Lanka
Dialog Device Trading (Private) Limited	Selling information technology enabled equipment	Sri Lanka
Communiq Broadband Network (Private) Limited	Information technology enabled services	Sri Lanka
Telecard (Private) Limited	International telecommunication services	Sri Lanka
Digital Holdings Lanka (Private) Limited	Investment holding company for new business areas of Dialog Group	Sri Lanka
Digital Commerce Lanka (Private) Limited	eCommerce and digital marketing services	Sri Lanka
Digital Health (Private) Limited	Developing and operating a state-of-the-art electronic commerce infrastructure for the healthcare sector	Sri Lanka
Dialog Business Services (Private) Limited	Business process outsourcing services	Sri Lanka
Colombo Trust Finance PLC	Financing services including acceptance of deposits, granting lease facilities, hire purchase, loan facilities, margin trading, cheque discounting and factoring etc.	Sri Lanka
Dialog Axiata Digital Innovation Fund (Private) Limited	Establishing and operating a venture capital fund for the investment in digital start-up businesses	Sri Lanka

**10 INVESTMENT IN ASSOCIATES**

	Note	Group		Company	
		2017	2016	2017	2016
At 1 January		72,230	80,349	27,742	27,742
Share of loss	33	(13,426)	(8,119)	-	-
Transfers from available-for-sale financial assets	[12 (a)]	40,000	-	-	-
Interest receivable capitalised		7,407	-	-	-
<b>At 31 December</b>		<b>106,211</b>	<b>72,230</b>	<b>27,742</b>	<b>27,742</b>

## Notes to the Financial Statements

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

### 10 INVESTMENT IN ASSOCIATES (CONTD.)

(a) Investment in associate represents the ownership of 26% of stated capital of Firstsource Dialog Solutions (Private) Limited and 43.37% of stated capital of Headstart (Private) Limited, which are entities incorporated and domiciled in Sri Lanka.

(b) The Group's share of the revenue and results of the associates are as follows:

	Group	
	2017	2016
Revenue	65,376	132,192
Other income	1,166	503
Expenses	(79,968)	(140,814)
<b>Loss before tax</b>	<b>(13,426)</b>	<b>(8,119)</b>
Income tax expense	-	-
<b>Loss after tax</b>	<b>(13,426)</b>	<b>(8,119)</b>

(c) The Group's share of the assets and liabilities of the associates are as follows:

	Group	
	2017	2016
Non-current assets	13,598	13,017
Current assets	47,602	47,987
Non-current liabilities	(2,152)	(11,973)
Current liabilities	(16,699)	(10,494)
Net assets	42,349	38,537
Goodwill	63,862	33,693
	<b>106,211</b>	<b>72,230</b>

11 (a) Financial Instruments by Category Group

	Financial assets at FVTPL	Available-for-sale	HTM financial assets	Loans and receivables	Total
<b>Assets as per the statement of financial position</b>					
Other financial assets	1,762	25,346	60,126	975,094	1,062,328
Trade and other receivables (excluding prepayments)	-	-	-	14,525,094	14,525,094
Derivative financial instrument	14,311	-	-	-	14,311
Cash and cash equivalents (Note 15)	-	-	-	8,410,960	8,410,960
<b>31 December 2017</b>	<b>16,073</b>	<b>25,346</b>	<b>60,126</b>	<b>23,911,149</b>	<b>24,012,693</b>

	Other financial liabilities at amortised cost	Total
<b>Liabilities as per the statement of financial position</b>		
Borrowings	36,595,480	36,595,480
Other financial liabilities	580,565	580,565
Trade and other payables (excluding non-financial liabilities)	36,744,414	36,744,414
<b>31 December 2017</b>	<b>73,920,459</b>	<b>73,920,459</b>

	Available-for-sale	Loans and receivables	Total
<b>Assets as per the statement of financial position</b>			
Non-current financial assets	40,000	-	40,000
Trade and other receivables (excluding prepayments)	-	16,949,361	16,949,361
Cash and cash equivalents (Note 15)	-	8,044,848	8,044,848
<b>31 December 2016</b>	<b>40,000</b>	<b>24,994,209</b>	<b>25,034,209</b>

# Notes to the Financial Statements

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

## 11 (a) Financial Instruments by Category (Contd.)

### Group

	Financial liabilities at FVTPL	Other financial liabilities at amortised cost	Total
<b>Liabilities as per the statement of financial position</b>			
Borrowings	-	34,185,577	34,185,577
Trade and other payables (excluding non-financial liabilities)	-	35,957,226	35,957,226
Derivative financial instrument	30,047	-	30,047
<b>31 December 2016</b>	<b>30,047</b>	<b>70,142,803</b>	<b>70,172,850</b>

### Company

	Financial assets at FVTPL	Loans and receivables	Total
<b>Assets as per the statement of financial position</b>			
Other financial assets	-	466,655	466,655
Trade and other receivables (excluding prepayments)	-	13,499,592	13,499,592
Derivative financial instrument	14,311	-	14,311
Cash and cash equivalents (Note 15)	-	7,886,345	7,886,345
<b>31 December 2017</b>	<b>14,311</b>	<b>21,852,592</b>	<b>21,866,903</b>

	Other financial liabilities at amortised cost	Total
<b>Liabilities as per the statement of financial position</b>		
Borrowings	34,948,913	34,948,913
Trade and other payables (excluding non-financial liabilities)	25,162,197	25,162,197
Derivative financial instrument	-	-
<b>31 December 2017</b>	<b>60,111,110</b>	<b>60,111,110</b>

## Company

	Loans and receivables	Total
<b>Assets as per the statement of financial position</b>		
Non-current financial assets	310,000	310,000
Trade and other receivables (excluding prepayments)	15,164,073	15,164,073
Cash and cash equivalents (Note 15)	6,796,503	6,796,503
<b>31 December 2016</b>	<b>22,270,576</b>	<b>22,270,576</b>

	Financial liabilities at liabilities at FVTPL	Other financial liabilities at amortised cost	Total
<b>Liabilities as per the statement of financial position</b>			
Borrowings	-	33,380,185	33,380,185
Trade and other payables (excluding non-financial liabilities)	-	25,302,816	25,302,816
Derivative financial instrument	30,047	-	30,047
<b>31 December 2016</b>	<b>30,047</b>	<b>58,683,001</b>	<b>58,713,048</b>

## 11 (b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or historical information about counterparty default risk.

Trade receivables	Group		Company	
	2017	2016	2017	2016
<b>Subscribers</b>				
- Individual	1,624,710	721,622	779,083	281,596
- Corporate	1,373,304	1,766,681	622,172	583,655
<b>Operators</b>				
- Domestic	1,390,564	1,958,959	1,117,480	1,670,122
- International	2,593,174	3,408,890	2,593,174	3,408,890
Distributors	684,012	619,070	490,474	501,852
	<b>7,665,764</b>	<b>8,475,222</b>	<b>5,602,383</b>	<b>6,446,115</b>

# Notes to the Financial Statements

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

## 11 (b) Credit quality of financial assets (Contd.)

The ageing of the trade receivables that are past due but not impaired is disclosed in the note 14 (c) to the financial statements.

Cash at bank and short-term bank deposits	Group		Company	
	2017	2016	2017	2016
AAA lka	1,394,060	2,196,453	1,206,639	1,519,305
AA+ lka	503,626	201,567	459,982	176,486
AA lka	2,691,505	1,757,892	2,649,949	1,714,038
AA- lka	686,078	625,321	582,974	600,334
A+ lka to A- lka	3,041,339	3,154,922	2,695,401	2,733,327
Below A	74,974	31,574	49,912	21,093
AAA	-	589	-	589
Non-rated	4,072	68,662	231,560	28,725
Cash in hand	15,306	7,868	9,928	2,606
	<b>8,410,960</b>	<b>8,044,848</b>	<b>7,886,345</b>	<b>6,796,503</b>

The carrying amounts of cash and cash equivalents are denominated in following currencies:

Cash at bank and short-term bank deposits	Group		Company	
	2017	2016	2017	2016
Cash at bank and in hand				
Sri Lanka rupees	2,641,066	3,681,212	2,028,981	2,432,867
United States dollars	1,116,172	989,629	1,116,172	989,629
	<b>3,757,238</b>	<b>4,670,841</b>	<b>3,145,153</b>	<b>3,422,496</b>
Short-term bank deposits				
Sri Lanka rupees	2,449,600	1,964,540	2,537,070	1,964,540
United States dollars	2,204,122	1,409,467	2,204,122	1,409,467
	<b>4,653,722</b>	<b>3,374,007</b>	<b>4,741,192</b>	<b>3,374,007</b>

## (c) Offsetting financial assets and liabilities

Following financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis.

	Company / Group		
	Effect of offsetting on the statement of financial position		
	Gross amount receivable / (payable)	Gross amount set off	Net receivable/ (payable) amount presented
<b>At December 2017</b>			
Trade and other receivables	4,809,210	(1,694,844)	3,114,366
Trade and other payables	(3,164,458)	1,694,844	(1,469,614)
<b>At December 2016</b>			
Trade and other receivables	10,603,257	(6,401,847)	4,201,409
Trade and other payables	(9,141,710)	6,401,847	(2,739,863)

## 12 OTHER FINANCIAL ASSETS

	Note	Group		Company	
		2017	2016	2017	2016
<b>Non-current</b>					
Available-for-sale financial assets	(a)	25,000	40,000	-	-
Loans and receivables	(b)	260,325	-	466,655	310,000
Held to maturity financial assets	(c)	1,944	-	-	-
		<b>287,269</b>	<b>40,000</b>	<b>466,655</b>	<b>310,000</b>
<b>Current</b>					
Available-for-sale financial assets	(a)	346	-	-	-
Loans and receivables	(b)	714,769	-	-	-
Held to maturity financial assets	(c)	58,182	-	-	-
Financial assets as FVTPL	(d)	1,762	-	-	-
		<b>775,059</b>	<b>-</b>	<b>-</b>	<b>-</b>

### (a) Available-for-sale financial assets

	Note	Group		Company	
		2017	2016	2017	2016
Investment in convertible bonds	(i)	25,000	40,000	-	-
Investment in unquoted shares	(ii)	346	-	-	-
		<b>25,346</b>	<b>40,000</b>	<b>-</b>	<b>-</b>

### (i) Investment in convertible bonds

	Group	
	2017	2016
At 1 January	40,000	40,000
Investment made during the year	25,000	-
Transfers to investment in associates	(40,000)	-
<b>At 31 December</b>	<b>25,000</b>	<b>40,000</b>

The carrying value of investment in convertible bonds at the end of the financial reporting period represent the investment in redeemable convertible bonds of Headstart (Private) Limited ('Headstart') measured at fair value. The fair value of redeemable convertible bonds is determined based on discounted cash flows using interest rate of 14.50% (2016 - 14.75%), which is the interest rate for a similar nature financial instrument adjusted to reflect the investee's credit risk and the fair values are disclosed within level 3 of the fair value hierarchy.

The redeemable convertible bonds amounting to Rs. 40Mn were converted to the equity consisting of 414 Ordinary Shares on 15 March 2017. Subsequent to the said conversion, the total shareholding of DHL in Headstart increased from 26% to 43.37%. The investment was transferred to investment in associate in the consolidated financial statements at the end of the financial reporting period.

## Notes to the Financial Statements

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

### 12 OTHER FINANCIAL ASSETS (CONTD.)

- (ii) The carrying value of investment in unquoted shares represents the fair value of the investment in shares in the Credit Information Bureau of Sri Lanka by Colombo Trust Finance PLC.

#### (b) Loans and receivables

	Note	Group		Company	
		2017	2016	2017	2016
Loans and receivables from intercompany	(i)	-	-	466,655	310,000
Other loans and receivables		975,095	-	-	-
		<b>975,095</b>	<b>-</b>	<b>466,655</b>	<b>310,000</b>

- (i) The carrying value of loans and receivables from intercompany at the end of the financial reporting period represents the loan receivable from Digital Commerce Lanka (Private) Limited measured at amortised cost. The term loan carries an interest rate of SLIBOR+3.25%. The outstanding as of 31 December 2017 to be converted to equity investments in DCL.

The fair value of the loan receivable is based on cash flows discounted using effective interest rates of between 13.25% - 14.53% (2016 - 10.31% - 14.97%) and are within level 2 of the fair value hierarchy.

- (c) Carrying value of the held to maturity financial assets at the end of the financial reporting period represents the investment in Government securities (treasury bills and treasury bonds) by Colombo Trust Finance PLC.
- (d) Carrying value of financial assets as FVTPL at the end of the financial reporting period represents the investments in quoted equity investments by Colombo Trust Finance PLC.

### 13 INVENTORIES

	Group		Company	
	2017	2016	2017	2016
Phone stock	154,047	270,619	154,047	270,619
Accessories and consumables	1,023,305	613,330	200,018	217,625
Provision for slow moving inventory	(314,100)	(207,033)	(246,762)	(192,860)
	<b>863,252</b>	<b>676,916</b>	<b>107,303</b>	<b>295,384</b>

## 14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017	2016	2017	2016
<b>Current</b>				
Trade receivables	11,552,807	11,635,268	7,596,839	8,219,865
Less: provision for impairment of trade receivables	(3,887,043)	(3,160,046)	(1,994,456)	(1,773,750)
Net trade receivables	7,665,764	8,475,222	5,602,383	6,446,115
Receivables from related companies [Note 37 (d)]	349,978	418,236	3,776,463	2,105,871
Prepayments	1,196,631	1,016,804	895,969	758,793
Other receivables	6,322,966	8,055,903	3,934,360	6,612,087
	<b>15,535,339</b>	<b>17,966,165</b>	<b>14,209,175</b>	<b>15,922,866</b>
<b>Non-current</b>				
Receivables from related companies [Note 37 (d)]	-	-	405,175	25,721,404
Other receivables	186,385	-	186,385	-
	<b>186,385</b>	<b>-</b>	<b>591,560</b>	<b>25,721,404</b>

(a) Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

(b) Trade receivables by credit quality are as follows:

	Group		Company	
	2017	2016	2017	2016
Neither past due nor impaired	4,828,301	5,706,784	3,941,691	4,556,528
Past due but not impaired	2,837,463	2,768,438	1,660,692	1,889,587
Impaired	3,887,043	3,160,046	1,994,456	1,773,750
	<b>11,552,807</b>	<b>11,635,268</b>	<b>7,596,839</b>	<b>8,219,865</b>

Past due but not impaired trade receivable balances of the Company and the Group have not been impaired as there has not been a significant change in credit quality and the Directors believe that overdue amounts are fully recoverable.

(c) The aging of trade receivables that are past due but not impaired are as follows:

	Group		Company	
	2017	2016	2017	2016
Amount overdue:				
1 month to 6 months	2,713,034	2,361,265	1,556,461	1,615,642
6 months to 1 year	124,429	407,173	104,231	273,945
More than 1 year	-	-	-	-
	<b>2,837,463</b>	<b>2,768,438</b>	<b>1,660,692</b>	<b>1,889,587</b>

## Notes to the Financial Statements

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

### 14 TRADE AND OTHER RECEIVABLES (CONTD.)

(d) The movement of the provision for impairment of trade receivables are as follows:

	Group		Company	
	2017	2016	2017	2016
At 1 January	3,160,046	3,038,292	1,773,750	1,671,968
Provision for impairment of trade receivables	761,017	1,122,895	254,726	697,039
Receivables written off during the year as uncollectible	(34,020)	(1,001,141)	(34,020)	(595,257)
<b>At 31 December</b>	<b>3,887,043</b>	<b>3,160,046</b>	<b>1,994,456</b>	<b>1,773,750</b>

(e) The carrying amounts of trade receivables are denominated in following currencies:

	Group		Company	
	2017	2016	2017	2016
Sri Lanka rupees	5,070,242	4,694,739	3,006,861	2,665,632
United States dollars	2,595,522	3,780,483	2,595,522	3,780,483
	<b>7,665,764</b>	<b>8,475,222</b>	<b>5,602,383</b>	<b>6,446,115</b>

(f) The creation and release of provision for impaired receivables have been included in 'Distribution costs' in the statement of comprehensive income.

### 15 CASH AND CASH EQUIVALENTS

(a)

	Group		Company	
	2017	2016	2017	2016
Cash at bank and in hand	3,757,238	4,670,841	3,145,153	3,422,496
Short-term bank deposits	4,653,722	3,374,007	4,741,192	3,374,007
<b>Cash and cash equivalents</b>	<b>8,410,960</b>	<b>8,044,848</b>	<b>7,886,345</b>	<b>6,796,503</b>

- (b) Cash and cash equivalents of the Company and the Group include restricted cash deposited in the following financial institutions:

	Group		Company	
	2017	2016	2017	2016
Standard Chartered Bank, amount deposited in escrow account for the purpose of acquisition of Suntel Limited.	-	522,760	-	-
People's Bank, amount deposited in settlement account to facilitate NFC Travel card value.	57,594	29,307	57,594	29,307
Hatton National Bank PLC, amount deposited in custodian accounts to facilitate eZ Cash operation.	430,000	345,000	430,000	345,000
	<b>487,594</b>	<b>897,067</b>	<b>487,594</b>	<b>374,307</b>

## 16 STATED CAPITAL

- (a)

	Ordinary shares issued and fully paid	Stated capital
At 1 January 2017	28,103,913	28,103,913
<b>At 31 December 2017</b>	<b>28,103,913</b>	<b>28,103,913</b>
At 1 January 2016	28,103,913	28,103,913
<b>At 31 December 2016</b>	<b>28,103,913</b>	<b>28,103,913</b>

- (b) Movement in shares

	Number of ordinary shares
At 1 January 2017	8,143,778,405
<b>At 31 December 2017</b>	<b>8,143,778,405</b>
At 1 January 2016	8,143,778,405
<b>At 31 December 2016</b>	<b>8,143,778,405</b>

- (c) Employee Share Option Scheme ('ESOS')

In accordance with the provisions of the Deed of Trust, the ESOS Trust stands dissolved effective 11 July 2016. In accordance with the recommendation of the Trustees subsequent to dissolution, the remaining funds have been transferred to the long-term incentive plan, which is an alternative employee share scheme established in 2013 for the benefit of the employees and with similar objectives to those of the ESOS.

# Notes to the Financial Statements

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

## 17 RESERVES

	Note	Group		Company	
		2017	2016	2017	2016
<b>Attributable to the owners of the Company</b>					
Retained earnings		33,544,509	25,917,809	46,140,086	38,667,483
Share-based payments reserve	(a)	16,341	-	16,341	-
Hedging reserve	(b)	22,391	(15,262)	22,391	(15,262)
		33,583,241	25,902,547	46,178,818	38,652,221
<b>Attributable to the non-controlling interest</b>					
Non-controlling interest		(6,158)	14,420	-	-
		(6,158)	14,420	-	-
<b>At 31 December</b>		<b>33,577,083</b>	<b>25,916,967</b>	<b>46,178,818</b>	<b>38,652,221</b>

The movement of the reserves is as follows:

Group	Note	Share-based payments reserve	Hedging reserve	Retained earnings	Total
Balance at 1 January 2017		-	(15,262)	25,917,809	25,902,547
Profit for the year		-	-	10,785,424	10,785,424
Other comprehensive income:					
- net change in cash flow hedge		-	37,653	-	37,653
- remeasurement gains on defined benefit obligation		-	-	181,047	181,047
<b>Total comprehensive income for the year</b>		-	<b>37,653</b>	<b>10,966,471</b>	<b>11,004,124</b>
Transactions with non-controlling interest	(c)	-	-	(163,697)	(163,697)
Employee share schemes - value of employee services		16,341	-	-	16,341
Dividends to equity shareholders		-	-	(3,176,074)	(3,176,074)
<b>Balance at 31 December 2017</b>		<b>16,341</b>	<b>22,391</b>	<b>33,544,509</b>	<b>33,583,241</b>
Balance at 1 January 2016		-	(6,663)	19,220,402	19,213,739
Profit for the year		-	-	9,041,278	9,041,278
Other comprehensive expense:					
- net change in cash flow hedge		-	(8,599)	-	(8,599)
- remeasurement gains on defined benefit obligation		-	-	262,138	262,138
<b>Total comprehensive income for the year</b>		-	<b>(8,599)</b>	<b>9,303,416</b>	<b>9,294,817</b>
Dividends to equity shareholders		-	-	(2,606,009)	(2,606,009)
<b>Balance at 31 December 2016</b>		-	<b>(15,262)</b>	<b>25,917,809</b>	<b>25,902,547</b>

Company	Share-based payments reserve	Hedging reserve	Retained earnings	Total
Balance at 1 January 2017	-	(15,262)	38,667,483	38,652,221
Profit for the year	-	-	10,501,271	10,501,271
Other comprehensive income:				
- net change in cash flow hedge	-	37,653	-	37,653
- remeasurement gains on defined benefit obligation	-	-	147,406	147,406
<b>Total comprehensive income for the year</b>	-	<b>37,653</b>	<b>10,648,677</b>	<b>10,686,330</b>
Employee share schemes - value of employee services	16,341	-	-	16,341
Dividends to equity shareholders	-	-	(3,176,074)	(3,176,074)
<b>Balance at 31 December 2017</b>	<b>16,341</b>	<b>22,391</b>	<b>46,140,086</b>	<b>46,178,818</b>
Balance at 1 January 2016	-	(6,663)	30,743,774	30,737,111
Profit for the year	-	-	10,327,939	10,327,939
Other comprehensive expense:				
- net change in cash flow hedge	-	(8,599)	-	(8,599)
- remeasurement gains on defined benefit obligation	-	-	201,779	201,779
<b>Total comprehensive income for the year</b>	-	<b>(8,599)</b>	<b>10,529,718</b>	<b>10,521,119</b>
Dividends to equity shareholders	-	-	(2,606,009)	(2,606,009)
<b>Balance at 31 December 2016</b>	-	<b>(15,262)</b>	<b>38,667,483</b>	<b>38,652,221</b>

- (a) The Board of Directors has approved the implementation of a performance based Restrictive Share Plan ('RSP') as part of Dialog's Long-Term Incentive Plan ('LTIP scheme') and it was approved by Dialog shareholders in May 2017. The first grant of shares was made on 1 October 2017, with a vesting period of 3 years. An amount of Rs. 16,340,516 was recognised in the financial statements for the year ended 31 December 2017, with respect to first grant of LTIP.

18,134,300 options were granted in October 2017 under first grant to eligible employees at a fair value of Rs. 10.81 each. The fair value of the shares granted were determined using the Monte Carlo simulation model based on closing market price of the Company's shares as at the grant date. Eligibility was determined upon an employee satisfying the following:

- ▶ has attained the age of eighteen years;
- ▶ is an Executive Director of the Company or has entered into a full-time or fixed-term contract of employment with, and is on the payroll of, a group company and whose service has been confirmed; and
- ▶ has fulfilled any other eligibility criteria which has been determined by the Board at its absolute discretion, as the case may be.

	2017	
	Fair value in Rs. per share	Options (thousand)
As at 1 January 2017		
Options granted during the year	10.81	18,134
Number of unexercised options as at 31 December		18,134

# Notes to the Financial Statements

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

## 17 RESERVES (CONTD.)

- (b) The hedging reserve represents the fair value relating to derivative financial instrument used to hedge the exposure of variability in cash flows attributable to interest rate risk associated with future interest payments of the floating rated syndicated term loan. Movements of the hedging reserve are recorded through other comprehensive income throughout the period of the hedging contract. The balance of the hedging reserve at the end of each financial reporting period is recorded under equity and it will be zero at the maturity of the hedging contract.

Further, no tax is applicable for the movement of the hedging reserve recorded in other comprehensive income.

### (c) Transactions with non-controlling interests

	2017
Carrying amount of non-controlling interests acquired	83,670
Consideration paid to non-controlling interests	(247,367)
Excess of consideration paid and recognised in the transactions with non-controlling interests reserve within equity	(163,697)

## 18 TRADE AND OTHER PAYABLES

	Group		Company	
	2017	2016	2017	2016
Trade payables	7,672,391	7,299,107	4,081,959	5,954,879
Amount due to ultimate parent company [Note 37 (e)]	799,663	393,100	799,663	393,100
Amounts due to related companies [Note 37 (e)]	3,368,570	302,030	3,450,276	427,585
Deferred revenue (Note 22)	4,354,458	3,786,355	3,710,839	3,157,927
Accrued expenses	18,349,902	21,594,443	12,511,831	14,252,588
Customer deposits	1,206,448	1,166,899	1,152,022	1,117,718
Other payables	5,347,440	5,201,647	3,166,446	3,156,946
	<b>41,098,872</b>	<b>39,743,581</b>	<b>28,873,036</b>	<b>28,460,743</b>

- (a) Accrued expenses of the Group include a provision made as a matter of prudence, for a possible claim amounting to a sum of Rs. 3,698,280,185 on account of a judgment delivered against Suntel Limited on 9 March 2012 in HC (Civil) 282/2001(1) in the Commercial High Court of the Western Province in favour of Electroteks Network Services (Private) Limited. Suntel Limited [now amalgamated with Dialog Broadband Networks (Private) Limited], on the basis of legal advice received, has appealed against this judgment to the Supreme Court of Sri Lanka. The Supreme Court will notify the parties as to the date on which the judgment will be delivered.
- (b) Pending such appeal, Electroteks Network Services (Private) Limited filed a writ pending appeal application in the Commercial High Court of the Western Province seeking to execute the judgment given in their favour. On 3 March 2014 proceedings in relation to this application was terminated upon Dialog Broadband Networks (Private) Limited providing a guarantee to cover the judgment in the appeal made to the Supreme Court of Sri Lanka, through its parent company Dialog Axiata PLC, in the form of a Bank Guarantee for the value of Rs. 1.0Bn and a Corporate Guarantee for the value of Rs. 3.2Bn. The contingent liability arises from such guarantee is disclosed in note 34 (a) (ii) to the financial statements.

## 19 OTHER FINANCIAL LIABILITIES

	Group	
	2017	2016
<b>Current</b>		
Deposits from customers	283,360	-
	<b>283,360</b>	<b>-</b>

	Group	
	2017	2016
<b>Non-current</b>		
Deposits from customers	297,205	-
	<b>297,205</b>	<b>-</b>

## 20 BORROWINGS

	Note	Group		Company	
		2017	2016	2017	2016
<b>Current</b>					
Bank overdrafts		3,327,466	1,634,618	1,864,723	1,024,814
Bank borrowings	(a)	7,638,691	6,237,612	7,454,867	6,042,024
		<b>10,966,157</b>	<b>7,872,230</b>	<b>9,319,590</b>	<b>7,066,838</b>

	Note	Group		Company	
		2017	2016	2017	2016
<b>Non-current</b>					
Bank borrowings	(a)	25,629,323	26,313,347	25,629,323	26,313,347
		<b>25,629,323</b>	<b>26,313,347</b>	<b>25,629,323</b>	<b>26,313,347</b>

### (a) Bank borrowings

#### (i) Bank borrowings - foreign

Bank borrowings comprise syndicated term loan of USD 52Mn which carries an interest rate of USD 3 Months LIBOR+1.45% p.a. and USD 97Mn which carries an interest rate of USD 3 Months LIBOR+1.225% p.a.

The effective interest rate on bank borrowings ranges from 2.50% to 3.35% p.a. (2016 - 2.00% to 2.83% p.a.)

#### (ii) Bank borrowings - local

The Company has obtained a term loan facility of Rs. 10Bn which carries a fixed interest rate of 8.75% p.a for a period of 2 years and thereafter a floating rate. The loan has been fully drawn as at 31 December 2016.

## Notes to the Financial Statements

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

### 20 BORROWINGS (CONTD.)

(b) The exposure of the carrying value of borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period is as follows:

	Group		Company	
	2017	2016	2017	2016
3 months or less	5,166,023	3,338,575	3,519,456	2,533,183
3-6 months	1,655,915	1,509,698	1,655,915	1,509,698
6-12 months	4,144,219	3,023,957	4,144,219	3,023,957
1-5 years	25,629,323	26,313,347	25,629,323	26,313,347
	<b>36,595,480</b>	<b>34,185,577</b>	<b>34,948,913</b>	<b>33,380,185</b>

(c) The carrying amounts of the Company's and the Group's borrowings are denominated in following currencies:

	Group		Company	
	2017	2016	2017	2016
Sri Lanka rupees	13,319,826	11,785,171	11,673,259	10,979,778
United States dollars	23,275,654	22,400,406	23,275,654	22,400,407
	<b>36,595,480</b>	<b>34,185,577</b>	<b>34,948,913</b>	<b>33,380,185</b>

(d) The carrying amounts at amortised cost and fair value of non-current borrowings are as follows:

	Group		Company	
	2017	2016	2017	2016
Bank borrowings	25,629,323	26,313,347	25,629,323	26,313,347

The fair values of borrowings are not materially different to their carrying amounts since the interest on those borrowings is close to current market rates. The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate and are within level 2 of the fair value hierarchy. The fair value of current borrowings approximates their carrying amount as the impact of discounting is not significant.

## 21 DERIVATIVE FINANCIAL INSTRUMENT

	Company / Group			
	2017 Asset	2016 Asset	2017 Liabilities	2016 Liabilities
Interest rate swaps - cash flow hedge	14,311	-	-	30,047
<b>At 31 December</b>	<b>14,311</b>	<b>-</b>	<b>-</b>	<b>30,047</b>
Current	14,311	-	-	15,512
Non-current	-	-	-	14,535
<b>Interest rate swaps - cash flow hedge</b>	<b>14,311</b>	<b>-</b>	<b>-</b>	<b>30,047</b>

The information relating to the derivative financial instrument of the Company and the Group as at 31 December 2017 is as follows:

Counterparty	Notional amount outstanding	Period	Exchange period	Fixed interest rate paid	Floating interest rate received
HSBC	USD 33,786,667	13 January 2014 -29 July 2018	Quarterly	2.6075% p.a.	3 months' LIBOR plus 1.45% p.a.

## 22 DEFERRED REVENUE

	Group		Company	
	2017	2016	2017	2016
At 1 January	5,443,916	4,886,923	4,485,636	4,260,789
Prepaid revenue and connection fees	79,487,390	64,605,318	76,592,232	62,415,824
Release of prepaid revenue and connection fees to profit or loss	(78,950,643)	(63,790,405)	(76,022,604)	(61,958,526)
Release of TDC disbursements to profit or loss (Note 33)	(231,790)	(257,920)	(210,584)	(232,451)
<b>At 31 December</b>	<b>5,748,873</b>	<b>5,443,916</b>	<b>4,844,680</b>	<b>4,485,636</b>

	Group		Company	
	2017	2016	2017	2016
Current (Note 18)	4,354,458	3,786,355	3,710,839	3,157,927
Non-current	1,394,415	1,657,561	1,133,841	1,327,709
	<b>5,748,873</b>	<b>5,443,916</b>	<b>4,844,680</b>	<b>4,485,636</b>

## Notes to the Financial Statements

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

### 23 DEFERRED INCOME TAX

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable tax rates at the end of the financial reporting period.

- (a) Deferred income tax assets and liabilities of the Group are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statements of financial position.

	Group			
	Assets		Liabilities	
	2017	2016	2017	2016
Deferred income tax liabilities	-	-	-	-
Deferred income tax assets	3,572	-	-	-
<b>Net deferred income tax assets</b>	<b>3,572</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (b) The movement on the deferred income tax account is as follows:

	Group			
	Assets		Liabilities	
	2017	2016	2017	2016
At 1 January	-	-	-	(52,677)
Acquisition from business combination	5,347	-	-	-
Credited / (charged) to profit or loss:				
- PPE	88	-	-	199,922
- Retirement benefit obligations	78	-	-	(6,907)
- Impairment of other financial assets	1,550	-	-	-
- Net investment in leases	155	-	-	-
- Unutilised tax losses	(3,646)	-	-	(140,338)
<b>At 31 December</b>	<b>3,572</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (c) The balance comprises temporary differences attributable to:

	Group			
	Assets		Liabilities	
	2017	2016	2017	2016
Retirement benefit obligations	1,456	-	-	-
Impairment of other financial assets	10,261	-	-	-
Unutilised tax losses	13,911	-	-	-
<b>Total deferred tax asset before offsetting</b>	<b>25,628</b>	<b>-</b>	<b>-</b>	<b>-</b>
Offsetting deferred tax liability on:				
- PPE	(4,668)	-	-	-
- Net investment in leases	(17,388)	-	-	-
<b>Deferred tax asset after offsetting</b>	<b>3,572</b>	<b>-</b>	<b>-</b>	<b>-</b>

- (d) Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. Accordingly, deferred tax asset amounting to Rs. 3,572,358 was recognised in respect of deductible temporary differences and unutilised tax losses related to Colombo Trust Finance PLC. Deferred income tax asset of Rs. 3,435,228,665 (2016 - Rs. 2,580,682,736) was not recognised in respect of other subsidiaries in the consolidated financial statements.

## 24 EMPLOYEE BENEFIT PAYABLES

	Note	Group		Company	
		2017	2016	2017	2016
Defined benefit obligations	(a)	1,002,715	1,005,051	819,617	834,609
Other payables	(b)	351,224	367,603	351,224	367,603
		<b>1,353,939</b>	<b>1,372,654</b>	<b>1,170,841</b>	<b>1,202,212</b>

### (a) Defined benefit obligations

(i) *The movement in the present value of defined benefit obligations over the year is as follows:*

	Group		Company	
	2017	2016	2017	2016
At 1 January	1,005,051	1,141,747	834,609	933,082
Acquisition through business combination	10,121	-	-	-
Transferred to a related entity	-	(22,564)	-	(19,578)
Current service cost	96,528	95,019	75,309	78,387
Interest expense	128,131	120,312	106,413	98,202
Total amount recognised in profit or loss (Note 33)	224,659	215,331	181,722	176,589
Remeasurement (gains) / losses:				
- Gains from change in financial assumptions	(225,705)	(230,878)	(188,960)	(185,608)
- (Gains) / losses from change in demographic assumptions	(1,943)	5,439	3,063	6,081
- Experience adjustments	46,601	(36,699)	38,491	(22,252)
Total amount recognised in other comprehensive income	(181,047)	(262,138)	(147,406)	(201,779)
Benefits paid	(56,069)	(67,325)	(49,308)	(53,705)
<b>At 31 December</b>	<b>1,002,715</b>	<b>1,005,051</b>	<b>819,617</b>	<b>834,609</b>

## Notes to the Financial Statements

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

### 24 EMPLOYEE BENEFIT PAYABLES (CONTD.)

#### (a) Defined benefit obligations (Contd.)

This obligation is not externally funded.

The gratuity liability of the Group is based on the actuarial valuation performed in December 2017 by Actuaries, Messrs Actuarial & Management Consultants (Private) Limited.

#### (ii) The principal actuarial valuation assumptions used are as follows:

	Group		Company	
	2017	2016	2017	2016
Discount rate	10.45%	12.75%	10.45%	12.75%
Future salary growth rate	7.00%	12.00%	7.00%	12.00%

In addition to the above, demographic assumptions such as mortality, withdrawal and disability and retirement age are considered for the actuarial valuation. The 2007 mortality table issued by the London Institute of Actuaries (A 1967/70 mortality table) has also been used in the valuation.

#### (iii) The sensitivity of the defined benefit obligations to changes in the principal assumptions is as follows:

	Change in assumption	Impact on defined benefit obligation			
		Group		Company	
		Increase in assumption	Decrease in assumption	Increase in Assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 8.40%	Increase by 6.77%	Decrease by 7.02%	Increase by 7.91%
Future salary growth rate	1.00%	Increase by 7.21%	Decrease by 8.89%	Increase by 8.35%	Decrease by 7.51%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method (present value of the defined benefit obligations calculated with the projected unit credit method at the end of the reporting period) has been applied.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

**(iv) Maturity profile of the defined benefit obligations**

The weighted average duration of the defined benefit obligations is 8.17 (2016 - 9.88) years and average time to benefit pay-out is 10.74 (2016 - 11.77) years for the Company. The distribution of the timing of undiscounted benefit payments is as follows:

	Group 2017	Company 2017
Less than 1 year	75,422	64,232
Between 1-2 years	153,732	133,145
Between 2-5 years	332,251	291,626
Over 5 years	2,194,441	1,728,455
	<b>2,755,846</b>	<b>2,217,458</b>

- (b)** Other payables represent the remaining fund in ESOS Trust transferred to an alternative employee share scheme introduced by the Company for a similar objective.

**25 PROVISION FOR OTHER LIABILITIES**

Provisions for other liabilities comprise the amounts provided for Asset Retirement Obligations.

	Group		Company	
	2017	2016	2017	2016
At 1 January	1,309,731	1,147,298	1,090,532	929,656
Amounts capitalised	241,201	51,246	208,950	51,522
Adjustment for fully depreciated ARO assets	(15,089)	(10,283)	(7,423)	(2,510)
Charged to the profit or loss (Note 30)	202,568	121,470	172,250	111,864
<b>At 31 December</b>	<b>1,738,411</b>	<b>1,309,731</b>	<b>1,464,309</b>	<b>1,090,532</b>

## Notes to the Financial Statements

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

### 25 PROVISION FOR OTHER LIABILITIES (CONTD.)

The principal assumptions used to determine the ARO are as follows:

	Group		Company	
	2017	2016	2017	2016
Inflation rate	7.5%	4.10%	7.5%	4.10%
Discount rate	14.41%	14.70%	14.41%	14.70%

### 26 REVENUE

	Group		Company	
	2017	2016	2017	2016
Sales of services	90,853,221	84,085,356	75,541,816	71,310,363
Sales of goods	3,342,669	2,659,877	2,053,816	1,640,714
	<b>94,195,890</b>	<b>86,745,233</b>	<b>77,595,632</b>	<b>72,951,077</b>

### 27 EXPENSES BY NATURE

	Group		Company	
	2017	2016	2017	2016
Directors' fees	88,055	82,599	78,788	82,599
Independent Auditor's remuneration				
- audit fees	15,840	16,324	7,251	7,418
- other permitted services	18,788	12,729	13,299	12,202
Fees for other professional services	145,946	109,349	83,821	53,330
Depreciation, impairment and amortisation	19,109,074	16,368,882	13,190,305	11,485,865
Domestic interconnection and international origination cost	6,665,394	5,519,706	6,605,482	5,735,057
Telecommunication development charge	2,850,335	3,926,267	2,850,335	3,926,267
Provision for impairment of trade receivables	761,017	1,122,895	254,726	697,039
Marketing, advertising and promotion	13,216,935	12,306,835	11,660,409	10,712,686
Rental for site and office premises	4,302,644	3,774,336	5,341,852	3,993,881
Electricity for site and office premises	3,226,741	2,728,735	2,483,128	2,044,567
Annual maintenance services	3,253,429	3,017,105	2,711,206	2,510,201
Staff costs (Note 28)	7,254,108	6,281,310	5,850,538	5,169,291
Telecommunication regulatory charges and royalty fee	2,193,647	2,286,188	1,836,400	1,985,335
Revenue share expenses	2,516,732	2,707,137	2,516,732	2,738,148
International network cost	1,491,403	1,939,118	1,618,330	1,939,118
Outbound roaming cost	960,989	760,080	960,989	760,080
Call centre services charges	145,525	495,173	359,593	382,408
Device and accessories consumption cost	2,106,188	1,830,485	2,106,188	1,830,485
Other operating costs	9,116,059	8,616,870	3,255,580	3,354,804
<b>Total direct costs, administrative costs and distribution costs</b>	<b>79,438,849</b>	<b>73,902,123</b>	<b>63,784,952</b>	<b>59,420,781</b>

## 28 EMPLOYEE BENEFIT EXPENSES

	Group		Company	
	2017	2016	2017	2016
Wages and salaries	3,766,737	3,376,928	3,015,179	2,791,871
Social security costs	2,537,004	2,067,142	2,078,690	1,702,304
Defined contribution plans	725,708	621,909	574,947	498,527
Defined benefit obligations (Note 24)	224,659	215,331	181,722	176,589
	<b>7,254,108</b>	<b>6,281,310</b>	<b>5,850,538</b>	<b>5,169,291</b>
Number of persons employed as at 31 December - full time	3,987	3,409	2,747	2,619

## 29 OTHER INCOME

Other income of the Company and the Group consist of net gain on disposal of PPE and other sundry income.

## 30 FINANCE INCOME AND COSTS

	Group		Company	
	2017	2016	2017	2016
Interest income on deposits (Note 33)	244,612	367,008	286,046	386,958
<b>Finance income</b>	<b>244,612</b>	<b>367,008</b>	<b>286,046</b>	<b>386,958</b>
Interest expenses on:				
- bank overdrafts	(18,406)	(6,994)	(783)	(6,109)
- term loans	(1,639,597)	(1,433,234)	(1,358,018)	(1,029,501)
- finance cost on asset retirement obligations (Note 25)	(202,568)	(121,470)	(172,250)	(111,864)
Net foreign exchange losses on foreign currency transactions / translations	(738,646)	(1,168,650)	(516,391)	(945,284)
<b>Finance costs</b>	<b>(2,599,217)</b>	<b>(2,730,348)</b>	<b>(2,047,442)</b>	<b>(2,092,758)</b>
<b>Finance costs - net</b>	<b>(2,354,605)</b>	<b>(2,363,340)</b>	<b>(1,761,396)</b>	<b>(1,705,800)</b>

# Notes to the Financial Statements

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

## 31 INCOME TAX EXPENSE

(a)

	Group		Company	
	2017	2016	2017	2016
Current tax	1,674,610	1,570,821	1,629,875	1,574,061
Economic service charge	(1,894)	(792)	-	-
Deferred income tax charged to profit or loss	1,775	-	-	-
Deferred income tax credited to profit or loss	-	(52,677)	-	-
	<b>1,674,491</b>	<b>1,517,352</b>	<b>1,629,875</b>	<b>1,574,061</b>

- (b) The Company opted for 2% revenue based tax with effect from the year 2013 with the expiration of the 15-year tax holiday period granted under the agreement entered into between the Company and the Board of Investment of Sri Lanka ('BOI').
- (c) Upon expiry of the tax exemption period granted under the agreement entered into between the Dialog Broadband Networks (Private) Limited and the BOI, the business profit of DBN is subjected to a corporate tax of 15% with effect from the year 2011.
- (d) Upon expiry of the tax exemption period granted under the agreement entered into between the Dialog Television (Private) Limited and the BOI, the business profit of DTV is subjected to a corporate tax of 10% for a period of two years with effect from the year 2012. After the expiration of the aforesaid concessionary period, the business profit of DTV is subjected to corporate tax of 20% for any year of assessment thereafter.
- (e) The business profit of the Dialog Device Trading (Private) Limited, Digital Holdings Lanka (Private) Limited, Digital Health (Private) Limited, Digital Commerce Lanka (Private) Limited, Dialog Business Services (Private) Limited and Colombo Trust Finance PLC is subject to a corporate tax of 28%.
- (f) The Company and the Group are also liable to pay income tax at standard rate of 28% on interest income earned in Sri Lanka rupees.

(g) The tax on the profit before tax differs from the theoretical amount that would arise using the applicable tax rate to profits is as follows:

	Group		Company	
	2017	2016	2017	2016
Profit before tax	12,434,246	10,543,747	12,131,146	11,902,000
Tax at the standard tax rate of 28%	3,481,589	2,952,249	3,396,721	3,332,560
Tax effects on:				
- Income not subject to tax	(12,388)	(3,550)	(12,388)	(3,550)
- Associates results reported net of tax	3,759	2,273	-	-
- Expenses not deductible for tax purposes	243,780	145,062	-	-
- Unrecognised deferred income tax	(103,293)	211,060	-	-
- Utilisation of previously unrecognised tax losses	(930)	(822)	-	-
- Adjustment for revenue based tax (Note b)	(1,754,458)	(1,754,949)	(1,754,458)	(1,754,949)
- Rate differentials (Note c and d)	(222,760)	25,519	-	-
Under / (over) provision for previous years	39,311	(6,021)	-	-
Net charge / (reversal) of deferred income tax	1,775	(52,677)	-	-
ESC expense / write off	(1,894)	(792)	-	-
	<b>1,674,491</b>	<b>1,517,352</b>	<b>1,629,875</b>	<b>1,574,061</b>

### 32 (a) Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Group		Company	
	2017	2016	2017	2016
Profit for the year attributable to ordinary shareholders	10,785,424	9,041,278	10,501,271	10,327,939
Weighted average number of ordinary shares in issue (Thousands)	8,143,778	8,143,778	8,143,778	8,143,778
<b>Earnings per share (Rs.)</b>	<b>1.32</b>	<b>1.11</b>	<b>1.29</b>	<b>1.27</b>

The diluted earnings per share is same as the basic earnings per share.

### 32 (b) Dividend per share

Company has declared and paid final dividend of Rs. 0.39 per share amounting to Rs. 3,176,073,578 for the financial year 2016 (2015 - Rs. 0.32 per share amounting to Rs. 2,606,009,000).

# Notes to the Financial Statements

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

## 33 CASH FLOW INFORMATION

### (a) Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2017	2016	2017	2016
Profit before tax	12,434,246	10,543,747	12,131,146	11,902,000
<b>Adjustments for:</b>				
Exchange losses	597,641	781,766	573,989	772,249
Provision for impairment of trade receivables	761,017	1,122,895	254,726	697,039
Bad debts written back	(106,086)	(101,650)	(509,559)	(83,539)
Loss / (profit) on sale of property, plant and equipment	14,201	(42,912)	(24,862)	(48,840)
Interest expense	1,658,003	1,439,818	1,358,801	1,035,610
Finance cost on asset retirement obligations (Note 30)	202,568	121,470	172,250	111,864
Interest income (Note 30)	(244,612)	(367,008)	(286,046)	(386,958)
Amortisation charge (Note 7)	2,227,572	1,841,112	1,683,928	1,427,708
Depreciation charge (Note 8)	16,827,822	13,957,252	11,438,934	9,678,420
Impairment and write off of property, plant and equipment (Note 8)	53,680	570,519	67,443	379,737
Release of TDC disbursement (Note 22)	(231,790)	(257,920)	(210,584)	(232,451)
Site abandonment cost	(15,089)	(10,282)	(7,423)	(2,510)
Defined benefit obligations (Note 24)	224,659	215,331	181,722	176,589
Impairment of slow moving inventory	63,594	21,906	54,194	15,114
Share of loss from associates (Note 10)	13,426	8,119	-	-
Net loss of financial instruments at fair value through profit or loss	90	-	-	-
Changes in working capital				
- Trade and other receivables	2,278,274	(6,189,288)	1,206,673	(3,885,509)
- Other financial assets	110,493	-	-	-
- Inventories	(262,960)	(140,108)	133,888	(144,127)
- Trade payables	1,961,109	2,364,056	2,416,542	826,999
- Other financial liabilities	(236,470)	-	-	-
<b>Cash generated from operations</b>	<b>38,331,388</b>	<b>25,878,823</b>	<b>30,635,762</b>	<b>22,239,395</b>

**(b) Reconciliation of liabilities arising from financing activities**

	Group 2017	Company 2017
<b>Bank Borrowings</b>		
At 1 January	32,550,959	32,355,371
Proceeds from borrowings	7,095,635	6,164,055
Repayments of borrowings	(7,107,399)	(6,164,055)
Foreign exchange adjustments	508,961	508,961
Other non-cash movements	219,858	219,858
<b>At 31 December</b>	<b>33,268,014</b>	<b>33,084,190</b>

**34 CONTINGENCIES****(a) Pending litigations**

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 such legal claims except for:

**(i) Inquiry by Sri Lanka Customs**

In August 2008, Sri Lanka Customs ('SLC') detained a shipment of CDMA Customers' Premises Equipment ('CPE') belonging to DBN and commenced an investigation into the eligibility of these items falling under the duty exemptions granted under the terms and conditions of the agreement with the Board of Investment of Sri Lanka. The shipment was cleared by DBN submitting bank guarantees and thereafter shipments of CPE were cleared by paying duty 'Under Protest'. The main contention of SLC was that the CDMA CPE could not be considered a fixed asset. SLC commenced an inquiry into this matter on 30 January 2009 which was temporarily suspended upon a proposed settlement by the Secretary to the Treasury in May 2010. However, SLC have now taken steps to continue with inquiry. The next date of inquiry is yet to be fixed.

The Directors are of the opinion that no material liability would result from the inquiry.

**(ii) Guarantee given by the Company against pending litigations**

Guarantee has been given by the Company on behalf of Dialog Broadband Networks (Private) Limited in the form of a bank guarantee for the value of Rs. 1Bn and a corporate guarantee for the value of Rs. 3.2Bn in the writ pending appeal application filed by Electroteks Network Services (Private) Limited.

**(b) Guarantees**

Guarantees given by the Company and the Group as at 31 December except as disclosed under 34 (a) (ii) above are as follows:

	Group		Company	
	2017	2016	2017	2016
Corporate guarantees	8,842	8,842	8,842	8,842
Bank guarantees	388,812	693,341	212,391	516,045
	<b>397,654</b>	<b>702,183</b>	<b>221,233</b>	<b>524,887</b>

## Notes to the Financial Statements

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

### 35 COMMITMENTS

#### (a) Capital commitments

	Group		Company	
	2017	2016	2017	2016
Supply of telecommunication equipment	11,939,945	10,205,021	6,573,148	5,666,101

#### (b) Financial commitments

At the end of the financial reporting period, the Group has the following annual commitments:

	2017	2016
Annual fees to the Board of Investment of Sri Lanka	2,095	1,939
Rental for site and office premises	3,676,979	3,417,021
Annual maintenance contracts	3,402,157	3,295,176

### 36 INCORPORATIONS AND ACQUISITIONS

#### (i) Acquisition of Colombo Trust Finance PLC

On 12 September 2017, the Company acquired a total of 37,374,598 ordinary shares of Colombo Trust Finance PLC, a finance company licensed by the Central Bank of Sri Lanka, representing 80.34% of the voting rights in CTF. The shares were acquired at a price of Rs. 28.70 per share amounting to a total consideration of Rs. 1,072,650,962.60.

Thereby, CTF is consolidated as a subsidiary of the Group for the year ended 31 December 2017. The resultant goodwill on acquisition was Rs. 709,933,067.

The Company made a mandatory offer to the minority shareholders of CTF as per the Company Take-Overs and Mergers Code 1995 (as amended in 2003) for the acquisition of the remaining 9,144,645 ordinary voting shares at an offer price of Rs. 28.70 per share. Subsequent to the closure of mandatory offer on 2 November 2017, Company's stake in CTF increased to 98.87%. A consideration amounting to Rs. 247,366,190 has been paid by the Company to acquire the additional 18.53% stake of CTF.

Following table summarises the consideration paid for CTF, the fair value of the assets acquired and liabilities assumed at the acquisition date.

	Rs.'000
Purchase consideration	1,072,651
<b>Total purchase consideration</b>	<b>1,072,651</b>
Fair value of assets acquired and liabilities assumed are as follows:	
Intangible assets	7,044
Property, plant and equipment	43,343
Deferred tax asset	5,347
Inventories	2
Receivables and prepayments	10,583
Other financial assets	1,151,488
Non-current assets held for sale	542
Cash and cash equivalents	74,713
Defined benefit obligation	(4,918)
Trade and other payables	(19,630)
Other financial liabilities	(817,035)
<b>Total net assets of acquiree</b>	<b>451,479</b>
Total net assets acquired by the Company (80.34%)	362,718
Goodwill on acquisition	709,933
	<b>1,072,651</b>
<b>Outflow of cash to acquire subsidiary, net of cash acquired</b>	
Cash consideration	1,072,651
Less: Cash acquired	(74,713)
<b>Net outflow of cash - investing activities</b>	<b>997,938</b>

**(ii) Incorporation of Dialog Axiata Digital Innovation Fund (Private) Limited**

Digital Holdings Lanka (Private) Limited, a wholly owned subsidiary of the Company together with Axiata Digital Services Sdn Bhd ('ADS'), and BOV Capital (Private) Limited ('BOV') entered into an Investment and Shareholders' Agreement to incorporate Dialog Axiata Digital Innovation Fund (Private) Limited with the objective of establishing and operating a venture capital fund for the investment in digital start-up businesses.

DADIF was incorporated on 12 October 2017 under the Companies Act No. 7 of 2007 with a stated capital of Rs. 40 which consists of four (4) ordinary shares with BOV holding 2 shares whilst DHL and ADS hold 1 share each. DADIF is consolidated as a subsidiary of the group for the year ended 31 December 2017 since DHL has the controlling power over DADIF to direct the activities that significantly affect the return of DADIF through the Investment and Shareholders' Agreement.

## Notes to the Financial Statements

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

### 37 RELATED PARTY TRANSACTIONS

(a) Axiata Investments (Labuan) Limited owns 83.32% of the total number of shares in issue of the Company. The remaining 16.68% of the shares are widely held. The ultimate parent of the Company is Axiata Group Berhad.

(b) The related parties with whom the Company had transactions in the ordinary course of business are set out below:

Sale of services:	Relationship	Company	
		2017	2016
i) Dialog Broadband Networks (Private) Limited	Subsidiary		
- Site sharing revenue		314,476	323,968
- International private lease circuits and satellite bandwidth revenue		441,442	611,055
- Voice revenue		75,585	105,220
- Local interconnection voice and SMS revenue		105,427	103,729
ii) Dialog Television (Private) Limited	Subsidiary		
- Satellite bandwidth service		5,623	5,623
iii) Digital Commerce Lanka (Private) Limited	Subsidiary		
- Other revenue		4,508	3,086
iv) Dialog Business Services (Private) Limited	Subsidiary		
- Voice revenue		1,416	-
v) Axiata Lanka (Private) Limited	Affiliate		
- Rendering of management services		5,217	4,661
vi) Telekom Malaysia Berhad	Affiliate		
- International private lease circuits revenue		22,489	17,547
- Interconnection revenue		29,055	71,166
vii) Multinet Pakistan (Private) Limited	Affiliate		
- Interconnection revenue		10,680	17,254
viii) M1 Limited (Singapore)	Affiliate		
- Interconnection revenue		227,544	30,489
ix) PT XL Axiata Tbk	Affiliate		
- Inbound roaming		13	184
- Interconnection revenue		105	203

Sale of services:	Relationship	Company	
		2017	2016
x) Celcom Axiata Berhad	Affiliate		
- Interconnection revenue		224,642	1,275,307
- Inbound roaming		435	1,299
- Other revenue		6,220	16,927
xi) Smart Axiata Company Limited	Affiliate		
- Interconnection revenue		128,594	245,852
- Inbound roaming		8	22
- Other revenue		29,016	39,888
xii) Axiata Digital Services Sdn Berhad	Affiliate		
- Other revenue		234,551	57,452
xiii) Ncell (Private) Limited	Affiliate		
- Inbound roaming		307	351
- Termination revenue		86,909	642
- Interconnection revenue		4,594	-
xiv) Robi Axiata Limited	Affiliate		
- Inbound roaming		26	99
- Axiata roaming services		9,254	8,874
- Other revenue		-	11,121
xv) Idea Cellular Limited	Affiliate		
- Interconnection revenue		16,845	174,137
		<b>1,984,981</b>	<b>3,126,156</b>

## Notes to the Financial Statements

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

### 37 RELATED PARTY TRANSACTIONS (CONTD.)

(b) The related parties with whom the Company had transactions in the ordinary course of business are set out below (Contd.):

Purchase of services:	Relationship	Company	
		2017	2016
i) Axiata Group Berhad	Ultimate parent		
- Head office support charges		332,308	229,999
ii) Dialog Broadband Networks (Private) Limited	Subsidiary		
- Infrastructure sharing cost		69,271	69,792
- Data lease line cost		101,333	100,013
- Transmission sharing cost		9,460	13,529
- Telephone charges		136,452	83,708
- Incoming local access charges, outgoing local access charges		110,505	167,140
- Interconnection charges		56,947	60,883
- Fibre sharing costs		1,401,672	596,859
- Site sharing rent		1,496	1,500
- Office rent		5,940	7,280
iii) Dialog Television (Private) Limited	Subsidiary		
- Initial connection fees for DAP staff		2,593	973
- Subscription fees for DAP staff		1,237	3,437
- Advertising		1,533	-
- Commission charges		155,699	-
iv) Dialog Business Services (Private) Limited	Subsidiary		
- Call centre charges		163,109	-
v) Firstsource Dialog Solutions (Private) Limited	Associate		
- Call centre charges		60,494	382,408
vi) Axiata Lanka (Private) Limited	Affiliate		
- Rental charges		20,837	21,262
vii) Telekom Malaysia Berhad	Affiliate		
- Origination cost		3,751	3,692
- Other network costs		30,896	29,600
- Foreign wet for last mile cost		14,448	58,375

Purchase of services:	Relationship	Company	
		2017	2016
viii) M1 Limited (Singapore)	Affiliate		
- Origination cost		5,785	2,007
ix) PT XL Axiata Tbk	Affiliate		
- Outbound roaming		576	1,393
- Interconnection charges		888	719
- Foreign wet cost		330	1,926
x) Smart Axiata Company Limited	Affiliate		
- Origination cost		81	155
- Outbound roaming		254	-
xi) Celcom Axiata Berhad	Affiliate		
- Origination cost		4,608	40,174
- Outbound roaming		1,327	2,954
xii) edotco Services Lanka (Private) Limited	Affiliate		
- Tower related services		203,177	109,978
xiii) Robi Axiata Limited	Affiliate		
- Outbound roaming cost		482	-
xiv) Ncell (Private) Limited	Affiliate		
- Origination cost		1,165,554	113,368
- Outbound roaming cost		1,523	2,388
xv) Idea Cellular Limited	Affiliate		
- Origination cost		7,774	42,343
		<b>4,072,340</b>	<b>2,147,855</b>
<b>Other transactions:</b>			
<b>(i) Funds made available to related parties:</b>			
Dialog Broadband Networks (Private) Limited	Subsidiary	981,000	5,040,100
Dialog Television (Private) Limited	Subsidiary	-	2,644,600
Digital Holdings Lanka (Private) Limited	Subsidiary	25,000	45,000
Digital Commerce Lanka (Private) Limited	Subsidiary	60,000	115,000
Digital Health (Private) Limited	Subsidiary	-	10,000
		<b>1,066,000</b>	<b>7,854,700</b>
<b>ii) Deposits in financial institutions:</b>			
Colombo Trust Finance PLC	Subsidiary	231,560	-
		<b>231,560</b>	<b>-</b>

## Notes to the Financial Statements

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

### 37 RELATED PARTY TRANSACTIONS (CONTD.)

(c) Key management personnel include members of the Group senior management of Dialog Axiata PLC and its subsidiary companies:

	Company	
	2017	2016
Short-term employee benefits	392,766	322,747
Defined benefit plans	131,787	106,632
	<b>524,553</b>	<b>429,379</b>

(d) Outstanding receivable balances arising from related company transactions:

	Group		Company	
	2017	2016	2017	2016
<b>Non-current receivables (Note 14)</b>				
- Dialog Broadband Networks (Private) Limited	-	-	-	21,844,394
- Dialog Television (Private) Limited	-	-	-	3,494,707
- Digital Holdings Lanka (Private) Limited	-	-	405,175	382,303
	-	-	<b>405,175</b>	<b>25,721,404</b>
<b>Current receivables (Note 14)</b>				
- Multinet Pakistan (Private) Limited	5,183	6,408	5,183	6,408
- M1 Limited (Singapore)	40,768	9,536	40,768	9,536
- Celcom Axiata Berhad	93	21,058	93	21,058
- Smart Axiata Company Limited	38,162	223,437	38,162	223,437
- PT XL Axiata Tbk	2,003	1,585	2,003	1,585
- Telekom Malaysia Berhad	4,537	14,783	4,537	14,783
- Robi Axiata Limited	81,641	40,891	75,550	40,891
- Idea Cellular Limited	2,270	9,644	2,270	9,644
- Digital Commerce Lanka (Private) Limited	-	-	210,911	59,922
- edotco Group Berhad	10,102	10,762	10,102	10,762
- Axiata Digital Service Sdn Berhad	163,619	80,132	163,619	80,132
- Axiata Management Services Sdn Berhad	688	-	688	-
- Axiata Business Services Sdn Berhad	868	-	868	-
- Digital Health (Private) Limited	-	-	51,687	25,194
- Digital Holdings Lanka (Private) Limited	-	-	4,492	-
- Dialog Axiata Digital Innovation Fund (Private) Limited	-	-	7,500	-
- Firstsource-Dialog Solutions (Private) Limited	44	-	44	-
- Colombo Trust Finance PLC	-	-	914	-
- Dialog Television (Private) Limited	-	-	549,402	-
- Dialog Broadband Networks (Private) Limited	-	-	2,607,670	1,602,519
	<b>349,978</b>	<b>418,236</b>	<b>3,776,463</b>	<b>2,105,871</b>

The current receivables from related companies are settled in the ordinary course of the business.

(e) Outstanding payable balances arising from related company transactions:

	Group		Company	
	2017	2016	2017	2016
<b>Amount due to ultimate parent company (Note 18)</b>				
- Axiata Group Berhad	799,663	393,100	799,663	393,100
<b>Amounts due to related companies (Note 18)</b>				
- Axiata Investment (Labuan) Limited	2,646,249	-	2,646,249	-
- Axiata Lanka (Private) Limited	63,915	53,022	63,915	53,022
- Telekom Malaysia Berhad	176,768	43,402	176,768	43,402
- Celcom Axiata Berhad	99,636	9,611	99,636	9,611
- Axiata Management Services Sdn Berhad	4,298	-	4,298	-
- Smart Axiata Company Limited	84	87	84	87
- PT XL Axiata Tbk	712	148	712	148
- Axiata Digital Services Sdn Berhad	120	-	120	-
- Robi Axiata Limited	69,233	55,553	69,233	55,553
- Ncell (Private) Limited	212,185	20,083	212,185	20,083
- Firstsource-Dialog Solutions (Private) Limited	-	61,873	-	56,191
- edotco Services Lanka (Private) Limited	95,197	58,251	90,027	41,958
- Digital Commerce Lanka (Private) Limited	-	-	16,335	12,097
- Dialog Business Services (Private) Limited	-	-	69,180	-
- Dialog Television (Private) Limited	-	-	1,361	-
- M1 Limited	173	-	173	-
- Dialog Broadband Networks (Private) Limited	-	-	-	135,433
	<b>3,368,570</b>	<b>302,030</b>	<b>3,450,276</b>	<b>427,585</b>

The above balances are settled in the ordinary course of business.

(f) Investment in short term deposits

	Group		Company	
	2017	2016	2017	2016
- Colombo Trust Finance PLC	-	-	231,560	-
	-	-	<b>231,560</b>	-

# Notes to the Financial Statements

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

## 37 RELATED PARTY TRANSACTIONS (CONTD.)

### (g) Non-recurrent related party transaction entered into during the financial year

Shareholder advance amounting to Rs. 22,825,393,438 extended by the Company to its wholly owned subsidiary Dialog Broadband Networks (Private) Limited was capitalised in form of ordinary shares during the course of financial year. The value of the transaction is 16% as a percentage of total assets as at 31 December 2016.

The Directors have disclosed the nature of their interests in contracts, which is entered in the interests register maintained by the Company.

There are no other related party transactions other than those disclosed above.

## 38 EVENTS AFTER THE REPORTING PERIOD

- (a) The Board of Directors has recommended a final dividend of Rs. 0.46 per share amounting to Rs. 3,746,138,066 for the financial year 2017, subject to the approval of the shareholders at the Annual General Meeting.
- (b) Digital Holdings Lanka (Private) Limited, a wholly owned subsidiary of the Company proceeded with the conversion to equity the 'Bond type D' in Headstart (Private) Limited, consisting of 258 Ordinary Shares on 1 January 2018. Subsequent to the said conversion, the total shareholding of DHL in Headstart increased from 43.37% to 50.59% consisting of a total of 1,024 Ordinary Shares. Accordingly, Headstart will be consolidated as a subsidiary of the Group from the period beginning 1 January 2018.

Except as disclosed above, no other circumstances have arisen since the statement of financial position date which require adjustments to or disclosure in the financial statements.

# US Dollar Financial Statements

## STATEMENT OF FINANCIAL POSITION

For Information purpose only

	Group		Company	
	31 December 2017	2016	31 December 2017	2016
	USD '000	USD '000	USD '000	USD '000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	124,773	109,743	41,791	29,524
Property, plant and equipment	652,733	600,627	427,212	403,260
Deferred tax assets	23	-	-	-
Investment in subsidiaries	-	-	310,262	128,352
Investment in associates	693	482	181	185
Trade and other receivables	1,216	-	3,861	171,762
Other financial assets	1,875	267	3,045	2,070
	<b>781,313</b>	<b>711,119</b>	<b>786,352</b>	<b>735,153</b>
<b>Current assets</b>				
Inventories	5,634	4,520	700	1,973
Trade and other receivables	101,386	119,974	92,731	106,330
Other financial assets	5,058	-	-	-
Derivative financial instruments	93	-	93	-
Cash and cash equivalents	54,891	53,722	51,467	45,386
	167,062	178,216	144,991	153,689
<b>Total assets</b>	<b>948,374</b>	<b>889,335</b>	<b>931,342</b>	<b>888,842</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders</b>				
Stated capital	268,540	268,540	268,540	268,540
Reserves	250,646	179,427	317,243	267,840
Non-controlling interest	(34)	99	-	-
Currency translation difference	(116,615)	(87,326)	(101,004)	(90,596)
<b>Total equity</b>	<b>402,537</b>	<b>360,740</b>	<b>484,779</b>	<b>445,784</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	167,260	175,715	167,260	175,715
Other financial liabilities	1,940	-	-	-
Derivative financial instruments	-	97	-	97
Deferred revenue	9,100	11,069	7,400	8,866
Deferred income tax liabilities	-	-	-	-
Employee benefit payables	8,836	9,166	7,641	8,028
Provision for other liabilities	11,345	8,746	9,556	7,282
	<b>198,481</b>	<b>204,793</b>	<b>191,857</b>	<b>199,988</b>
<b>Current liabilities</b>				
Trade and other payables	268,218	265,399	188,428	190,056
Borrowings	71,567	52,569	60,821	47,191
Other financial liabilities	1,849	-	-	-
Derivative financial instrument	-	104	-	104
Current income tax liabilities	5,723	5,730	5,458	5,719
	347,357	323,802	254,707	243,070
<b>Total liabilities</b>	<b>545,838</b>	<b>528,595</b>	<b>446,564</b>	<b>443,058</b>
<b>Total equity and liabilities</b>	<b>948,374</b>	<b>889,335</b>	<b>931,342</b>	<b>888,842</b>
Exchange rate	153.230	149.750	153.230	149.750

# US Dollar Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME

For Information purpose only

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
	USD '000	USD '000	USD '000	USD '000
Revenue	617,850	595,771	508,966	501,032
Direct costs	(322,993)	(315,779)	(266,010)	(256,057)
Gross profit	294,857	279,992	242,956	244,975
Distribution costs	(92,727)	(92,952)	(74,813)	(78,353)
Administrative costs	(105,335)	(98,833)	(77,555)	(73,695)
Other income	297	495	537	532
Operating profit	97,092	88,702	91,125	93,459
Finance income	1,604	2,521	1,876	2,658
Finance costs	(17,049)	(18,752)	(13,430)	(14,373)
Finance costs - net	(15,445)	(16,231)	(11,554)	(11,715)
Share of loss from associates - net of tax	(88)	(56)	-	-
Profit before income tax	81,559	72,415	79,571	81,744
Income tax	(10,983)	(10,421)	(10,691)	(10,811)
<b>Profit for the year</b>	<b>70,576</b>	<b>61,994</b>	<b>68,880</b>	<b>70,933</b>
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified to profit or loss</b>				
- remeasurement gain on defined benefit obligation	1,188	1,800	967	1,386
<b>Items that may be subsequently reclassified to profit or loss</b>				
- net change in cash flow hedge	247	(59)	247	(59)
<b>Other comprehensive income for the year</b>	<b>1,435</b>	<b>1,741</b>	<b>1,214</b>	<b>1,327</b>
<b>Total comprehensive income for the year</b>	<b>72,011</b>	<b>63,735</b>	<b>70,094</b>	<b>72,260</b>
Profit/(loss) for the year is attributable to:				
- owners of the Company	70,744	62,096	68,880	70,933
- non-controlling interest	(168)	(102)	-	-
Total comprehensive income for the year is attributable to:				
- owners of the Company	72,179	63,837	70,094	72,260
- non-controlling interest	(168)	(102)	-	-
Annual average exchange rates	152.458	145.602	152.458	145.602

# Group Value Added Statement

For the year ended 31 December

	2017 Rs.'000	2016 Rs.'000
<b>Value added</b>		
Revenue	94,195,890	86,745,233
Other operating income	45,236	72,096
Interest income	244,612	367,008
	94,485,738	87,184,337
Cost of materials and services bought in	(44,111,601)	(41,103,760)
<b>Value creation</b>	<b>50,374,137</b>	<b>46,080,577</b>
<b>Distribution of value added</b>		
<b>To employees</b>		
Salaries and other benefits	7,254,108	6,281,310
<b>To government</b>		
Taxes, fees and levies (Note 01)	9,017,746	10,718,690
<b>To lenders of capital</b>		
Interest on borrowings	1,658,003	1,440,228
	<b>1,658,003</b>	<b>1,440,228</b>
<b>To shareholders as dividends</b>		
Dividend to shareholders	3,176,074	2,606,009
	<b>3,176,074</b>	<b>2,606,009</b>
<b>Retained in the business</b>		
Profit retained	10,212,812	9,235,977
Depreciation and amortization	19,055,394	15,798,363
	<b>29,268,206</b>	<b>25,034,340</b>
	<b>50,374,137</b>	<b>46,080,577</b>
<b>Distribution of value added</b>		
To employees	15%	14%
To government	18%	23%
To lenders of capital	3%	3%
To shareholders as dividends	6%	6%
Retained in the business	58%	54%

Note 01: Includes direct taxes, fees and levies

# Five Year Summary

31 December	GROUP				
	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000
<b>OPERATING RESULTS</b>					
Turnover	94,195,890	86,745,233	73,929,855	67,285,594	63,297,591
EBIT	14,802,277	12,915,206	9,496,779	8,053,788	7,663,957
Finance costs	(2,354,605)	(2,363,340)	(2,759,010)	(615,961)	(1,306,489)
Share of loss from associate	(13,426)	(8,119)	(32,906)	(107,639)	(29,542)
Profit before tax	12,434,246	10,543,747	6,704,863	7,330,188	6,327,926
Profit after tax	10,759,755	9,026,395	5,187,326	6,097,750	5,201,030
Total comprehensive income	10,978,455	9,279,934	5,340,145	5,872,250	5,194,142
<b>CAPITAL EMPLOYED</b>					
Stated capital	28,103,913	28,103,913	28,103,913	28,103,913	28,103,913
Shares in ESOS Trust	-	-	-	-	(1,990,921)
Dividend reserve - ESOS	-	-	-	-	383,754
Hedging reserve	22,391	(15,262)	(6,663)	(39,337)	-
Share payment reserve	16,341	-	-	-	-
Retained earnings	33,544,509	25,917,809	19,220,402	16,767,714	13,238,824
Shareholders fund	61,687,154	54,006,460	47,317,652	44,832,290	39,735,570
Non-controlling interest	(6,158)	14,420	(697)	-	-
Total debt	36,595,480	34,185,577	25,407,241	29,911,528	29,357,353
	<b>98,276,476</b>	<b>88,206,457</b>	<b>72,724,196</b>	<b>74,743,818</b>	<b>69,092,923</b>
<b>ASSETS EMPLOYED</b>					
Property, plant & equipment	100,018,295	89,943,822	79,060,275	71,264,570	68,450,923
Other non-current assets	19,702,336	16,546,284	17,461,762	16,633,699	17,577,989
Current assets	25,598,921	26,687,929	22,068,127	24,280,875	18,375,237
Liabilities, net of debt	(47,043,076)	(44,971,578)	(45,865,968)	(37,435,326)	(35,311,226)
	<b>98,276,476</b>	<b>88,206,457</b>	<b>72,724,196</b>	<b>74,743,818</b>	<b>69,092,923</b>
<b>CASH FLOW</b>					
Net cash generated from operating activities	35,153,771	23,005,415	21,478,374	24,614,465	21,886,696
Net cash used in investing activities	(31,352,878)	(28,110,150)	(16,614,148)	(17,004,152)	(27,902,783)
Net cash (used in)/generated from financing activities	(3,435,205)	6,108,731	(8,654,251)	(345,790)	635,622
Net increase/(decrease) in cash and cash equivalents	365,688	1,003,996	(3,790,025)	7,264,523	(5,380,465)
<b>KEY INDICATORS</b>					
Basic Earnings Per Share (Rs.)	1.32	1.11	0.64	0.76	0.65
Interest Cover (Times)	10.47	12.03	28.12	15.48	23.34
Net Asset Per Share (Rs.)	7.57	6.63	5.81	5.50	4.88
Current Ratio (Times)	0.48	0.55	0.43	0.65	0.42
Price Earnings Ratio (Times)	9.82	9.46	16.72	17.50	13.82
Dividend Per share	0.46	0.39	0.32	0.13	0.29
Dividend Yield (%)	3.5	3.7	3.0	1.0	3.2
Market Price Per Share (Rs.)	13.00	10.50	10.70	13.30	9.00

# Group Real Estate Portfolio

Owning company and location	Land in acres		Net book value	
	Buildings in sq feet	Land in acres freehold	2017 Rs. '000	2016 Rs. '000
<b>Properties in Colombo</b>				
<b>Dialog Axiata PLC</b>				
No.475, Union Place, Colombo 02	74,255		323,047	336,049
No.25, Samarakoon Mawatha, Thumbowila, Piliyandala	22,506		36,013	37,454
Foster Lane Car Park and Training Centre No 475, Union Place Colombo 02,	61,266		319,243	326,444
New office Building	147,600		1,411,208	1,453,384
<b>Dialog Broadband Networks (Private) Limited</b>				
No.24, Foster Lane, Union Place, Colombo 02		0.24	129,998	129,998
DBN Site, Welivita Road, Malabe	15,000	3.76	567,285	455,534
No.55/2C, Old Avissawella Road, Kotikawatta	12,360	0.48	34,234	35,001
DBN Site, De Soysa Road, Mount Lavinia		0.17	44,428	44,428
Kaluandura, Puwakkpitiya, Avissawella		0.66	931	931
DBN Site, 86/14, 15th Lane, Talangama,				
Battaramulla		0.06	1,680	1,680
Kottawa, Mattegoda and Rukmale		0.13	2,212	2,212
DBN Site, Imbaulakannda,				
Gamunu Road, Homagama		0.09	779	779
DBN Site, Homagama		0.07	1,646	1,646
<b>Properties outside Colombo Dialog Broadband Networks (Private) Limited</b>				
Saliya Mawatha, Anuradhapura		1.92	7,778	7,778
Punachchimal Road, Ward 40, Batticaloa		0.25	4,131	4,131
Thambakanda, Kochchikade		0.80	1,275	1,275
Kotakanda, Kuda Bingiriya, Madampe		0.70	1,477	1,477
Walagamageatta, Browns Hill, Matara		0.23	7,088	7,088
Anuradhapura Road, Baristapura, Puttalam		2.32	7,624	7,624
Ambalankanda, Horana		0.13	400	400
Meekanuwa, Kandy		0.18	1,403	1,403
Gonawala, Gampaha		0.12	609	609
Ganemulla Ragama, Gampaha		0.13	400	400
Kendaliyaddapaluwa Ragama, Gampaha		0.07	531	531
Ekala, Gampaha		0.13	1,100	1,100
Seeduwa, Gampaha		0.13	1,000	1,000
Kattuwa, Negombo		0.09	657	657
Pitakanda, Kandy		0.54	3,500	3,500
Bolawalana, Negombo		0.10	1,950	1,950
Hanthona, Kandy		0.25	2,133	2,133
Kurana, Negombo		0.12	1,380	1,380
Ketakelehawatta, Panadura		0.17	1,960	1,960
Katugasthota, Kandy		0.08	1,413	1,413
<b>Colombo Trust Finance PLC</b>				
No.21, Kumara Veediya, Kandy	3,040	0.02	33,371	-
<b>Furnishing and fixtures on leaseholding building</b>				
			527,059	288,291
<b>Total land and building</b>			<b>3,480,943</b>	<b>3,161,640</b>

# Notice of Annual General Meeting

## **DIALOG AXIATA PLC (PQ 38)**

NOTICE IS HEREBY GIVEN THAT THE TWENTY FIRST ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON THURSDAY, 10 MAY 2018 AT 8:30 AM AT THE BALMORAL, THE KINGSBURY HOTEL, NO. 48, JANADHIPATHI MAWATHA, COLOMBO 1

### **1. ORDINARY RESOLUTION 1**

To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2017 and the Auditors' Report thereon.

### **2. ORDINARY RESOLUTION 2**

To declare a final dividend as recommended by the Board of Directors.

### **3. ORDINARY RESOLUTION 3**

To re-elect as a Director, Deshamanya Mahesh Amalean, who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.

### **4. ORDINARY RESOLUTION 4**

To re-elect as a Director, Mr. Thandalam Veeravalli Thirumala Chari, who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.

### **5. ORDINARY RESOLUTION 5**

To re-elect as a Director, Mr. Willem Lucas Timmermans, who was appointed to the Board since the last Annual General Meeting pursuant to Article 109 of the Articles of Association of the Company.

### **6. ORDINARY RESOLUTION 6**

To re-elect as a Director, Datuk Azzat Kamaludin, who attained the age of 72 years on 8 September 2017 and retires pursuant to Section 210 of the Companies Act No. 7 of 2007 and to resolve 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 Datuk Azzat Kamaludin.

### **7. ORDINARY RESOLUTION 7**

To re-elect as a Director, Mr. Mohamed Muhsin, who attained the age of 74 years on 16 October 2017 and retires pursuant to Section 210 of the Companies Act

No. 7 of 2007 and to resolve 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. Mohamed Muhsin.

### **8. ORDINARY RESOLUTION 8**

To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.

### **9. ORDINARY RESOLUTION 9**

To authorise the Directors to determine and make donations.

By Order of the Board



### **Ms. Viranthi Attygalle**

*Group Company Secretary*  
31 March 2018  
Colombo

### **Notes:**

- i) Only persons who are shareholders of the Company and whose names appear on the Share Register as at the AGM date will be entitled to attend the above meeting.
- ii) 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.
- iii) A proxy need not be a shareholder of the Company. However the proxy must be above 18 years of age.
- iv) 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.
- v) For more information, please refer Administrative Details enclosed herewith.

# Administrative Details for the 21st Annual General Meeting

**DATE** : Thursday, 10 May 2018  
**TIME** : 8.30 AM  
**VENUE** : The Balmoral, The Kingsbury Hotel,  
No. 48, Janadhipathi Mawatha,  
Colombo 1

## REGISTRATION

1. Registration will be from 7:30 AM to 8:30 AM.
2. Please produce your National Identity Card (NIC) to the registration staff for verification.
3. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
4. After registration, please leave the registration area immediately and proceed to the meeting hall.
5. The registration counters will handle only verification of identity and registration.

## HELP DESK

6. Please proceed to the Help Desk for any clarification or queries.
7. The Help Desk will also handle revocation of proxy's appointment.

## ENTITLEMENT TO ATTEND AND VOTE

8. Only persons who are shareholders of the Company and whose names appear on the Share Register as at the AGM date will be entitled to attend the above meeting.

## PROXY

9. A shareholder entitled, as set out above, to attend and vote at the meeting but is unable to attend the meeting, is entitled to appoint a proxy to attend and vote at the AGM instead of him/her by completing the Form of Proxy enclosed herewith.

10. The Form of Proxy should only be used for the purpose of appointing a proxy to attend and vote on your behalf at the meeting in the event you are unable to attend the meeting, and should not be used to confirm participation at the AGM.
11. If you have submitted your Form of Proxy prior to the meeting and subsequently decide to attend the meeting yourself, please proceed to the Help Desk to revoke the appointment of your proxy. You will not be allowed to attend the meeting together with a proxy appointed by you.
12. In order to be valid, the Form of Proxy must be duly completed and forwarded to the Group Company Secretary, Dialog Axiata PLC, No. 475, Union Place, Colombo 2, and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 8:30 AM on 8 May 2018.

## ENQUIRIES

13. If you have general queries prior to the meeting, you may contact us on our Shareholder Helpline on +94 773 908 929 or contact Ms. Rochelle Alahakone on +94 777 088 900 during working hours.



A large rectangular area with rounded corners, containing 30 horizontal lines for writing.



# Form of Proxy

I/We (name of shareholder/s) .....  
 (Holder of NIC/Passport/Company Registration No./s .....)  
 of (address of shareholder/s) .....  
 being a shareholder/s of **Dialog Axiata PLC**, hereby appoint :

(Name of proxy).....  
 (holder of NIC/Passport No/s .....)  
 of (address of proxy) .....

OR failing him/her

Datuk Azzat Kamaludin (Chairman of the Company) or, failing him, one of the Directors of the Company

as my/our proxy to represent me/us and vote on my/our behalf in accordance with the preference as indicated below at the Twenty First Annual General Meeting of the Company to be held on 10 May 2018 at 8:30 AM and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

Resolutions	For	Against
Ordinary Business:		
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		
Ordinary Resolution 4		
Ordinary Resolution 5		
Ordinary Resolution 6		
Ordinary Resolution 7		
Ordinary Resolution 8		
Ordinary Resolution 9		

(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.)

Signature(s) of Shareholder(s)	Contact No. of Shareholder/s	Date

**NOTE:**

Instructions as to completion of the Form of Proxy are on the reverse hereof.

# Form of Proxy

## Notes and Instructions as to Completion of Form of Proxy

1. A shareholder entitled to attend and vote at the meeting but is unable to attend the meeting, can appoint not more than one proxy to attend and vote at the AGM instead of him/her, by completing the Form of Proxy.
2. Please complete the Form of Proxy by filling in legibly, your full name, address and contact number and thereafter date and sign in the space provided.
3. In order to be valid, the Form of Proxy must be duly completed and forwarded to the Group Company Secretary, Dialog Axiata PLC, No. 475, Union Place, Colombo 2, and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 8:30 AM on 8 May 2018.
4. 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.
5. 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.
6. The Form of Proxy should only be used for the purpose of appointing a proxy to attend and vote on your behalf at the meeting in the event you are unable to attend the meeting, and should not be used to confirm participation at the AGM.
7. If a shareholder has submitted a Form of Proxy prior to the meeting and subsequently decides to attend the meeting him/herself, he/she should take immediate steps to revoke the appointment of proxy.

# Corporate Information

## NAME OF COMPANY

Dialog Axiata PLC

## COMPANY REGISTRATION NO.

PQ 38

## REGISTERED ADDRESS

475, Union Place  
Colombo 02  
Sri Lanka  
Telephone: +94 777 678 700  
Website: www.dialog.lk

## LEGAL FORM

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

## STOCK EXCHANGE LISTING

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

## BOARD OF DIRECTORS

Datuk Azzat Kamaludin - *Chairman*  
Mr. Supun Weerasinghe - *Group Chief Executive*  
Dr. Hans Wijayasuriya  
Mr. Mohamed Muhsin  
Mr. James Maclaurin  
Deshamanya Mahesh Amalean  
Mr. Chari TVT  
Mr. Dominic Paul Arena  
Tan Sri Jamaludin Ibrahim -  
*Alternate Director to Mr. Dominic Paul Arena*  
Mr. Willem Lucas Timmermans

## GROUP COMPANY SECRETARY

Ms. Viranthi Attygalle

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## AUDITORS

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

## CONTACT FOR SHAREHOLDER SERVICES

Group Corporate Services  
Telephone: +94 773 908 929  
Fax: +94 117 694 350  
E-mail: cosecunit@dialog.lk

## CONTACT FOR INVESTOR RELATIONS

Group Investor Relations  
Telephone: +94 777 080 748  
E-mail: ir@dialog.lk

## CONTACT FOR MEDIA

Group Corporate Communications  
Telephone: +94 777 080 388  
E-mail: corporate.communications@dialog.lk

## SUBSIDIARY COMPANIES

- Dialog Broadband Networks (Pvt) Ltd - 100%
  - ▶ Teletcard (Pvt) Ltd - 100%
- Dialog Television (Pvt) Ltd - 100%
  - ▶ Communiq Broadband Network (Pvt) Ltd - 100%
- Dialog Device Trading (Pvt) Ltd - 100%
- Digital Holdings Lanka (Pvt) Ltd - 100%
  - ▶ Digital Commerce Lanka (Pvt) Ltd (together with Dialog's direct shareholding) - 100%
  - ▶ Digital Health (Pvt) Ltd - 70%
  - ▶ Headstart (Pvt) Ltd - 50.59%
  - ▶ Dialog Axiata Digital Innovation Fund (Pvt) Ltd - 25%
- Dialog Business Services (Pvt) Ltd - 100%
- Colombo Trust Finance PLC - 98.87%

## ASSOCIATE COMPANIES

- Firstsource-Dialog Solutions (Pvt) Ltd - 26%

[www.dialog.lk](http://www.dialog.lk)