

DIALOG AXIATA PLC

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THIRD QUARTER ENDED
30 SEPTEMBER 2018**



Report on Review of Condensed Consolidated Interim Financial Information To the Directors of Dialog Axiata PLC

Introduction

We have reviewed the accompanying condensed statements of financial position of Dialog Axiata PLC and its subsidiaries as at September 30, 2018, and the related statements of comprehensive income, changes in equity and cash flows for the period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with the Sri Lanka Accounting Standard 34 [LKAS 34] - Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the Sri Lanka Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making of inquiries, preliminarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Sri Lanka Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with the Sri Lanka Accounting Standard 34 [LKAS 34] - Interim Financial Reporting.

8 November 2018

Date



PricewaterhouseCoopers

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DIALOG AXIATA PLC

Statements of financial position

(all amounts in Sri Lanka Rupees thousands)

| | Group | | Company | |
|--|---------------------------|--------------------------|---------------------------|--------------------------|
| | 30 Sep 2018 (Reviewed) | 31 Dec 2017 (Audited) | 30 Sep 2018 (Reviewed) | 31 Dec 2017 (Audited) |
| ASSETS | | | | |
| Non-current assets | | | | |
| Intangible assets | 23,314,809 | 19,118,899 | 8,161,032 | 6,403,659 |
| Property, plant and equipment | 104,581,474 | 100,018,295 | 68,108,736 | 65,461,770 |
| Deferred tax asset | 19,455 | 3,572 | - | - |
| Investment in subsidiaries | - | - | 48,964,650 | 47,541,414 |
| Investment in associates | 161,532 | 106,211 | 13,871 | 27,742 |
| Trade and other receivables | 203,198 | 186,385 | 734,065 | 591,560 |
| Other financial assets | 366,066 | 287,269 | - | 466,655 |
| | 128,646,534 | 119,720,631 | 125,982,354 | 120,492,800 |
| Current assets | | | | |
| Inventories | 1,171,263 | 863,252 | 125,145 | 107,303 |
| Trade and other receivables | 17,694,014 | 15,535,339 | 21,095,434 | 14,209,175 |
| Other financial assets | 927,942 | 775,059 | - | - |
| Derivative financial instrument | - | 14,311 | - | 14,311 |
| Cash and cash equivalents | 8,942,583 | 8,410,960 | 7,800,321 | 7,886,345 |
| | 28,735,802 | 25,598,921 | 29,020,900 | 22,217,134 |
| Total assets | 157,382,336 | 145,319,552 | 155,003,254 | 142,709,934 |
| EQUITY | | | | |
| Capital and reserves attributable to equity holders | | | | |
| Stated capital | 28,103,913 | 28,103,913 | 28,103,913 | 28,103,913 |
| Reserves | 38,917,635 | 33,583,241 | 50,361,669 | 46,178,818 |
| Non-controlling interest | 24,577 | (6,158) | - | - |
| Total equity | 67,046,125 | 61,680,996 | 78,465,582 | 74,282,731 |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Borrowings | 39,805,156 | 25,629,323 | 39,805,156 | 25,629,323 |
| Other financial liabilities | 8,311 | 297,205 | - | - |
| Deferred revenue | 998,575 | 1,394,415 | 998,575 | 1,133,841 |
| Contract liabilities | 945,392 | - | 97,355 | - |
| Deferred tax liabilities | 854 | - | - | - |
| Employee benefit payables | 1,440,021 | 1,353,939 | 1,226,618 | 1,170,841 |
| Provision for other liabilities | 1,782,433 | 1,738,411 | 1,506,575 | 1,464,309 |
| | 44,980,742 | 30,413,293 | 43,634,279 | 29,398,314 |
| Current liabilities | | | | |
| Trade and other payables | 31,814,438 | 41,098,872 | 22,248,596 | 28,873,036 |
| Borrowings | 6,653,577 | 10,966,157 | 5,300,411 | 9,319,590 |
| Other financial liabilities | 396,459 | 283,360 | - | - |
| Contract liabilities | 5,450,581 | - | 4,347,865 | - |
| Current income tax liabilities | 1,040,414 | 876,874 | 1,006,521 | 836,263 |
| | 45,355,469 | 53,225,263 | 32,903,393 | 39,028,889 |
| Total liabilities | 90,336,211 | 83,638,556 | 76,537,672 | 68,427,203 |
| Total equity and liabilities | 157,382,336 | 145,319,552 | 155,003,254 | 142,709,934 |
| Net assets per share (Rs.) | 8.23 | 7.57 | 9.64 | 9.12 |

The notes on pages 8 to 17 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.

.....
Group Chief Financial Officer

Date: 8/11/2018

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

.....
Director

Date: 8/11/2018

.....
Director

Date: 8/11/2018

DIALOG AXIATA PLC

Statements of comprehensive income

(all amounts in Sri Lanka Rupees thousands)

| | Group | | Company | |
|---|---------------------|--------------------|---------------------|--------------------|
| | Period ended 30 Sep | | Period ended 30 Sep | |
| | 2018 (Reviewed) | 2017 (Reviewed) | 2018 (Reviewed) | 2017 (Reviewed) |
| Revenue | 80,640,405 | 69,394,515 | 63,159,679 | 57,424,957 |
| Direct costs | (42,993,392) | (36,720,581) | (32,098,748) | (30,360,638) |
| Gross profit | 37,647,013 | 32,673,934 | 31,060,931 | 27,064,319 |
| Distribution costs | (10,501,329) | (10,313,955) | (8,844,403) | (8,717,709) |
| Administrative costs | (13,976,990) | (11,616,261) | (9,860,417) | (8,440,041) |
| Other income | 86,080 | 24,536 | 60,416 | 57,097 |
| Operating profit | 13,254,774 | 10,768,254 | 12,416,527 | 9,963,666 |
| Finance income | 188,437 | 181,284 | 218,891 | 210,737 |
| Finance costs | (4,517,215) | (2,068,901) | (4,166,208) | (1,559,281) |
| Finance costs - net | (4,328,778) | (1,887,617) | (3,947,317) | (1,348,544) |
| Share of profit / (loss) from associates - net of tax | 716 | (22,442) | - | - |
| Profit before income tax | 8,926,712 | 8,858,195 | 8,469,210 | 8,615,122 |
| Income tax expense | (1,553,804) | (1,257,304) | (1,516,372) | (1,216,359) |
| Profit for the period | 7,372,908 | 7,600,891 | 6,952,838 | 7,398,763 |
| Other comprehensive income for the period | | | | |
| - net change in cash flow hedge | (22,391) | 38,195 | (22,391) | 38,195 |
| Total comprehensive income for the period | 7,350,517 | 7,639,086 | 6,930,447 | 7,436,958 |
| Profit/(loss) for the period is attributable to: | | | | |
| - owners of the Company | 7,409,318 | 7,613,977 | 6,952,838 | 7,398,763 |
| - non-controlling interest | (36,410) | (13,086) | - | - |
| Total comprehensive income for the period is attributable to: | | | | |
| - owners of the Company | 7,386,927 | 7,652,172 | 6,930,447 | 7,436,958 |
| - non-controlling interest | (36,410) | (13,086) | - | - |
| Basic earnings per share for profit attributable to the equity holders of the Company (Rs.) | 0.91 | 0.93 | 0.85 | 0.91 |

The notes on pages 8 to 17 form an integral part of these financial statements.

DIALOG AXIATA PLC

Statements of comprehensive income

(all amounts in Sri Lanka Rupees thousands)

| | Group | | Company | |
|---|---------------------------|------------------|---------------------------|------------------|
| | Three months ended 30 Sep | | Three months ended 30 Sep | |
| | 2018 | 2017 | 2018 | 2017 |
| | (Reviewed) | (Reviewed) | (Reviewed) | (Reviewed) |
| Revenue | 27,950,820 | 24,217,733 | 21,210,337 | 20,055,312 |
| Direct costs | (15,466,945) | (12,727,743) | (10,407,469) | (10,486,828) |
| Gross profit | 12,483,875 | 11,489,990 | 10,802,868 | 9,568,484 |
| Distribution costs | (3,431,830) | (3,154,651) | (2,999,100) | (2,759,769) |
| Administrative costs | (4,406,348) | (3,933,472) | (3,269,855) | (2,888,360) |
| Other (expenses) / income | (3,426) | 20,887 | (3,934) | 33,096 |
| Operating profit | 4,642,271 | 4,422,754 | 4,529,979 | 3,953,451 |
| Finance income | 76,132 | 90,023 | 83,433 | 76,524 |
| Finance costs | (2,537,973) | (360,663) | (2,373,844) | (286,012) |
| Finance costs - net | (2,461,841) | (270,640) | (2,290,411) | (209,488) |
| Share of loss from associates - net of tax | (296) | (3,108) | - | - |
| Profit before income tax | 2,180,134 | 4,149,006 | 2,239,568 | 3,743,963 |
| Income tax expense | (473,973) | (430,228) | (451,839) | (428,532) |
| Profit for the period | 1,706,161 | 3,718,778 | 1,787,729 | 3,315,431 |
| Other comprehensive income for the period | | | | |
| - net change in cash flow hedge | (15,129) | (3,006) | (15,129) | (3,006) |
| Total comprehensive income for the period | 1,691,032 | 3,715,772 | 1,772,600 | 3,312,425 |
| Profit/(loss) for the period is attributable to: | | | | |
| - owners of the Company | 1,721,029 | 3,721,298 | 1,787,729 | 3,315,431 |
| - non-controlling interest | (14,868) | (2,520) | - | - |
| Total comprehensive income for the period is attributable to: | | | | |
| - owners of the Company | 1,705,900 | 3,718,292 | 1,772,600 | 3,312,425 |
| - non-controlling interest | (14,868) | (2,520) | - | - |
| Basic earnings per share for profit attributable to the equity holders of the Company (Rs.) | 0.21 | 0.46 | 0.22 | 0.41 |

The notes on pages 8 to 17 form an integral part of these financial statements.

DIALOG AXIATA PLC

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 2018 | 28,103,913 | 33,583,241 | (6,158) | 61,680,996 |
| Change in accounting policy | - | 1,642,222 | - | 1,642,222 |
| Restated total equity as at 1 January 2018 | 28,103,913 | 35,225,463 | (6,158) | 63,323,218 |
| Profit/(loss) for the period | - | 7,409,318 | (36,410) | 7,372,908 |
| Other comprehensive income | - | (22,391) | - | (22,391) |
| Total comprehensive income for the period | - | 7,386,927 | (36,410) | 7,350,517 |
| Non-controlling interest on acquisition of subsidiary | - | - | 69,506 | 69,506 |
| Transaction with non-controlling interest | - | 2,361 | (2,361) | - |
| Employee share schemes - value of employee services | - | 49,022 | - | 49,022 |
| Dividends to equity shareholders | - | (3,746,138) | - | (3,746,138) |
| Balance at 30 September 2018 | 28,103,913 | 38,917,635 | 24,577 | 67,046,125 |
| Balance at 1 January 2017 | 28,103,913 | 25,902,547 | 14,420 | 54,020,880 |
| Profit/(loss) for the period | - | 7,613,977 | (13,086) | 7,600,891 |
| Other comprehensive income | - | 38,195 | - | 38,195 |
| Total comprehensive income for the period | - | 7,652,172 | (13,086) | 7,639,086 |
| Non-controlling interest on acquisition of subsidiary | - | - | 88,761 | 88,761 |
| Dividends to equity shareholders | - | (3,176,074) | - | (3,176,074) |
| Balance at 30 September 2017 | 28,103,913 | 30,378,645 | 90,095 | 58,572,653 |
| Balance at 1 October 2017 | 28,103,913 | 30,378,645 | 90,095 | 58,572,653 |
| Profit/(loss) for the period | - | 3,171,447 | (12,583) | 3,158,864 |
| Other comprehensive income | - | 180,505 | - | 180,505 |
| Total comprehensive income for the period | - | 3,351,952 | (12,583) | 3,339,369 |
| Transactions with non-controlling interest | - | (163,697) | (83,670) | (247,367) |
| Employee share schemes - value of employee services | - | 16,341 | - | 16,341 |
| Balance at 31 December 2017 | 28,103,913 | 33,583,241 | (6,158) | 61,680,996 |

The notes on pages 8 to 17 form an integral part of these financial statements.

DIALOG AXIATA PLC**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 2018 | 28,103,913 | 46,178,818 | 74,282,731 |
| Change in accounting policy | - | 949,520 | 949,520 |
| Restated total equity as at 1 January 2018 | 28,103,913 | 47,128,338 | 75,232,251 |
| Profit for the period | - | 6,952,838 | 6,952,838 |
| Other comprehensive income | - | (22,391) | (22,391) |
| Total comprehensive income for the period | - | 6,930,447 | 6,930,447 |
| Employee share schemes - value of employee services | - | 49,022 | 49,022 |
| Dividends to equity shareholders | - | (3,746,138) | (3,746,138) |
| Balance at 30 September 2018 | 28,103,913 | 50,361,669 | 78,465,582 |
| Balance at 1 January 2017 | 28,103,913 | 38,652,221 | 66,756,134 |
| Profit for the period | - | 7,398,763 | 7,398,763 |
| Other comprehensive income | - | 38,195 | 38,195 |
| Total comprehensive income for the period | - | 7,436,958 | 7,436,958 |
| Dividends to equity shareholders | - | (3,176,074) | (3,176,074) |
| Balance at 30 September 2017 | 28,103,913 | 42,913,105 | 71,017,018 |
| Balance at 1 October 2017 | 28,103,913 | 42,913,105 | 71,017,018 |
| Profit for the period | - | 3,102,508 | 3,102,508 |
| Other comprehensive income | - | 146,864 | 146,864 |
| Total comprehensive income for the period | - | 3,249,372 | 3,249,372 |
| Employee share schemes - value of employee services | - | 16,341 | 16,341 |
| Balance at 31 December 2017 | 28,103,913 | 46,178,818 | 74,282,731 |

The notes on pages 8 to 17 form an integral part of these financial statements.

DIALOG AXIATA PLC**Statements of cash flows**

(all amounts in Sri Lanka Rupees thousands)

| | Group 30 Sep | | Company 30 Sep | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | 2018 (Reviewed) | 2017 (Reviewed) | 2018 (Reviewed) | 2017 (Reviewed) |
| Cash flows from operating activities | | | | |
| Cash generated from operations | 23,146,675 | 28,078,246 | 14,236,766 | 22,460,312 |
| Interest received | 200,724 | 189,575 | 187,928 | 184,272 |
| Interest paid | (1,426,376) | (1,372,731) | (1,401,457) | (1,074,144) |
| Taxes paid | (1,505,744) | (1,239,656) | (1,438,890) | (1,196,907) |
| Employee benefits paid | (43,341) | (43,751) | (31,493) | (39,676) |
| Net cash generated from operating activities | 20,371,938 | 25,611,683 | 11,552,854 | 20,333,857 |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | (22,723,552) | (20,133,489) | (14,111,581) | (13,662,038) |
| Purchase of intangible assets | (1,296,357) | (3,052,675) | (1,211,692) | (2,760,591) |
| Acquisition of subsidiary, net of cash acquired | 19 | (997,938) | (592,468) | (1,072,651) |
| Advances to subsidiaries | - | - | (125,692) | (1,006,000) |
| Loans to subsidiaries | - | - | - | (60,000) |
| Investment in associates | (131,250) | - | - | - |
| Purchase of other financial assets | (123,140) | (25,000) | - | - |
| Proceeds from sale of property, plant and equipment | 45,248 | 6,814 | 45,248 | 3,964 |
| Net cash used in investing activities | (24,229,032) | (24,202,288) | (15,996,185) | (18,557,316) |
| Cash flows from financing activities | | | | |
| Repayment of borrowings | (6,716,777) | (5,318,411) | (6,172,509) | (4,612,917) |
| Proceeds from borrowings | 14,499,196 | 5,320,671 | 13,963,439 | 4,612,917 |
| Proceeds from share issue - non-controlling interests | 39,921 | - | - | - |
| Dividends paid to ordinary shareholders | (3,746,138) | (3,176,074) | (3,746,138) | (3,176,074) |
| Net cash generated from / (used in) financing activities | 4,076,202 | (3,173,814) | 4,044,792 | (3,176,074) |
| Net increase / (decrease) in cash and cash equivalents | 219,108 | (1,764,419) | (398,539) | (1,399,533) |
| Movement in cash and cash equivalents | | | | |
| At start of the year | 8,410,960 | 8,044,848 | 7,886,345 | 6,796,503 |
| Increase / (decrease) | 219,108 | (1,764,419) | (398,539) | (1,399,533) |
| Effect of exchange rate changes | 312,515 | (1,084) | 312,515 | (1,084) |
| At end of the period | 8,942,583 | 6,279,345 | 7,800,321 | 5,395,886 |

The notes on pages 8 to 17 form an integral part of these financial statements.

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements

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

1 General 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 payments), digital health, education, navigation and enterprise services and financial services] and provision of manpower for call centre operations.

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

2 Basis of preparation

The condensed interim financial statements for the period ended 30 September 2018 of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standard LKAS 34, 'Interim Financial Reporting'. The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2017 except for changes required due to adoption of following standards.

- (i) SLFRS 9, 'Financial Instruments', replaces the provisions of LKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.
- (ii) SLFRS 15, 'Revenue from Contracts with Customers', is based on the principle that revenue is recognised when control of a good or service is transferred to the customer - so the notion of control replaces the existing notion of significant risks and rewards. A new five-step process must be applied before revenue can be recognised.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 7.

3 Segment information

Operating segments are presented in a manner consistent with the internal reporting provided to chief operating decision makers.

- The segment results for the period ended 30 September 2018 are as follows:

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|--|---------------------|---|-------------------------|----------------------------|-------------------|
| Revenue from external customers | 64,942,742 | 10,210,757 | 5,486,906 | - | 80,640,405 |
| Inter-segment revenue | 1,033,865 | 1,485,258 | 16,226 | - | 2,535,349 |
| Total segmental revenue | 65,976,607 | 11,696,015 | 5,503,132 | - | 83,175,754 |
| Segment operating profit / (loss) for the period | 11,954,541 | 1,547,826 | (275,068) | 27,475 | 13,254,774 |
| Finance costs - net | | | | | (4,328,778) |
| Share of profit from associate - net of tax | | | | | 716 |
| Profit before income tax | | | | | 8,926,712 |
| Income tax expense | | | | | (1,553,804) |
| Profit for the period | | | | | 7,372,908 |

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

3 Segment information (Continued)

- 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 | 12,287,501 | 4,781,853 | 926,437 | - | 17,995,791 |

- The segment assets and liabilities at 30 September 2018 and capital expenditure for the period then ended are as follows:

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|---------------------------|---------------------|---|-------------------------|----------------------------|--------------------|
| Assets | 161,176,442 | 40,149,411 | 8,807,271 | (40,806,804) | 169,326,320 |
| Inter-segment assets | (10,337,134) | (156,570) | (1,450,280) | - | (11,943,984) |
| Total assets | 150,839,308 | 39,992,841 | 7,356,991 | (40,806,804) | 157,382,336 |
| Liabilities | 82,637,962 | 15,056,129 | 4,589,078 | - | 102,283,169 |
| Inter-segment liabilities | (2,449,771) | (6,662,945) | (2,834,242) | - | (11,946,958) |
| Total liabilities | 80,188,191 | 8,393,184 | 1,754,836 | - | 90,336,211 |
| Capital expenditure | 14,299,916 | 6,349,232 | 392,137 | - | 21,041,285 |

- The segment results for the period ended 30 September 2017 are as follows:

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|---|---------------------|---|-------------------------|----------------------------|-------------------|
| Revenue from external customers | 57,353,071 | 7,650,451 | 4,390,993 | - | 69,394,515 |
| Inter-segment revenue | 885,117 | 1,457,595 | 12,202 | - | 2,354,914 |
| Total segmental revenue | 58,238,188 | 9,108,046 | 4,403,195 | - | 71,749,429 |
| Segment operating profit/(loss) for the period | 9,622,898 | 1,539,256 | (393,900) | - | 10,768,254 |
| Finance costs - net | | | | | (1,887,617) |
| Share of loss from associates - net of tax | | | | | (22,442) |
| Profit before income tax | | | | | 8,858,195 |
| Income tax expense | | | | | (1,257,304) |
| Profit for the period | | | | | 7,600,891 |

- 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 | 9,668,030 | 3,545,745 | 793,325 | - | 14,007,100 |

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

3 Segment information (Continued)

- 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) |
| Total assets | 140,337,770 | 37,142,010 | 6,811,397 | (38,971,625) | 145,319,552 |
| 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) |
| Total liabilities | 69,509,972 | 11,057,051 | 3,071,533 | - | 83,638,556 |
| Capital expenditure | 20,073,262 | 9,428,897 | 1,133,047 | - | 30,635,206 |

4 Reserves

| | Group | | Company | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 30 Sep 2018 | 31 Dec 2017 | 30 Sep 2018 | 31 Dec 2017 |
| Attributable to the owners of the Company | | | | |
| Retained earnings | 38,852,272 | 33,544,509 | 50,296,306 | 46,140,086 |
| Share-based payments reserve | 65,363 | 16,341 | 65,363 | 16,341 |
| Hedging reserve | - | 22,391 | - | 22,391 |
| Attributable to the non-controlling interest | | | | |
| Non-controlling interest | 24,577 | (6,158) | - | - |
| | 38,942,212 | 33,577,083 | 50,361,669 | 46,178,818 |

5 Seasonal or cyclical factors

The operations of the Group were not significantly affected by any seasonal or cyclical factors.

6 Significant unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows due to their nature, size or incidence for the period ended 30 September 2018.

7 Changes in accounting policies

The Company and the Group has adopted SLFRS 9, 'Financial Instruments' and SLFRS 15, 'Revenue from Contracts with Customers', with effect from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in these standards, the Company and the Group has adopted the new rules retrospectively with the cumulative effect of these standards recognised at the date of initial application.

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

7 Changes in accounting policies (Continued)

The following tables show the adjustments recognised for each individual line item affected with the adoption of above standards during the reporting period.

Statement of financial position

| Group | Note | Before SLFRS 9 and SLFRS 15 adjustments | Impact from SLFRS 9 | Impact from SLFRS 15 | 30 Sep 2018 (reported) |
|--------------------------------|------|---|------------------------|-------------------------|---------------------------|
| Non-current assets | | | | | |
| Intangible assets | (a) | 19,188,829 | - | 4,125,980 | 23,314,809 |
| Current assets | | | | | |
| Other financial assets | (c) | 977,939 | (49,997) | - | 927,942 |
| Equity and reserves | | | | | |
| Reserves | | 36,832,184 | (49,997) | 2,135,448 | 38,917,635 |
| Non-current liabilities | | | | | |
| Deferred revenue | (b) | 1,127,997 | - | (129,422) | 998,575 |
| Contract liabilities | (b) | - | - | 945,392 | 945,392 |
| Current liabilities | | | | | |
| Trade and other payables | (b) | 36,090,457 | - | (4,276,019) | 31,814,438 |
| Contract liabilities | (b) | - | - | 5,450,581 | 5,450,581 |

| Company | Note | Before SLFRS 9 and SLFRS 15 adjustments | Impact from SLFRS 15 | 30 Sep 2018 (reported) |
|--------------------------------|------|---|-------------------------|---------------------------|
| Non-current assets | | | | |
| Intangible assets | (a) | 6,559,136 | 1,601,896 | 8,161,032 |
| Equity and reserves | | | | |
| Reserves | | 49,301,263 | 1,060,406 | 50,361,669 |
| Non-current liabilities | | | | |
| Contract liabilities | (b) | - | 97,355 | 97,355 |
| Current liabilities | | | | |
| Trade and other payables | (b) | 26,152,326 | (3,903,730) | 22,248,596 |
| Contract liabilities | (b) | - | 4,347,865 | 4,347,865 |

Statement of comprehensive income

| Group | Before SLFRS 9 and SLFRS 15 adjustments | Impact from SLFRS 9 | Impact from SLFRS 15 | 30 Sep 2018 (reported) |
|----------------------|---|------------------------|-------------------------|---------------------------|
| Revenue | 80,204,424 | - | 435,981 | 80,640,405 |
| Direct costs | (42,199,865) | - | (793,527) | (42,993,392) |
| Distribution costs | (11,174,076) | - | 672,747 | (10,501,329) |
| Administration costs | (14,105,015) | (5,123) | 133,148 | (13,976,990) |
| Profit before tax | 8,483,486 | (5,123) | 448,349 | 8,926,712 |

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

7 Changes in accounting policies (Continued)

| Company | Before SLFRS 9 and SLFRS 15 adjustments | Impact from SLFRS 15 | 30 Sep 2018 (reported) |
|--------------------|---|-------------------------|---------------------------|
| Revenue | 63,447,254 | (287,575) | 63,159,679 |
| Direct costs | (32,004,967) | (93,781) | (32,098,748) |
| Distribution costs | (9,336,643) | 492,240 | (8,844,403) |
| Profit before tax | 8,358,325 | 110,885 | 8,469,210 |

(a) Intangible assets

In accordance with provisions of SLFRS 15, the costs that are directly related to the acquisition and fulfilment of customer contracts are recognised as intangible assets and amortised on a systematic basis that is consistent with the fulfilment of the performance obligation. Previously, these costs were directly charged to the profit or loss. However, where the amortisation period is one year or less, the Company and the Group recognise the incremental costs of obtaining a contract as an expense when incurred.

The opening adjustment as at 1 January 2018, represents the intangible assets arising from the costs relating to ongoing customer contracts that were directly charged to the profit or loss prior to 1 January 2018. The impact to intangible assets are as below.

| | Group | Company |
|---|------------------|------------------|
| Opening adjustment as at 1 January 2018 | 3,758,854 | 1,458,562 |
| Addition | 2,617,707 | 1,044,953 |
| Amortisation | (2,250,581) | (901,619) |
| Balance as at 30 Sep 2018 | 4,125,980 | 1,601,896 |

(b) Contract liabilities

According to the provisions of SLFRS 15, revenue is recognised when each performance obligation in a contract with a customer is satisfied. The total consideration received/receivable has been allocated between separate performance obligations based on relative standalone selling prices. This has primarily resulted in a change in the timing of revenue recognition.

Further, the Company and the Group reclassify amounts related to contracts with customers previously presented as deferred revenue to contract liabilities.

The opening adjustment as at 1 January 2018 represents the contract liabilities arising from the performance obligations that are unsatisfied as at 1 January 2018.

| | Group | Company |
|---|------------------|------------------|
| Opening adjustment as at 1 January 2018 | 2,071,698 | 509,042 |
| Addition | 1,641,930 | 936,624 |
| Realization | (1,723,156) | (904,176) |
| Reclassification from deferred revenue | 4,405,501 | 3,903,730 |
| Balance as at 30 Sep 2018 | 6,395,973 | 4,445,220 |

(c) Other financial assets

According to the provisions of SLFRS 9, the Group recognises impairment provisions based on expected credit losses. Impairment provisions were previously based on incurred credit losses.

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

7 Changes in accounting policies (Continued)

(d) Retained earnings

The following is a summary of transition adjustments to the Company's and the Group's retained earnings from the initial application of SLFRS 9 and SLFRS 15 as at 1 January 2018.

| | <u>Group</u> | <u>Company</u> |
|--|-------------------------|-----------------------|
| Recognition of intangible assets | 3,758,854 | 1,458,562 |
| Recognition of contract liabilities | (2,071,698) | (509,042) |
| Increase in impairment provision | (44,934) | - |
| Impact of change in accounting policies to retained earnings as at 1 January 2018 | <u>1,642,222</u> | <u>949,520</u> |

8 Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

There were no changes in estimates and assumptions used in prior financial periods that may have a material effect in the current quarter and for the financial year to date.

In preparing the condensed consolidated interim financial statements, the significant judgments made by the management in applying the Group's accounting policies and the sources of estimates uncertainty are consistent with the audited financial statements for the year ended 2017.

9 Issues, repurchases and repayments of debt and equity securities

There were no significant and unusual issues, repurchases and repayments of debt and equity securities during the period ended 30 September 2018.

10 Stated capital

Stated capital of the Company consists of 8,143,778,405 ordinary shares.

11 Earnings per share

The diluted earnings per share is same as the basic earnings per share.

12 Market price per share

| For the nine months ended 30 September | <u>2018</u> | <u>2017</u> |
|--|-------------|-------------|
| | <u>Rs.</u> | <u>Rs.</u> |
| - Highest | 14.50 | 12.20 |
| - Lowest | 11.60 | 11.10 |
| - Last traded | 11.90 | 12.10 |

13 Directors' shareholdings

The details of shares held directly by the Directors and their spouses as at 30 September 2018 are as follows:

| | <u>Number of shares</u> |
|------------------------|-------------------------|
| Dr. Hansa Wijayasuriya | 43,010 |
| Mr. Mohamed Muhsin | 18,040 |

None of the Directors and their spouses other than those disclosed above directly held any shares in the Company.

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

14 Twenty largest shareholders of the Company

| Name of Shareholders | No. of shares | % Holding |
|---|---------------|-----------|
| 1 Axiata Investments (Labuan) Limited | 6,785,252,765 | 83.32% |
| 2 Employees Provident Fund | 180,787,158 | 2.22% |
| 3 CITI Bank New York S/A Norges Bank Account 2 | 127,460,352 | 1.57% |
| 4 BNYM RE-UT SAGA Tree LLC | 118,595,642 | 1.46% |
| 5 JPMCB - Scottish ORL SML TR GTI 6018 | 83,426,021 | 1.02% |
| 6 Pershing LLC S/A Averbach Grauson and Co. | 63,039,981 | 0.77% |
| 7 MSIP - Saga Tree Asia Master Fund | 60,862,436 | 0.75% |
| 8 BNYM SA/NV RE - LF Ruffer Investment Funds: LF Ruffer Pacific and Emerging Markets Fund | 57,314,300 | 0.70% |
| 9 Northern Trust Company S/A Hosking Global Fund PLC | 56,953,641 | 0.70% |
| 10 MSIP - Vittoria Fund - ST L.P. | 54,512,186 | 0.67% |
| 11 HSBC International Nominees Limited - JPMLU - T Rowe Price Funds SICAV | 42,809,770 | 0.53% |
| 12 Rubber Investment Trust Limited A/C No. 01 | 38,864,312 | 0.48% |
| 13 HSBC International Nominees Limited - State Street Luxembourg C/O SSBT-Alliance Bernstein Next 50 Emerging Markets (Master) Fund SICAV - SIF S.C.SP. | 38,024,290 | 0.47% |
| 14 J.B. Cocoshell (Private) Limited | 23,492,276 | 0.29% |
| 15 Mellon Bank N.A.- UPS Group Trust | 18,880,000 | 0.23% |
| 16 The Ceylon Investment PLC A/C No. 02 | 18,797,647 | 0.23% |
| 17 BBH - Prusik Asian Smaller Companies Fund Public Limited Company | 17,000,000 | 0.21% |
| 18 The Ceylon Guardian Investment Trust PLC A/C No. 02 | 16,470,454 | 0.20% |
| 19 HSBC International Nominees Limited - SSBT - Parametric Tax - Managed Emerging Markets Fund | 15,786,381 | 0.19% |
| 20 MAS Capital (Private) Limited | 15,091,350 | 0.19% |

15 Public shareholding

Information pertaining to public shareholding is as follows:

| | 30 Sep 2018 | 31 Dec 2017 |
|--|----------------|----------------|
| Public holding percentage | 16.68% | 16.68% |
| Number of public shareholders | 20,264 | 20,078 |
| Float adjusted market capitalisation (Rs.) | 16,165,728,621 | 17,660,039,670 |

The Company is compliant with the Minimum Public Holding requirement under option 1 of rule 7.13.1(a) of the Listing Rules of the Colombo Stock Exchange.

16 Effect of change in composition of the Group

- (a) Digital Holdings Lanka (Private) Limited ('DHL'), a wholly owned subsidiary of the Company proceeded with the conversion to equity the 'Bond type D' in Headstart (Private) Limited ('Headstart'), 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. Thereby, Headstart is consolidated as a subsidiary of the Group for the period ended 30 September 2018. The resultant goodwill on acquisition was Rs. 76,136,983.
- (b) Dialog Broadband Networks (Private) Limited ('DBN'), a wholly owned subsidiary of the Company entered into a joint venture partnership with St. Anthony's Property Developers (Private) Limited ('SAPD'), to establish, operate and manage a Data Centre, Digital Reality (Private) Limited ('DRP'). Pursuant thereto, DBN and SAPD signed a Shareholders Agreement on 16 March 2018, wherein 17,500 ordinary shares were issued and allotted to DBN on 21 June 2018, being 35% of the shareholding in DRP, for a consideration of Rs. 131,250,000 and SAPD hold the remaining 65% stake with an investment of Rs. 487,500,000.
- (c) Digital Commerce Lanka (Private) Limited ('DCL'), a subsidiary of the Company, issued and allotted 62,578,036 new ordinary shares in DCL to DHL, a wholly owned subsidiary of the Company on 22 March 2018. Subsequent to the above, DHL holds 99.03% of the shareholding of DCL consisting of 63,318,036 shares. The remaining 623,124 shares are held by the Company. This share issue has not changed the composition of the Group.
- (d) DHL, a wholly owned subsidiary of the Company issued and allotted 62,578,036 new ordinary shares in DHL to the Company on 29 March 2018. Subsequent to the above, the Company holds 62,578,037 shares in DHL. This share issue has not changed the composition of the Group.

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

16 Effect of change in composition of the Group (Continued)

- (e) Digital Health (Private) Limited ('DH'), a subsidiary of the Company entered into an Investment Agreement with Asiri Hospital Holdings PLC ('Asiri'), Digital Holdings Lanka (Private) Limited ('DHL'), Nawaloka Hospitals PLC ('Nawaloka') and Ceylon Hospitals PLC ('Durdans') on 25 April 2018. Pursuant thereto, DH issued and allotted 1,973,684 and 1,184,211 new ordinary shares in DH to Nawaloka and Durdans respectively on 15 June 2018. Accordingly, the shareholding of DHL in DH decreased from 70% to 53.2%.
- (f) Dialog Finance PLC ('DFP'), formerly known as Colombo Trust Finance PLC ('CTF'), a subsidiary of the Company proceeded with a Rights Issue with a view of increasing the core capital of the Company to ensure compliance with Central Bank directions. Pursuant to a resolution adopted by the shareholders of DFP at a meeting held on 25 May 2018, DFP raised Rs. 599,149,551 through a Rights Issue by issuing 25,714,573 ordinary shares (in the proportion of 309 new shares for every 559 existing shares in DFP) at the price of Rs. 23.30 per share. The new shares were listed on the Colombo Stock Exchange on 9 July 2018.
- (g) Dialog Television (Private) Limited ('DTV'), a subsidiary of the Company transferred 1,499 ordinary shares held in Dialog Device Trading (Private) Limited ('DDT') to the Company for a total consideration of Rs. 204,988,250 on 30 June 2018. Accordingly, the Company currently holds 100% of the issued shares of DDT. This share transfer has not changed the composition of the Group.
- (h) Firstsource-Dialog Solutions (Private) Limited ('FDS'), an associate company in which the Company holds 26% of the total shares in issue, acquired 4,610,520 ordinary shares from the shareholders of FDS, being 50% of the Ordinary Shares in issue by way of a share buyback, at the price of Rs. 11.62 per share. Pursuant to the share buyback, the Company now holds 1,198,735 shares in FDS, representing 26% of the total shareholding. This share buyback has not changed the composition of the Group.

Other than disclosed above there has not been a change in the composition of the Group which was disclosed in the audited financial statements for the year ended 31 December 2017.

17 Trade and other payables

Accrued expenses and provisions 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.

The escrow agreement entered into between the parties expired in March 2017 and money was released to the sellers of Suntel Limited in April 2017.

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.1Bn and a Corporate Guarantee for the value of Rs.3.2Bn.

18 Financial instruments measured at fair value

| Note | Measurement criteria and the fair value | | | | | | | |
|---|---|-------|---------|--------|---------|---------|--------|---------|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| | Rs.000 | | Rs.000 | | Rs.000 | | Rs.000 | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Financial assets | | | | | | | | |
| Available-for-sale financial assets: | | | | | | | | |
| - Investment in unquoted convertible redeemable bonds | (a) | - | - | - | - | 25,000 | - | 25,000 |
| Derivative designated as hedging instrument | | | | | | | | |
| - Interest rate swap | (b) | - | - | 14,311 | - | - | - | 14,311 |
| Financial assets at fair value through profit or loss | | | | | | | | |
| - Investment in quoted equities | (c) | 1,039 | 1,762 | - | - | - | 1,039 | 1,762 |
| - Investment in unquoted equities | (d) | - | - | - | - | 119,815 | 346 | 119,815 |

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

18 Financial instruments measured at fair value (Continued)

The Group measures the financial instruments based on published price quotations (Level 1), market approach valuation technique (Level 2) with inputs of valuation technique such as interest rates and yield curves observable at commonly quoted intervals; implied volatilities; and credit spreads that are observable directly or indirectly and valuation technique with unobservable inputs (Level 3) at the end of the financial reporting period.

- (a) The carrying value of investment in unquoted convertible redeemable bonds represents the fair value of the investment in redeemable convertible bonds in Headstart.
- (b) The carrying amount of the derivative financial instrument represents the fair value of the interest rate swap which has a fixed interest payment of 2.6075% per annum and floating interest receipt of USD 3 months LIBOR plus a spread on the amortising outstanding principal amount. The interest rate swap was matured on 29 July 2018.

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

- (c) The carrying amount of the investment in quoted equities represents the investment in equity shares by Dialog Finance PLC.
- (d) The carrying value of investment in unquoted equities represents the fair value of the investment in unquoted shares by Dialog Finance PLC and Dialog Axiata Digital Innovation Fund (Private) Limited.

19 Cash and cash equivalents

Cash and cash equivalents of the Group include restricted cash deposited in the following financial institutions:

| | 30 Sep 2018 Rs. | 31 Dec 2017 Rs. |
|--|--------------------|--------------------|
| People's Bank, amount deposited in settlement account to facilitate NFC Travel card value | 59,617,068 | 57,594,233 |
| Hatton National Bank PLC, amount deposited in custodian accounts to facilitate Ez cash operation | 495,000,000 | 430,000,000 |
| | 554,617,068 | 487,594,233 |

20 Revenue

| | Group | | Company | |
|------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 9 months ended Sep 2018 | 9 months ended Sep 2017 | 9 months ended Sep 2018 | 9 months ended Sep 2017 |
| Sale of goods | 2,314,823 | 2,149,572 | 682,245 | 1,571,430 |
| Sale of services | 78,325,582 | 67,244,943 | 62,477,434 | 55,853,527 |
| | 80,640,405 | 69,394,515 | 63,159,679 | 57,424,957 |

21 Valuation of property, plant and equipment

The Company and the Group do not adopt a revaluation policy on its property, plant and equipment.

DIALOG AXIATA PLC

Notes to the condensed consolidated interim financial statements (Continued)

22 Contingent liabilities

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 upon submitting bank guarantees and thereafter subsequent shipments of CPE were cleared by paying duty 'Under Protest'. 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 took steps to continue with the inquiry. Inquiry was held on several dates and the last date being 9 September 2016, however the inquiry was not concluded on this date. On 11 April 2018, DBN was served with an 'Order' dated 6 April 2018 by SLC imposing a mitigated monetary forfeiture of Rs. 1,626,622,200. DBN has instituted legal action challenging the order made by SLC in the Court of Appeal under Case No: CA (Writ) 166/2018. Currently the matter is fixed for support on 28th November 2018.

Except for disclosed above there has not been a significant change in the nature of the contingent liabilities, which were disclosed in the audited financial statements for the year ended 31 December 2017.

23 Capital commitments

Capital expenditure contracted for as at the statement of financial position date but not yet incurred consists of Rs 10,045,107,455 (31.12.2017 - Rs. 6,573,147,655) and Rs. 18,307,486,683 (31.12.2017 - Rs. 11,939,945,243) of the Company and the Group respectively.

24 Events after the reporting period

No circumstances have arisen since the statement of financial position date that would require adjustment to, or disclosure in the financial statements.