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

## Dialog Values

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

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Report 2018 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 (CSE) in terms of market capitalisation. Dialog is also Sri Lanka's largest Foreign Direct Investor (FDI) with investments totalling USD 2.5Bn.

The winner of six Global Mobile Awards, Dialog has the distinction of being voted by Sri Lankan consumers as the Telecom Service Provider of the Year for seven years in succession at the SLIM-Nielsen Peoples Choice Awards. Dialog was also voted by Sri Lankan consumers as the Internet Service Provider of the Year for six years consecutively, and has topped Sri Lanka's Corporate Accountability rankings for the past eight cycles in succession, and is an ISO 9001 certified company. The Company has received numerous local and international awards including the National Quality Award and the Sri Lanka Business Excellence Award, and endorses the worldwide Sustainable Development Goals (SDGs) which aim to build a sustainable future for all by 2030.

Dialog has been at the forefront of innovation in the mobile industry in Sri Lanka since the late 90s, 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 13.8 Million Sri Lankans, via 2.5G and 3G/3.5G and 4G/4.5G networks.

Dialog forayed in to new digital frontiers, spearheading technology firsts in South Asia and Sri Lanka with the commissioning of South Asia's 1st fully functional and standards compliant 5G pilot transmission, showcasing next generation technology that will propel Sri Lanka in to the future.

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 1.1 Million.

# Message from the Chairman



Datuk Azzat Kamaludin  
Chairman

“The efficacy of strategy implementation and operational execution coupled with centred focus on customer experience and service delivery excellence, has enabled Dialog to strive towards a unified vision of creating value for our customers, suppliers and shareholders.”



**“I am happy to announce that Dialog Axiata Group has cumulatively invested USD 2.5Bn as at 31st December 2018, delivering on its commitment to invest in technology to support communities and society, and build a digitally inclusive Sri Lanka.”**

*My dear shareholders,*

I am pleased to inform you that 2018 was another year of consistent performance for Dialog. We successfully concluded the year by transcending expectations to deliver on our commitments and enhancing our abilities to achieve our purpose as a Group by connecting everyone to a better future.

We have made great strides this year as the leading quad play connectivity provider in the country, and have delivered exceptional performance by our Company and its subsidiaries, despite challenging operating and economic conditions. These hindrances offered significant opportunities to strengthen our operations via digitisation, and adapt to changing consumer preferences and volatile conditions. The efficacy of strategy implementation and operational execution coupled with focus on customer experience and service delivery excellence, has enabled Dialog to strive towards a unified vision of creating value for our customers, suppliers, regulators and shareholders. It gives me great pride to announce that your Company delivered strong revenue growth across Mobile, Broadband, Pay Television and Fixed Line business segments, with a consolidated revenue of Rs. 109.2Bn for FY 2018, representing a Year on Year (YoY) growth of 16%.

The performance for the year 2018 showed good momentum across the Group, resulting in an Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) growth of 28% and a Forex (non-cash translational) normalised Group Net Profit After Tax (NPAT) of Rs. 12.2Bn; representing a 9% growth over

the previous year. Group NPAT was recorded at Rs. 7.5Bn impacted significantly by translational forex losses due to depreciation of the Sri Lankan Rupee.

It was imperative that we deliver growth in a way which is sustainable. Our underlying triple bottom line philosophy for creating sustainable value for shareholders places increasing focus on improved profitability, earnings quality, and cash flows. Considering the forward investment requirements to serve the nation's demand for Mobile, Fixed, Broadband and Television services, the Board of Directors of Dialog Axiata PLC is happy to propose for your consideration, a full year dividend of 37 cents per share, which corresponds to a 40% payout ratio.

The Company endorses the importance of good corporate governance, of which transparency and accountability are the most significant elements on which a relationship of trust between Dialog and all its stakeholders are built. The Company adheres to the requirements outlined in the Listing Rules of the CSE and other relevant regulations, as well as Dialog's internally developed Code of Corporate Governance.

Dialog has once again delivered on our strategy to introduce market-leading product innovations and solutions, while simultaneously improving our operational capacities. Your Company has continued to pioneer new opportunities by leveraging the 'Dialog' brand, which was an important driver of the Company's growth in offering all our customers new technologies and services that are unmatched in our industry. In addition to being the largest telecom service provider in the country, the success

# Message from the Chairman

of our growth as a Company is demonstrated by the subscriber market share growth of 0.5 percentage points (pp) positioning Dialog as the fastest growing operator, and by the expansion of our mobile subscriber base to 13.8 Million Sri Lankans.

The steady performance and growth of your Company for the year 2018 was a result of a consistent strategy and exceptional execution. Dialog continues to be the pioneer of introducing new technology in the country and the region, spearheaded by the exceptional Dialog team, as they strive to continuously create long-term value for society and results for shareholders.

As Sri Lanka's largest service provider, the success of our strategy is demonstrated in the sustained financial and operational performance of the Company, delivered through our passion for perpetual excellence in customer experience and superior network infrastructure.

I am proud to announce that the Dialog Group continues to be a significant contributor to the country and the communities in which we operate, by way of remitting a total of Rs. 34.1Bn to the Government of Sri Lanka (GoSL) during the financial year ended 31st

**“In addition to being the largest telecom service provider in the country, the success of our growth as a Company is demonstrated by the subscriber market share growth of 0.5 percentage points positioning Dialog as the fastest growing operator, and by the expansion of our mobile subscriber base to 13.8 Million Sri Lankans.”**

December 2018. Total remittances included direct taxes and levies (Rs. 8.5Bn) as well as consumption taxes collected on behalf of the GoSL (Rs. 25.6Bn).

As Sri Lanka's premier converged connectivity provider, your Company has contributed significantly to the Sri Lankan economy and continues to be at the forefront of Sri Lanka's FDI landscape, further validating the Government's future ambitions of promoting Sri Lanka as a destination for inward investment. I am happy to announce that Dialog Axiata Group has cumulatively invested USD 2.5Bn as at 31st December 2018, delivering on its commitment to invest in technology to support communities and society, and build a digitally inclusive Sri Lanka.

Dialog, renowned for spearheading technology in the region, pioneered the commissioning of South Asia's 1st fully functional and standards compliant 5G pilot transmission, and continued to be recognised as the denomination of connectivity. Our Company was once again voted by Sri Lankans as the Telecom Service Provider of the Year for seven years in succession, and as the Internet Service Provider of the Year for six years consecutively at the SLIM-Nielsen Peoples Choice Awards. Your Company also topped Sri Lanka's Corporate Accountability rankings for the 8th consecutive cycle, and was awarded Sri Lanka's Top Telecommunications Brand in the Brand Finance League Table. Additionally, Dialog was the first of seven global operators to receive the GSMA Mobile Money Certification, and won the 'IoT Initiative of the Year' award at the Global Telecoms Awards 2018.

On behalf of the Company, I warmly welcome Dato' Mohd Izzaddin Idris and Mr. Vivek Sood to the Board. Their combined management experience, expertise and insight will be invaluable in guiding the Company in the future. I also wish to extend my sincere thanks to Mr. Chari TVT, who resigned from the Board in



“We successfully concluded the year by transcending expectations to deliver on our commitments and enhance our abilities to achieve our purpose as a Group by enriching Sri Lankan lives and enterprises by connecting everyone to a better future.”

December 2018 after completing his tenure as Axiata’s nominee director on the Board of Dialog, for his valued contribution to the Board and the Board Audit Committee.

I wish to place on record my sincere appreciation for 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, Board of Investment 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 take this opportunity to thank team Dialog led admirably by our Group Chief Executive, Mr. Supun Weerasinghe, and our business partners for their hard work and contribution to what has been an impressive year for the Company, and commend the continued dedication of the talented teams at Dialog to challenge themselves in the pursuit of excellence to enrich Sri Lankan lives and enterprises.

**Datuk Azzat Kamaludin**  
*Chairman*

30 April 2019

# Group Chief Executive's Review of Operations



Supun Weerasinghe  
Group Chief Executive

“Dialog remains committed to being a catalyst in Sri Lanka’s digitisation journey, continuously making cutting-edge communication technology available to Sri Lankans.”



## “Dialog invested Rs. 30.6Bn in network related investments with mobile 4G coverage reaching 91% of the population while our 4G fixed broadband reached 67% of Sri Lankan homes.”

I am pleased to inform you that 2018 was another successful year for Dialog Axiata, which delivered revenue growth of 16% crossing the Rs.100Bn milestone with EBITDA growing at 28%. It took seventeen years for your Company to attain the first Rs. 50Bn revenue mark, and only six years to achieve the next Rs. 50Bn, indicating the success of our data leadership and convergence strategy. We were awarded Telecom Service Provider and Internet Service Provider of the Year at the SLIM-Nielsen Peoples Awards for the 7th and 6th consecutive years respectively, reflecting the strength of our brand. We retained our #1 ranking for Corporate Accountability for the 8th consecutive cycle, awarded by Sting Consultants and ranked #5 in LMD's list of Most Respected Entities, confirming our commitment towards stakeholder interests and upholding high standards of conduct. Being titled Sri Lanka's Fastest Mobile Network in the Speedtest Award by Ookla affirmed our commitment to ensuring that Sri Lankans are connected to global opportunities, keeping pace with the developed world, with investments in state of the art communication technology.

It gives me great pride to report that all strategic business units of the Dialog Group demonstrated commendable growth in FY 2018. A consolidated revenue of Rs. 109.2Bn was achieved through growth in consumption and expansion in our subscriber base. While local voice revenues remained stable, the emerging segments of Mobile Broadband, Fixed and Digital Services contributed significantly to the overall profile, delivering a growth of 32%, 29% and

14% respectively. Revenue growth combined with our continued focus on operational improvements led to Group EBITDA, growing 28% YoY to be recorded at Rs. 43.5Bn for FY 2018. The Group EBITDA margin was recorded at 39.8%, which represents an improvement of 3.8pp relative to the previous year. Strong growth dynamics in operational performance assisted in delivering an NPAT (Non-cash Translational Forex Normalised) of Rs. 12.2Bn, a 9% improvement YoY while the reported NPAT was Rs. 7.5Bn. 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.

### GEARING FOR GROWTH

Dialog remains committed to being a catalyst in Sri Lanka's digitisation journey, continuously making cutting-edge communication technology available to Sri Lankans, integrating them to a digitally mobile workforce that is future ready. Accordingly, we focused on data leadership, convergence, and digital transformation as our strategic thrusts, while service from the heart and transformation of our culture was aimed at driving brand equity.

Dialog's vision of leading in the convergence era to drive Sri Lanka's ICT sector was a key growth driver which strengthened our customer value proposition, making us more relevant in the lives of our customers. In line with our strategy to offer mobile, broadband and digital television services under one brand, we were able to grow wallet share and enhance retention

# Group Chief Executive's Review of Operations

**“We are focused on sharpening the positioning of our brand to deliver sustainable long-term value and are grateful for the unwavering support, trust, and confidence placed in us.”**

across products. This was strongly supported by our customer care, IT, network, infrastructure, retail and brand convergence, driving long term growth, and sustainable returns to all stakeholders.

Keeping in line with our brand's commitment to providing users with the widest coverage, Dialog invested Rs. 30.6Bn in network related investments. With the view of strengthening our 4G leadership journey and catering to the exponential growth in data traffic, Dialog has increased Mobile 4G base stations by 78% along with a 48% increase in Fixed 4G base stations focused towards providing island wide coverage in 2018. As of end 2018 our mobile 4G coverage reached 91% of the population while our 4G fixed broadband reached 67% of Sri Lankan homes.

Our transformation was focused on digitising consumer touchpoints from awareness through acquisition, billing and collection via the MyDialog app. Transformation from retail to a digital store, and Point of Sale (PoS) was implemented using the Dialog Retail Hub application. Robotic Process Automation (RPA) was also deployed in digitising internal processes, supporting service excellence, and cost efficiencies.

'Service from the Heart' (SFH) moved centre stage in 2018 as we rolled out training to reinforce key aspects of SFH, and to reinforce our service culture in a digital era. SFH through the 'Train the Trainer' initiative facilitated island wide coverage. Team members who demonstrated the spirit of delivering service from the heart were recognised at the Yes We Can awards, inspiring our colleagues to go the extra mile in delivering service to internal and external customers alike.

The Dialog brand's success stems from its capabilities of translating its brand strength to brand value across all segments in Sri Lanka, resulting in your Company being one of the most valued and trusted brands in the country with an attributed value of Rs. 38.2Bn and a AAA- rating as evaluated by BrandFinance of UK, in 2018.

As we relentlessly extend into new sectors, we are focused on sharpening the positioning of our brand to deliver sustainable long-term value. We are grateful for the unwavering support, trust, and confidence placed in us, and we pledge to strengthen our brand to provide world class services that deliver innovative and creative solutions and deliver the very best of value to our stakeholders.

## **FUTURE TODAY**

Dialog Axiata continues to be the trendsetter for the telecommunications industry not only in Sri Lanka but also for the region. As espoused in our tagline The Future.Today, we launched many firsts in the region, by introducing the very latest technology in 2018, aimed at driving network capability and digital enablement on par with developed markets.



## 5G

The launch of our pre-commercial 5G transmission in December 2018 marked a major step forward in Sri Lanka's 5G journey with the commissioning of South Asia's 1st fully functional and standards compliant 5G transmission using commercial grade base stations and end user devices. Dialog's 5G transmission delivered speeds in excess of 3Gbps in a real-world setting, which can deliver 5G throughput to a host of wireless devices and applications across spheres of video, gaming and automation. Designed to deliver an era of 'Intelligent Connectivity', 5G technology brings together the power of Gigabit transmission speeds at millisecond latency that would power the 4th industrial revolution.

In 2018, we upgraded over 20% of our fixed 4G base stations to '5G Ready Status' by deploying Massive MIMO (Multiple Input Multiple Output) technology enabling transmission at 5G speeds upon the licensing of commercial 5G services. We plan to upgrade the remaining base stations over the upcoming years by investing in the technology and working together with the Telecommunications Regulatory Commission of Sri Lanka (TRCSL) and the Ministry of Digital Infrastructure to empower Sri Lanka's socio-economic transformation.

## Voice over Wi-Fi

The Voice over Wi-Fi service enabling users to make calls using a Wi-Fi network was launched in October 2018, marking another 1st for Dialog and South Asia. All customers with a VoWiFi Calling enabled smartphone can take advantage of this technology. We started this journey by enhancing the infrastructure in our network and migrated to a new state-of-the-art core network to provide a better experience for customers through greater agility and flexibility.

*"The Dialog brand's success stems from its capabilities of translating its brand strength to brand value across all segments in Sri Lanka, resulting in your Company being one of the most valued and trusted brands in the country."*

## eSIM

Dialog was the 1st operator in South Asia to commercially launch eSIM technology, enabling the use of two mobile numbers with separate voice and data plans on compatible devices. eSIMs are a key component of cellular powered Internet of Things (IoT) applications, giving devices an out-of-the-box network connectivity without having to purchase a SIM card separately.

## Genie

The launch of 'Genie', Sri Lanka's 1st 'Payment Card Industry Data Security Standard' (PCI-DSS) certified mobile payment app was another leap forward in the Sri Lankan Fintech Industry. 'Genie' transforms a conventional wallet to a truly digital wallet that securely holds credit and debit cards, current and savings accounts (CASA) and eZ Cash accounts on the mobile phone, enabling a seamless payment experience for in-app, Over the Counter (OTC via QR Code), web and remote payments.

# Group Chief Executive's Review of Operations

## BUSINESS LINE REVIEW

### DIALOG AXIATA PLC

#### Mobile Business

During the year 2018, Dialog Mobile continued to strengthen its market leading position in Sri Lanka's mobile sector as it added approximately 1 Million subscribers to record a mobile subscriber base of 13.8 Million as at December 2018, an 8% YoY growth. Dialog Axiata PLC's combined performance of key businesses, Mobile, International, Tele-Infrastructure, and Digital Services continued to account for the majority of Group revenue (77%) and of Group EBITDA (70%). Company revenue for FY 2018 was recorded at Rs. 84.5Bn, up 9% YoY compared to FY 2017. Revenue growth was driven by growth in mobile data, international business and digital services. Dynamic initiatives undertaken to increase the subscriber base along with cost optimisation initiatives resulted in Company EBITDA growing by 20% YoY to be recorded at Rs. 32.4Bn for FY 2018, post normalisation for one-off Organisation Transformation related provision to the value of Rs. 2.2Bn. Accordingly the EBITDA margin was recorded at 38.3%, up 3.5pp YoY. Company NPAT was impacted by depreciation of the LKR and one-off Organisation Transformation related provision. Normalised for aforementioned impacts NPAT was recorded at Rs. 10.9Bn for FY 2018, up 1% YoY.

#### Fixed Telephony & Broadband

DBN delivered strong revenue growth of 39% to record Rs. 17.2Bn for FY 2018, contributing 16% of Group revenue. Growth was primarily driven by the Fixed Home Broadband segment due to aggressive subscriber acquisition supported by expansion of LTE network coverage and the transfer of the Group's international wholesale business to DBN during the year. Fixed Broadband revenue grew by 29% while revenue from Data and Leased Lines grew by 23%.

**"During the year 2018, Dialog Mobile continued to strengthen its market leading position in Sri Lanka's mobile sector as it added approximately 1 Million subscribers to record a mobile subscriber base of 13.8 Million as at December 2018, an 8% YoY growth."**

Normalised for one-off gain from litigation related provision reversal of Rs. 3.7Bn, NPAT declined 27% to record Rs. 1.3Bn, due to increase in depreciation resulting from aggressive investments into Fixed 4G LTE network.

#### Television

Dialog Television strengthened its market leadership position in the digital pay television space with a subscriber growth of 17%, increasing the subscriber base to 1.1 Million by the close of the year. Accordingly, revenue grew by 25% to reach Rs. 7.5Bn for FY 2018 contributing 7% to Group revenue. Subscription revenue growth of 11% reflected healthy subscriber acquisitions. However, DTV Net Loss increased to Rs. 915Mn for FY 2018 relative to a Net Loss of Rs. 736Mn in FY 2017 due to an increase in depreciation and forex losses.

## CORPORATE SUSTAINABILITY

Dialog continues to promote digital inclusion for traditionally marginalised groups on a range of issues. I refer readers to our Sustainability Report for a more detailed description of our work in this area, but let me highlight a few initiatives in this section which are of significance, reflecting the impact that we can make as a corporate to our people.



A key project for us to support our youth subscribers was the launch of the website and Android app known as Yeheli.lk in Sinhala and English, and Thozhi.lk in Tamil to provide anonymous, professional advice to young people on a wide range of issues. Providing access to counselling, legal and medical advice provided by professionals, it supports the emotional well-being and even the physical well-being of Sri Lankans. Positioned as a service mainly for young women and girls, we observed that 40% of questions are from profiles self-identified as males reflecting the vacuum and potential need for such a service to assist our youth. Many visitors do not need to pose a fresh question as an answer bank is built up for commonly experienced issues and related questions.

We are encouraged by the reception to the free trilingual and customisable Athuru Mithuru Augmentative and Alternative Communication (AAC) app we developed for Android devices. The brainchild of our Digital Inclusion Team, this app provides the experience of a highly sophisticated software for free of charge to a segment where every Rupee saved can make a huge difference, changing lives of those with auditory impairments. Further, the app is device-independent, meaning every user's configuration is stored on a secure external server accessible only to themselves, eliminating the need for the user to reconfigure the app every time they change their device. The Athuru Mithuru app also allows customisation of each of the user's environments and preferences, such as phrases, names, objects – all backed up to the cloud.

Govi Mithuru – Dialog's mobile advisory service for farmers aimed at ensuring crop health and addressing the information gap existing in the agriculture sector, further extended its reach and impact - providing key information on over 20 crops to 580,00 users across the island, with over 200,000 advisory messages sent

## “Dialog continues to promote digital inclusion for traditionally marginalised groups on a range of issues.”

daily. Understanding the existing risk to the agriculture sector due to factors such as water depletion, land degradation, and increasingly adverse climatic phenomena, Dialog invested towards developing environment-controlled or 'climate smart' protected agriculture systems.

'Saru' was developed through a partnership with Universities of Ruhuna and Moratuwa, and further showcased Dialog's technological capabilities with respect to IoT-based technology – implementing a network of sensors and actuators allowing farmers to remotely control and monitor their activities, through their smart phone; thus, allowing for the agricultural 'know-how' on regular crop management (i.e. fertiliser application, water management, assessing growth, pest and disease-identification) to be available at the farmers' fingertips. Real-time roll-outs of rapid updates or interventions through the service, enable farmers to respond to short-term phenomena which would have had potentially significant negative food-security implications across the country.

Other innovations designed for uplifting lives include our work with the Ratmalana Audiology Centre, a joint initiative with the Ceylon School for Deaf and Blind and the Nenasa Television distance education channels, in partnership with the Ministry of Education. To showcase the importance placed on Education, Dialog invested over Rs. 62Mn across the year, spread across the Nenasa TV channel programme, the Nenasa Smart Schools initiative, and the Merit Scholarships programme. Our collaboration on the

# Group Chief Executive's Review of Operations

**“Dialog continued to be the country's prolific promoter of sports through our unyielding support of the National teams for Cricket, Volleyball, Football, Rugby, and the Para Games. Dialog will continue to invest in Sri Lankan talent and empower the youth to excel on a national and international platform.”**

Disaster and Emergency Warning Network (DEWN), with the Disaster Management Centre of the Ministry of Public Administration and Disaster Management, together with Microimage Mobile Media (Pvt) Ltd and the University of Moratuwa Mobile Communications Research Lab is another key ongoing project that serves to protect our people.

## **SUPPORTING NATIONAL SPORTS**

Dialog continued to be the country's prolific promoter of sports through our unyielding support of the National teams for Cricket, Volleyball, Football, Rugby, and the Para Games. We stayed true to our promise of greater inclusivity by becoming the official sponsors of the Sri Lankan National Netball Team, and became the main enabler of the digital future of sports by conducting Dialog Play Expo, Sri Lanka's largest eSports convention of the year. Dialog will continue to invest in Sri Lankan talent and empower the youth to excel on a national and international platform.

## **NURTURING HUMAN CAPITAL**

As a service organisation, our team of over 3,000 staff with an extremely diverse pool of skills is key to delivering our vision of being at the forefront of innovation in Sri Lanka. We give priority to nurturing and building this highly talented pool of individuals, building strong talent, and leadership pipelines for the future.

We continued our journey to transform our organisation into that of a mature digital telco, operating in an increasingly digitised workplace. We are in the process of digitising and automating, all our people related processes to give employees a seamless digital experience at work. We have over 500 people covering approximately 100 projects, where cross functional teams work in an agile structure from Information Technology to other business teams. We formed a Digital Army to ensure effective communication/ information dissemination and engagement with regard to digitisation initiatives to all staff which culminated in the successful completion of Dialog Digital Jam 2018.

We extended Lynda, the Microsoft e-learning platform to all employees, to enable continuous learning at their time and pace - utilising today's technology for tomorrow's skills. Lynda offers more than 7,000+ structured online courses led by industry experts, facilities and tools for communal up-skilling, sharing of insights and constructive collaborations.

The Axiata Transition to General Management (TGM) programme was launched through INSEAD. This was to accelerate the development of functional leaders into transformational leaders and highly effective general managers, who are tech savvy and have the skills to lead teams in the digital age.



## LOOKING AHEAD

As we move in to the new financial year, the forecasts for global and local growth reflect a moderating landscape with elevated levels of risk. I look to inspire and empower the Api Dialog team to reskill as we compete in a dynamic market, disrupting our own successful business models to stay ahead. Consolidation and regulatory changes in our business will present both opportunities and risks and we must be ready to seize opportunities while managing risks with foresight.

We are building a “MAD” organisation – Modern, Agile, Digital organisation that will be nimble as smaller units that will push boundaries, create new businesses and solve new problems for tomorrow's digital citizens. Having been the industry leader in mobile sector for nearly two decades and leader in Sri Lanka's telecommunications industry for more than five years, it is time to develop aggressive aspirations to become a leading digital champion.

We will continue to invest aggressively in emerging and even untested business models and technology applications to be future ready in every aspect of our operations over the next five years, where 5G technology will require another round of intense capital investment. We will need to transition our 2G and 3G subscribers to adopt the superior 4G technology to manage scarce radio spectrum resources.

Cybersecurity and data privacy will be key priorities that have to be driven at a frenzied pace to measure up to global threats which include money laundering and identity theft, and increasing expectation of civil society for the policing of communication networks.

“As we move in to the new financial year, the forecasts for global and local growth reflect a moderating landscape with elevated levels of risk. We will continue to invest aggressively in emerging and even untested business models and technology applications to be future ready in every aspect of our operations.”

We need to move our goal posts to benchmark those which are fit for our future, broadening our industry focus and scalability. Collaboration and cooperation with business partners of all sizes will propel growth at an intense pace as we give wing to our ambitions to realise our potential.

## APPRECIATIONS

I thank our 13.8 Million customers for their continued patronage of our networks and for their confidence on our new offerings which in turn inspires us to deliver new technologies aimed at enhancing digital experiences. Our services are powered by a dedicated team of employees who are passionate about delivering service excellence as affirmed by the accolades received on diverse aspects of our performance. I am humbled and proud to have had the privilege of leading this amazing team who has delivered world class innovations and outstanding business results set out in this annual report for the year ending 31st December 2018.

# Group Chief Executive's Review of Operations

"I thank our 13.8 Million customers for their continued patronage of our networks and for their confidence, and our dedicated team of employees."

I wish to thank our business partners who have worked with us to deliver The Future. Today to our subscribers and look to their continued support. 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 Telecommunication, Foreign Employment and Sports, Ministry of Digital Infrastructure and Information Technology, the Information and Communication Technology Agency and the Ministry of Mass Media and Information. To our Dialog Retailers who have grown with us and supported our growth, I extend my sincere appreciation of their continued commitment. I thank our shareholders for their continued confidence in us as we redefine the boundaries of the telecom industry.

In closing, I wish to extend my gratitude to our Chairman, Datuk Azzat Kamaludin and my fellow Board members for their strategic vision and encouragement to pursue our ambitions and their wise counsel.



**Supun Weerasinghe**  
*Group Chief Executive*

30 April 2019

# 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 was a Senior Independent Non-Executive Director of Axiata Group Berhad until his retirement on 23 May 2018. Datuk Azzat 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 in 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.

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## **DR. HANS WIJAYASURIYA**

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

Dr. Hans Wijayasuriya was appointed to the Board of Dialog Axiata on 19 January 2001.

Dr. Wijayasuriya joined Dialog Axiata's founding management team in 1994, and subsequently functioned as the Group Chief Executive of the Company from 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 on the Board of John Keells Holdings PLC as an Independent, Non-Executive Director. 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, LMD.

Dr. Wijayasuriya holds a degree in Electrical and Electronic Engineering from the University of Cambridge, UK, a 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.



3

### 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 1st 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 33Mn subscribers.

Mr. Weerasinghe serves on the Boards of subsidiary and associate companies of Dialog as well as Sri Lanka Institute of Nano Technology (SLINTEC) and UNGC Network Sri Lanka.

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.

4

### MR. MOHAMED V. MUHSIN

Independent, Non-Executive Director

Mr. Mohamed V. Muhsin was appointed to the Board of Dialog Axiata on 14 June 2006.

He is a former Vice President and Chief Information Officer (CIO) at the World Bank where he was responsible for aligning information technology with the organisation's business strategy. Mr. Muhsin successfully led the implementation of major reforms in enterprise-wide business and information systems, global telecommunications and video conferencing. The work he accomplished is featured in the Harvard Business School Case Study, Enabling Business Strategy with IT at the World Bank.

Mr. Muhsin has also worked in senior positions in the private sector in Sri Lanka. He 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's experience includes working as a Strategic Management Consultant and Director on international corporate and foundation boards. He is also the Chairman of the Islamic Community Centre of Potomac in Maryland, USA. He is a freelance columnist and journalist.

Mr. Muhsin is a Fellow of the Institute of Chartered Accountants of Sri Lanka.

# Board of Directors

5

## **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 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 90s 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.

6

## **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 Chairman and Co-Founder of MAS Holdings (Private) Limited (“MAS”), South Asia’s largest manufacturer of intimate and sportswear which provides design-to-delivery solutions to leading global fashion brands. Headquartered in Sri Lanka, the company has 53 manufacturing facilities located in 16 countries, providing employment to over 99,000 associates.

Mr. Amalean was conferred the title ‘Deshamanya’ [Pride of the Nation – an honour awarded by the Government of Sri Lanka for “highly meritorious service”] in 2005 by the President of Sri Lanka in recognition of his service to the nation.

In 2011, the Open University of Sri Lanka conferred an honorary doctorate (honoris causa) to Mr. Amalean in recognition of his contribution to the country.

In 2013, Mr. Amalean was one of five global business leaders recognised with a UN Award at the Women’s Empowerment Principles (WEP) inaugural Leadership Awards presentation where he received the award for Cultural Change for Empowerment. He was ranked amongst the Top 20 Progressive Asian Leaders by the World Business Magazine.

Mr. Amalean was honoured with the ‘Humanitarian Award’ at 2019 Femmy Awards organised by the Underfashion Club in New York, for his contribution in empowering people and uplifting communities.

He is a visionary leader and is engaged in nurturing teams, uplifting communities and committed towards creating a sustainable future for the next generation. He strongly believes in attracting and investing in talent for future growth and has mentored several young leaders.

Mr. Amalean completed his executive education in 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).



7

## MR. DOMINIC PAUL ARENA

Non-Independent, Non-Executive Director

Mr. Dominic Paul Arena was appointed to the Board of Dialog Axiata on 1 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 and 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 17 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.

8

## 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 until 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.

# Board of Directors

9

## **DATO' MOHD IZZADDIN IDRIS**

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

Dato' Mohd Izzaddin Idris was appointed to the Board of Dialog Axiata on 9 August 2018.

Dato' Izzaddin currently serves as an Independent, Non-Executive Director of Axiata Group Berhad.

Dato' Izzaddin has almost 30 years of experience in the fields of investment banking, financial and general management having served in various senior positions at Malaysian International Merchant Bankers Berhad, Malaysian Resources Corporation Berhad and Southern Bank Berhad. In September 2004, he was appointed as the Chief Financial Officer/Senior Vice President (Group Finance) of Tenaga Nasional Berhad, a position he held until 30 June 2009. Thereafter, he was appointed as the Group Managing Director/Chief Executive Officer of UEM Group Berhad where he served until 6 October 2018.

Dato' Izzaddin is also a Director of Iclif Leadership and Governance Centre, a non-profit organisation established by Bank Negara Malaysia dedicated to executive education, research, coaching and advisory services in the areas of leadership development and corporate governance.

Dato' Izzaddin holds a Bachelor of Commerce Degree (First Class Honours in Finance) from the University of New South Wales, Australia. He is also a Fellow of the Chartered Public Accountants (CPA), Australia and a Member of the Malaysian Institute of Accountants (MIA).

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## **MR. VIVEK SOOD**

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

Mr. Vivek Sood was appointed to the Board of Dialog Axiata on 16 February 2019.

Mr. Sood is the Group Chief Financial Officer of Axiata Group Berhad, a position he has held since 2017.

Prior to joining Axiata, Mr. Sood held various leadership roles in the telecommunications and financial industry, as Executive Vice President and Group Chief Marketing Officer of Telenor Group Inc., Chief Executive Officer of Telenor India, Chief Executive Officer of Grameenphone Bangladesh, Chief Financial Officer of Telenor India and Chief Financial Officer and as Chief Operating Officer of Tata AIA Life Insurance.

Mr. Sood holds a Bachelor in Commerce from the University of Delhi and is a Qualified Chartered Accountant.

# Corporate Management Team



# Corporate Management Team

1

## **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 and Nepal. 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 23-year career in technology management, Pradeep has garnered extensive experience across multiple generations of mobile telephony technology leading up to the most recent 5G technologies. 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 programme. 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 is the Group Chief Customer Officer of Dialog and the Chairperson of the Digital Customer Experience Expert Working Group for Axiata. Sandra is also a Director of Dialog Business Services.

She has over 30 years of experience in the Mobile industry and is the recipient of multiple awards for women in management, leadership and for her exceptional contribution and achievements in the sphere of customer experience management. In 2017, she was honoured with the CMI Management Excellence Award for Women in Management. Sandra was also one among 7 service practitioners across the globe to have received the prestigious Customer Experience Impact Award, presented by the Customer Experience Professionals Association USA.

Sandra is an avid keynote speaker, panelist and presenter and has spoken at over 100 global events representing Dialog. She is a certified CE professional from CXPA and an alumna of the Cranfield School



of Management UK. She is also a Lean Six Sigma practitioner and a visiting lecturer at the University of Colombo School of Computing since 2009.

In addition to her role at Dialog, Sandra is a founding member and a Director of SLASSCOM, the national IT-Knowledge solutions chamber of Sri Lanka and a founding member and Vice President of the Sri Lanka Institute of Service Management (SLISM).

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, Supply Chain Operations, Quality Systems and 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 and 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 and Information Technology.

He holds a Bachelor of Science in Electronic and Telecommunication Engineering from University of Moratuwa, Sri Lanka, and a Master of Business Administration from 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).

5

## 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 21 years of 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 Director for Dialog Broadband Networks (Private) Limited and Headstart (Pvt) Ltd.

# Corporate Management Team

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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).

7

## 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.

## 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 PricewaterhouseCoopers, 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.

Prior to joining Dialog, Lasantha has held positions at organisations in the Leisure, Distribution, Shipping, Printing, Software, Consultancy and Audit sectors.

He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holds a Bachelor of Science in Accountancy (Special) Hons. from the University of Sri Jayewardenepura, Sri Lanka. He also holds an MBA from Edith Cowan University, Australia.

## LASANTHA THEVERAPPERUMA

### Group Chief Digital Officer

Lasantha assumed duties as the Chief Digital Officer in November 2018, leading the digital transformation programme incepted to reinvent the organisation, and meet the demands of IR 4.0.

Lasantha joined Dialog in 2004 as Manager – Finance Operations and has progressively taken on greater responsibilities, while simultaneously gaining a wide range of experience in the Telecommunications industry through the multiple roles he has held as Head of Finance – Dialog Mobile, General Manager – Group Business Operations, Head of Business – Dialog Mobile and Vice President – Group Corporate Planning and Strategy.

In 2017, Lasantha was seconded to Axiata Group Berhad in Malaysia, where he served as its Head of Strategy.

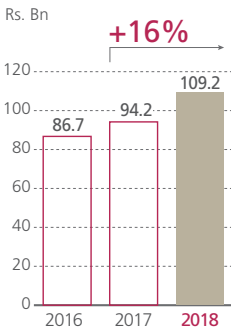
# Business and Financial Review

## GROUP

The financial year 2018 was fraught with many challenges stemming from multiple fronts, including intense competition, enforcement of regulatory changes and unfavourable macro environment conditions, which had a negative impact on the telecommunications industry as a whole. Despite the multifaceted challenges, the Dialog Group continued to consolidate its market leadership position as Sri Lanka's premier connectivity provider while delivering strong financial performance across all key performance indicators.

Continuing its strong performance trajectory, the Group delivered a consolidated revenue of Rs. 109.2Bn for FY 2018, a growth of 16% Year-on-Year ("YoY"), on the back of strong performance across all key business segments.

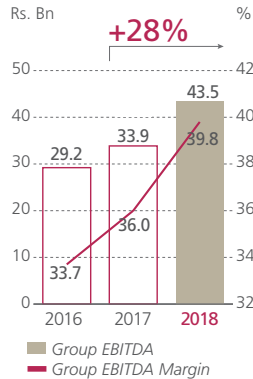
## Group Revenue



- Group Revenue growth continued upward trajectory increasing 16% YoY
- FY 2018 Group Revenue excluding international termination revenue grew 18% YoY
- DBN revenue up 39% YoY led by Fixed Home Broadband revenue
- DTV revenue up 25% YoY driven by expanding its subscriber base

The Group continued its organisation transformation journey, which commenced in FY 2017, to accelerate simplification and digitisation of business activities, processes and competencies to fully leverage on capabilities of digital platforms and technologies. One-off costs related to this program is estimated to be Rs. 2.5Bn which has been provided for in the financial statements for FY 2018. A significant one-off gain was also recorded in FY 2018. The Supreme Court of Sri Lanka ruled in favour of the Company's fully owned subsidiary DBN on 14th December 2018, leading to a reversal of provision to the value of Rs. 3.7Bn in December 2018. The provision was made as a matter of prudence in FY 2012 for a possible claim of the said amount consequent to a judgement delivered by the Commercial High Court of Sri Lanka against Suntel Limited on 9th March 2012.

## Group EBITDA



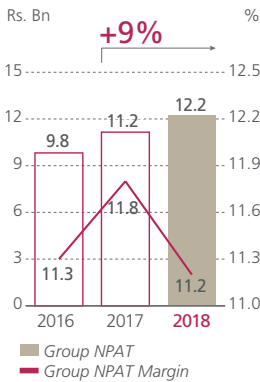
- Improvement in Group EBITDA driven by growth in revenue and cost optimisation
- Group EBITDA margin improved by 3.8pp to 40%
- DBN EBITDA (normalised for one-off gain of Rs. 3.7Bn) grew by 19% YoY driven by growth in Fixed Home Broadband revenue
- DTV EBITDA up >+100% YoY



Group total operating cost grew by 11% YoY driven by rise in revenue driven cost and increase in network related costs. Ongoing operational and structural cost transformation initiatives carried out during the year resulted in significant realisation of cost savings exceeding Rs. 3.4Bn.

Underpinned by strong revenue growth and cost optimisation, Group EBITDA for FY 2018 delivered a strong growth of 28% YoY to reach Rs. 43.5Bn. The Group EBITDA margin for FY 2018 was accordingly improved to 39.8% from 36.0% in FY 2017.

### Group NPAT\*



\* NPAT normalised for non-cash translational foreign exchange losses

- Normalised Group NPAT growth underpinned by increased EBITDA
- Reported Group NPAT impacted by significant non-cash translational forex losses

Notwithstanding the strong EBITDA performance, the Group was significantly impacted by the continued depreciation of the Sri Lankan Rupee (“LKR”) against the United States Dollar (“USD”) at 19.2% for FY 2018 resulting in a non-cash translational foreign exchange

loss of Rs. 4.7Bn for the year. Consequently, the Group NPAT declined 30% YoY to be recorded at Rs. 7.5Bn for FY 2018. Post normalisation for the non-cash translational foreign exchange losses Group NPAT was recorded at Rs. 12.2Bn for FY 2018, representing an increase of 9% YoY.

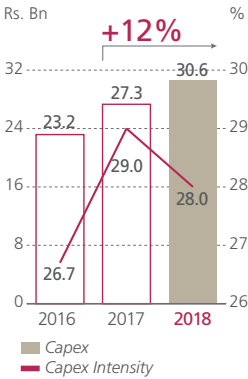
Dialog Group continued to be a significant contributor to state revenues, remitting a total of Rs. 34.1Bn to the Government of Sri Lanka (“GoSL”) during the financial year ended 31st December 2018. Total remittances included Rs. 8.5Bn in Direct Taxes and Levies as well as Rs. 25.6Bn in Consumption Taxes collected on behalf of the GoSL.

Group capital expenditure for FY 2018 was recorded at Rs. 30.6Bn representing a Capex to Revenue ratio of 28%. In line with the Group’s strategic aspiration to further strengthen its leadership in Sri Lanka’s Broadband sector, the spending was directed primarily towards investments in High-Speed Broadband infrastructure focusing on the expansion of the 4G Network alongside the extension of the Group’s Optical Fibre Network to support robust and seamless connectivity. The strengthening of the network will cater to the burgeoning demand for data consumption driven by growing affordability of smartphones, increased adoption of 4G enabled handsets along with increased usage supported by vast availability of content.

Notwithstanding the increase in capital investments, the Group recorded a positive Operating Free Cash Flow (“OFCF”) for FY 2018 of Rs. 5.2Bn as a result of improved profitability, calibrated capex expenditure and focused working capital management initiatives carried out throughout the year. The Group continued to exhibit a low geared balance sheet with the Net Debt to EBITDA ratio being maintained at a healthy 0.91x as at end December 2018.

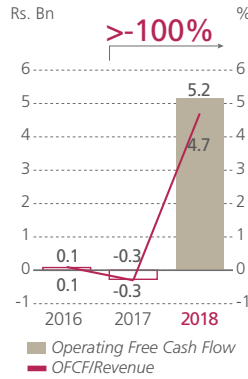
# Business and Financial Review

## Capex



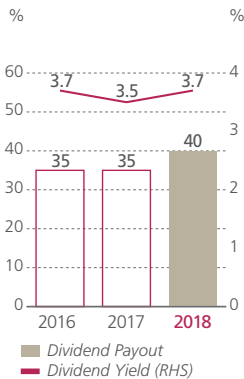
- Capex mainly directed towards Group's strategic aspiration to further strengthen its leadership position in the Broadband sector
- Capex intensity of 28%

## Operating Free Cash Flow (OFCF)



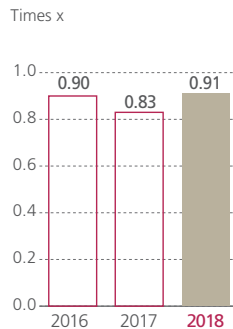
- OFCF turned significantly positive in FY 2018 due to improved profitability, calibrated capex spend and working capital management

## Dividend Payout & Dividend Yield



- Dividend Payout Ratio of 40% translating to a Dividend per Share of 37 cents
- Dividend Yield at an attractive 3.7%
- Proposed dividend for FY 2018 of Rs. 3.0Bn

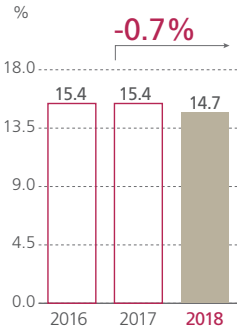
## Group Gross Debt to EBITDA



- Group continued to maintain a low geared balance sheet
- Net Debt to EBITDA at 0.91x by end 2018



## ROIC



- ROIC maintained at double digits to record 14.7% despite increase in asset base amid aggressive investments

# Business and Financial Review

## DIALOG AXIATA PLC

### Financial Review

The Company's key businesses, Mobile, International, Tele-infrastructure and Digital Services contributed to 77% of the Group revenue in FY 2018.

Notwithstanding intense competition, the revenue was recorded at Rs. 84.5Bn for FY 2018, up 9% YoY, driven by growth in mobile data, international business and digital services. The Company continued to maintain its market leadership position with the 8% YoY growth in mobile subscriber base to reach 13.8 Million subscribers by end 2018.

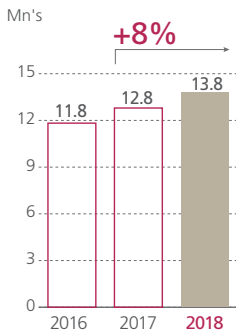
Despite the continued threat from OTT ("Over-the-Top") services, voice revenue recorded only a moderate decline of 1% YoY. New customer acquisitions via aggressive regional campaigns and positive traction gained from new product launches supported the sustenance of voice revenue.

Data revenue continued its strong growth momentum during the year to record a growth of 32% YoY driven by continued increase in smartphone penetration, 4G device penetration supported by rapid 4G conversion, coverage expansion and upgrades to data related infrastructure.

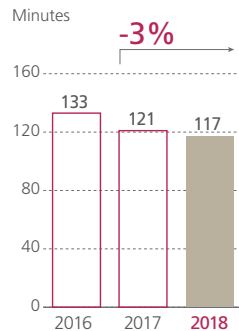
During the year, the TRCSL announced the abolition of the floor rate (Rs. 1.50 per minute) applicable on mobile voice services. However, all tariff plans require the approval of TRCSL and such tariff approvals shall be based on a cost-based approach, similar to that followed for data pricing.

The Minutes of Use ("MOU") declined YoY as a result of shift in usage pattern from voice to data. The Average Revenue per User ("ARPU") however increased on a YoY basis supported by accelerated growth in data revenue.

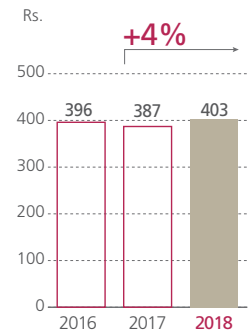
### Mobile Subscribers



### Blended MOUs



### Blended ARPUs

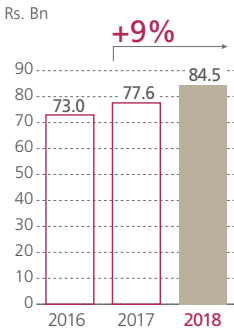




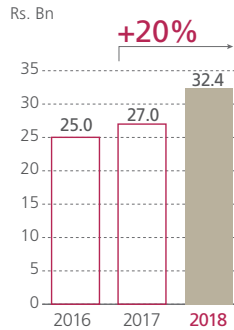
Downstream of strong revenue performance, EBITDA was negatively impacted by organisation transformation related one-off provision to the value of Rs. 2.2Bn. Post normalisation for the said provision, Company EBITDA increased 20% YoY to reach Rs. 32.4Bn for FY 2018 translating to an EBITDA margin of 38.3%, up 3.5pp YoY.

The depreciation of the LKR, as alluded to earlier, impacted the Company as the NPAT declined 58% YoY to reach Rs. 4.4Bn for FY 2018. On normalising for the non-cash translational foreign exchange losses and one-off organisation transformation provision, Company NPAT was recorded at Rs. 10.9Bn for FY 2018, up 1% YoY.

## Revenue

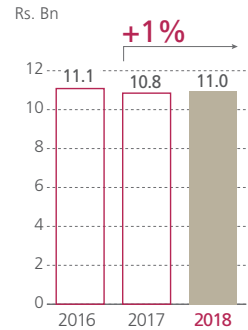


## EBITDA\*



\* FY 2018 EBITDA normalised for organisation transformation related cost of Rs. 2.2Bn for FY 2018

## NPAT\*



\* NPAT normalised for non-cash translational foreign exchange losses and FY 2018 NPAT norm for organisation transformation related cost of Rs. 2.2Bn

# Business and Financial Review




## Industry Outlook

Sri Lanka continues to see a rapid transformation in the telecommunication space ranging from high speed data connectivity, cloud service, emerging digital services and digitisation. The strong focus in the market for high speed internet is evident via the 4G adoption rates and the requirement of 5G expansion strategies. With the focus of the future moving towards digital, the telecommunications industry too would continue to shift its business model from delivering organic telecommunication services, to advancing digital services. The Industry is expected to witness an increase in demand for content and move further towards digital services.

## 4G Adoption

In view of the accelerated digitisation and advancement of lifestyles of the Sri Lankan consumer, Dialog launched the affordable Dialog branded 4G and VoLTE (Voice over Wi-Fi) enabled smartphones. Additionally, Dialog introduced portable mobile Wi-Fi routers (4G Wingle, 4G Mifi) at an attractive starting price of Rs. 4,990/-. Dialog also introduced a device cash back offer for the first time in Sri Lanka, where Dialog partnered with leading brands to promote 4G smartphone conversion programmes, with device cash back offers to further drive 4G device penetration. This resulted in almost 40,000 customers converting to 4G smartphones, contributing to the 4G adoption acceleration programme, with the focus of moving users from 3G to 4G. 40% of data subscribers have been attached to the 4G network by end 2018.

## Key to Guide Coverage Maps

<b>4G Coverage</b>
 Low Coverage (Between - 100 dBm to - 103 dBm)
 Moderate Coverage (Between - 85 dBm & - 100 dBm)
 Good Coverage (Better than - 85 dBm)

## Network Leadership

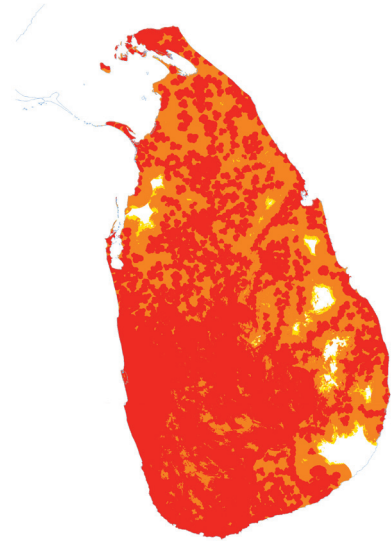


Figure 1: 2G Coverage

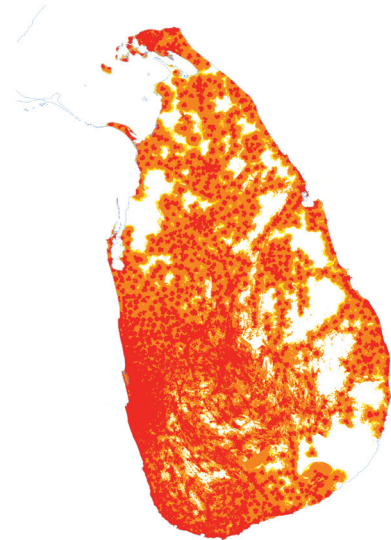


Figure 2: 3G Coverage

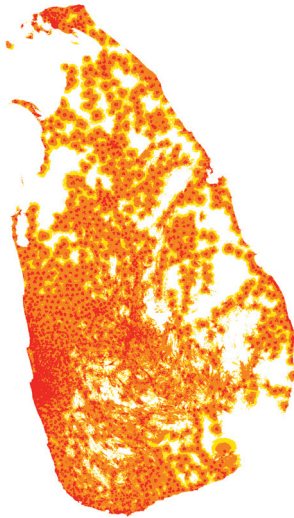


Figure 3: Mobile 4G-LTE FDD Network

Continuing Dialog's commitment to providing users with island wide coverage, the company invested Rs. 30.6Bn in network related investments with focus on 4G coverage. To cater to this exponential growth in data traffic, Dialog increased its Mobile 4G-LTE base stations by 78% during the year.

In 2018, Dialog was conferred the 2018 Speedtest® Award by Ookla®, the global leader in mobile network testing applications, data and analysis. The Speedtest reflects network speed figures tested by Sri Lankans across the country, and further reiterates Dialog's distinction as being selected as the Internet Service Provider of the Year at the Peoples Choice Awards for six consecutive years.

Dialog also marked an important milestone in 2018, where the company enabled South Asia's 1st fully-functional 5G pilot transmission - a major step forward in Sri Lanka's 5G journey.

## Usage Drive

Dialog Mega Wasana, the flagship consumer rewarding programme, has generated over 700,000 winners during the year, and distributed a total prize value of Rs. 195Mn amongst Dialog mobile subscribers. Dialog Mega Run introduced the Augmented Reality (AR) feature adding further excitement to the game. Mega Run has recorded 1.6Mn app downloads and 25% penetration of the smartphones subscribed to the Dialog network, within a year, to become the fastest growing mobile app in Sri Lanka. Growth in consumer affordability, better quality network and wider coverage, along with usage drive has helped to improve customer Average Data Revenue Per User by 20% YoY. Despite the increase in OTT services such as WhatsApp, Viber, Skype, the Company has managed to mitigate IDD revenue reduction by continuing the 'IDD Triple Bonus' product.

Dialog Prashansa, which offers a special mobile package to retired government sector employees in partnership with the Department of Pensions, continued in 2018 with the objective of servicing the retired government sector. The programme has successfully run for the 2nd consecutive year; with 1 in every 5 pensioners being a Dialog customer.

## Market and Product Innovations

In April 2018, Dialog became the 1st operator in South Asia to launch eSIM technology for devices, by partnering with Huawei to launch the 1st ever eSIM enabled smart watch. Further, Dialog became the 1st operator in Sri Lanka to partner with Apple to launch eSIM enabled smartphones in Sri Lanka for the latest iPhones XR, iPhone XS and iPhone XS Max devices.

Dialog launched Voice over Wi-Fi (VoWiFi or WiFi Calling) services, an internet-based telephony feature that will enable users to make voice and video calls on minimal or no cellular connectivity. The 1st to launch the technology in Sri Lanka, Dialog allows subscribers to connect to a public Wi-Fi hotspot or any standard Wi-Fi network, and make calls to mobile numbers and landlines. The technology is immensely useful in

# Business and Financial Review

locations with limited connectivity and permeates lifts, basements, thick walls and stations to address loss of cellular signal.

Dialog launched the Voice Unlimited Pack for both prepaid and postpaid customers. Dialog also launched 4G Bonus packages in October 2018, another 1st in the market, introducing innovative data tariff plans with anytime quota, night time quota and 50% anytime 4G bonus for subscribers.

## Roaming and IDD Services

Dialog continued to strengthen its presence beyond borders by successfully expanding its international roaming coverage. Dialog's overall voice roaming collaboration reached 676 operators and 230 destination countries around the globe. The Company signed new roaming agreements with 6 GSM operators and added to its roaming footprint during the year. The Company also expanded its roaming footprint on GPRS, 3G, and CAMEL to 218, 184 and 196 destinations respectively, with the effort to meet the needs of the customers to be connected at all times. During the year, the Company also expanded its LTE roaming footprint and coverage to 288 operators and 122 destinations, while being the pioneers of launching VoLTE Roaming with 7 operators in 5 countries.

With the commissioning of the Bay of Bengal Gateway in 2016, Dialog can currently provide international capacity and internet uplink services to almost all other operators in Sri Lanka. Additionally, Dialog was able to monetise the investment not only in Sri Lanka, but also in international bandwidth corridors such as Middle East - Singapore and India - Singapore.

## Content

The ViU app, the central hub for content disbursement, currently has 850,000 app downloads and contains over 500 movie titles. MyTV continues to attract customers and currently boasts a download base of 2Mn, and is the 1st Dialog app to reach this milestone. Iflix currently has a registered base of 98k in Sri Lanka.

Dialog released the 1st film production 'Eka Dawasaka Api' under the Vinode Production banner released in February 2018, which ran in theatres for 100 days. The film was shortlisted and screened at the 40th edition of the Moscow International Film Festival. Further, Dialog worked with veteran artists and directors in 2018, to produce 4 web dramas (Roomassala, Apuru Bodima, Ilakkaya and Drift) in the Sinhala language, as well as the web drama series "Phone phobia" in the Tamil language.

Dialog Play Expo, Sri Lanka's largest video-game and eSports championship, and the Colombo Comic Expo concluded successfully on 9th December 2018, which was powered exclusively by Dialog. Dialog Play Expo showcased the latest technology and experiences available for digital entertainment enthusiasts and opened opportunities for anyone interested in audio, video, music, movies, gaming and their related technologies. This event hosted the biggest prize pool ever announced in Sri Lanka, worth Rs. 5Mn, spanning a wide range of eSports titles, providing the opportunity to showcase their talent at a national level. Further, Dialog Game Hero Season 1 was concluded in December 2018, the 1st gaming competition in the country to offer a prize pool of Rs. 3Mn.

Continuing with its objective of providing an unparalleled mobile entertainment experience to its customers, Dialog launched the Hungama Music application in September 2018. With the launch of the application, users received a superior customer experience with access to an extensive catalogue of over 3 Million international, local and regional music and music videos on-the-go. The music service provides the lowest rates in the market for an international streaming service, whilst providing a host of features including curated playlists, free downloads, HD quality music, offline listening and gamification. Further, the application provides local artists a platform to distribute their content to the international arena and an opportunity to monetise their creations via legal channels.



ThePapare.com has firmly entrenched itself as Sri Lanka's No. 1 Sports Hub, leading sports media in the country through the web portal and continues to grow its customer base exponentially. A customer base of 2.3 Million visited in 2018 and almost another 1 Million accessed the hub through multiple social media platforms, reaching an island wide and diaspora audience. Also, ThePapare.com in partnership with Dialog Television and MyTV, further reached local television and mobile app audiences, bringing local sports fans closer to the games.

### 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 on their passive infrastructure and transmission requirements through modern and cost-effective technical solutions. In view of providing high capacity, scalable and reliable transmission services at access and aggregation layers, Dialog had modernised its transport network with the expansion of the Optical Fibre Network across the country, connecting all main cities and metropolitan areas improving the service reachability to the customers.

### Digital Services

Dialog continued investing in digital infrastructure and digital ecosystem throughout the year to strengthen its pathway towards becoming the leader in Sri Lanka's digital service providers while digitally empowering all Sri Lankans.

eZ Cash, the country's 1st mobile money solution successfully obtained the GSMA Mobile Money Certification during the year 2018. eZ Cash's efforts were measured against global industry best practice, becoming the 7th mobile money deployment out of 276 mobile money operators globally to successfully obtain this certification. The revolutionary mobile money network accounts for over 3.4 Million subscribers across Dialog, Etisalat and Hutch, and over 20,000 merchant partners around the island.

eZ Cash partnered with Alipay, the Alibaba affiliated mobile payments arm of China's Ant Financial Services Group, to extend the eZ Cash platform to Chinese tourists in Sri Lanka. eZ Cash recorded a 31% YoY growth in 2018.

During the year under review, Dialog launched 'Genie', Sri Lanka's 1st 'Payment Card Industry Data Security Standard' (PCI-DSS) certified mobile payment app. Genie is an innovative digital wallet payment solution that securely holds credit and debit cards, current and savings accounts (CASA) and eZ Cash accounts on their smartphone. Post launch, within a short time frame, 105,000 app downloads were recorded with an average of Rs. 52Mn worth of transactions per month.

Dialog's digital advertising arm which provides services such as display advertising, managed campaigns, and digital solutioning continued to grow during 2018 with a YoY revenue growth of 64%. Digital advertising executes highly targeted multichannel campaigns for Sri Lanka's leading brands and agencies via an analytics based digital advertising platform.

The Touch Corporate Fuel Solution expanded to provide over 500 corporates with an automated mechanism to distribute and manage fuel benefits and allowances for staff. Dialog has an island wide network of 150 fuel stations with an addition of 25 new stations during the year.

The Doc990 platform owned by Digital Health Pvt Ltd is a joint venture partnership between Dialog Axiata PLC, Asiri Group of Hospitals, Nawaloka Group of Hospitals and Ceylon Hospitals (Durdans). This joint venture is the first cross-sector partnership of its kind in Sri Lanka's healthcare industry. Whilst primarily catering to the doctor channeling customers in the country, Doc990 has expanded its offering to include several complementary services, such as the Tele Doctor Service, Medicine to Your Doorstep, Healthcare to Your Doorstep, My Health Records and Lab Reports to provide an integrated and comprehensive digital health service. Currently, Doc990 enables patients to

# Business and Financial Review

book appointments with over 100 hospitals and 2,500 doctors across 270 medical specialisations. Although Doc990 was a late entrant to the digital health sector, it has rapidly grown to capture over 40% of doctor channeling market share and over 195,000 customers. Further, Dialog, MyDoctor.lk and Avidhrt Inc. partnered to launch Avidhrt Sense, the country's 1st and only portable vital monitor, available to the Sri Lankan public. Avidhrt Sense is the only commercial product that offers a complete physiological monitoring solution for patients and health-conscious individuals.

wOw.lk, which ranks among the largest e-commerce websites in Sri Lanka, operated by Digital Commerce Lanka (Pvt) Ltd, rebranded itself during the year under review, to reflect the modern and upward trends of consumer preferences and continued its voyage to offer a complete and convenient shopping experience for over 8,000 products in its portfolio. wOw.lk launched Sri Lanka's first line of 'Inspired Gifts' in partnership with the United Nations Children's Fund (UNICEF) to support and improve the lives of children and communities. In 2018, the Company underwent a product rationalisation and cost rescaling exercise to improve operational efficiency and margins.

444, Sri Lanka's largest location-based booking platform, enables a multitude of bookings across a variety of industries and connects directly with local businesses in the area with a few simple clicks. 444 unveiled a new extension to its identity by enabling convenient access to over 150 stylists in partnership with Club Soirte during 2018. Bookings via 444 grew by 63% YoY recording over 179,000 bookings during the year under review.

Dialog continues to uplift digital education in Sri Lanka via Headstart, a key software partner on several national educational initiatives. During the year under review, Headstart added 100 new schools to its smart school programme while introducing a unique digital education transformation product for private schools, in collaboration with Microsoft. The B2C arm of Headstart, Guru.lk, increased its product portfolio and

sales partner network during the course of 2018 and the Company won 3 awards for its solutions at the NBQSA and SLT ZeroOne awards.

Dialog's per day insurance services continued its stellar growth trajectory surpassing a 4 Million subscriber base in accident, hospitalisation, life and home protection covers. The acquisition of InsureMe provided a space to operate in the digital sphere of insurance brokering model. Senior citizen product, Pay As You Go via the InsureMe app, was launched for the 1st time in Sri Lanka. In 2018 Dialog also partnered with AIA, an international brand offering insurance services for over 100 years. 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 masses.

The service offerings of API Business reached new heights by expanding the boundaries beyond Sri Lanka to Maldives, Cambodia, Myanmar and Malaysia. Services in Myanmar and Maldives were launched with Ooredoo via Ideamart partners Smart Axiata and Celcom Axiata of Cambodia and Malaysia respectively. This expansion not only allows Sri Lankan technology to be used outside Sri Lanka, but, also provides the Sri Lankan developer community to extend their services to new territories. Ideamart continued to conduct over 50 educational programmes in schools and universities around the country. Along with Google I/O 2018, Ideamart managed to organise and participate in over 10 exhibitions with a focus on showcasing the Dialog Internet of Things (IoT) Platform and use cases relevant to the country.

Dialog in partnership with University of Moratuwa Research Lab and Lanka Electricity Company (LECO) jointly developed Sri Lanka's 1st smart grid solution with connected meters and network monitoring devices, which is planned to be launched in the year 2019, with the support of the Ministry of Power and Renewable Energy and the blessings of the subject minister. They also partnered with Earth Networks



Limited to provide the Sri Lankan public with more accurate weather based information and predictions. The IoT arm initiated and installed more than 30 localised weather stations around the country for this purpose and built an environment monitor that senses impurities in the environment.

With the intent of igniting IoT innovation in the country, the team built several NB-IoT (Narrowband-Internet of Things) based development boards that enabled developers and industries to use Dialog's IoT platform to build multiple IoT solutions on monitoring and automation leading to business efficiency. A notable achievement of a use case is a cloud based IoT roller gate solution for homes and industries where any traditional roller gate is able to be turned into a connected smart gate that can be controlled using any smartphone. In collaboration with the National Water Supply and Drainage Board, the team developed a water distribution monitoring solution using Dialog's IoT platform and one of the development boards. In addition, the homegrown industrial monitoring solution for base station monitoring has now been elevated to commercial levels with applications in multiple verticals, namely building management system and smart energy monitoring for enterprises. The smart meter which started as a utility application was also turned into an enterprise solution for smart energy monitoring.

Dialog Axiata Digital Innovation Fund, Sri Lanka's 1st venture fund of USD 15Mn (Rs. 2.3Bn) powered by Dialog and managed by BOV capital, was set up exclusively to support digital startups in 2017. The 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 initial screening by BOV Capital considers several factors including revenues, user traction and scalability, and includes a comprehensive study of the business model. Subsequently, the startups are approved by

the Investment Committee of the Digital Innovation Fund, for further evaluation prior to awarding the funding. Its 1st phase of investments in 2018 included Roar, a new media platform (Rs. 39Mn), InsureMe, an insurance broker (Rs. 50Mn) and MyDoctor.lk, an integrated healthcare platform (Rs. 55Mn).

In line with its continuous efforts to advance technology and consistently provide users with a world-class customer service experience, Dialog launched an Artificial Intelligence (AI) powered personal voice service skill to support its expansive product service framework. This service which is a first in Sri Lanka simplifies human interaction with voice and natural language by using Natural Language Processing (NLP), an emerging technology used by Amazon's artificial intelligence. The service is set to revolutionise selfcare experience with the addition of a futuristic yet human centred technology platform. The skill will assist users with tasks such as checking bill related information and DTV channel related information. Along with the ability to assist users with numerous Dialog selfcare related tasks, the AI based skill is easily accessible by any customer with an Amazon Alexa enabled personal voice assistant device and can be accessed by simply saying "Alexa, open Dialog".

Dialog and Orange Electric launched the 1st IoT Wi-Fi socket manufactured in Sri Lanka, the 'Orange Electric Smart Socket'. The smart socket is another product introduced under the Dialog Smartlife Connected Home portfolio, the latest innovation in digital lifestyle and the IoT platform from Dialog. This is a wireless Plug and Play device that allows users to control electrical appliances in their home remotely, via the Dialog Smartlife mobile app, available on the Google Play Store and Apple App Store. The app enables scheduling functions including switching a device on and off and triggering on/off events from other connected sensors or devices.

# Business and Financial Review

Dialog Axiata PLC, in collaboration with Arimac Lanka (Pvt) Ltd, announced the introduction of an intelligent humanoid robot as a Customer Assistant at the Dialog Iconic flagship store. The cloud-based humanoid robot, designed specifically for commercial use in the retail, hospitality, healthcare and education industries, is part of Dialog's efforts to expand its Robotics and Artificial Intelligence (AI) product portfolio, along with introducing the next generation of robotics to Sri Lankan customers.

In a combined effort to provide Sri Lankan smallholder farmers with an affordable solution for protecting crop yields from adverse weather and other negative conditions, Dialog partnered with the University of Ruhuna and the University of Moratuwa to develop and go to market a localised, automated protected house agriculture automation system. This affordable, climate-smart, protected agriculture system optimises environmental control (humidity, temperature, soil moisture, pH level etc.) and is expected to increase yields by 130%-200%, while reducing labour requirements and management effort.

Dialog launched Sri Lanka's 1st Augmented Reality (AR) calendar, a showcase of the Company's commitment towards introducing cutting-edge technology. Further reiterating Dialog's vision of enriching Sri Lankan lives and enterprises with the latest in innovation and technology, the revolutionary AR calendar will allow users to experience immersive AR features such as exciting and creative 3D graphics and interactive content for all 12 months, along with updates on Dialog events and yearly holidays.

## DIALOG BROADBAND NETWORKS

### Financial Review

DBN consolidated its position by delivering a revenue growth of 39% YoY to record Rs. 17.2Bn for FY 2018, contributing to 16% of the Group revenue. The strong revenue growth was primarily driven by Fixed Home Broadband segment on the back of expanding LTE network coverage and aggressive subscriber acquisition. The revenue growth was also supported by the transfer of the Group's international wholesale business to DBN during the year. Fixed Broadband revenue grew by 29% YoY while revenue from Data and Leased lines grew by 23% YoY.

Downstream of strong revenue performance, EBITDA was favourably impacted by the one-off gain from litigation related provision reversal of Rs. 3.7Bn. Post normalisation for the said provision reversal, DBN EBITDA grew 19% YoY to reach Rs. 8.2Bn for FY 2018. Normalised NPAT surpassed Rs. 1Bn mark for the second consecutive year in FY 2018. However, normalised NPAT declined 27% YoY to record Rs. 1.3Bn, due to increase in depreciation resulting from aggressive investments into Fixed 4G LTE network.

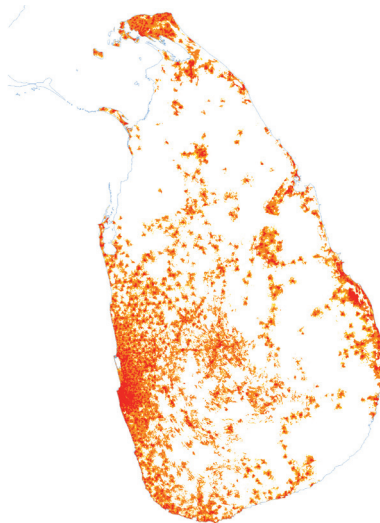
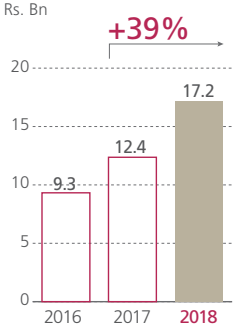


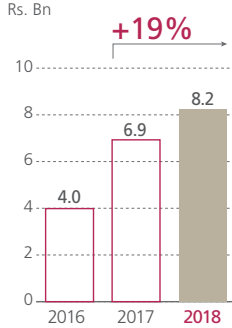
Figure 4 : 4G-LTE TDD Network



## Revenue

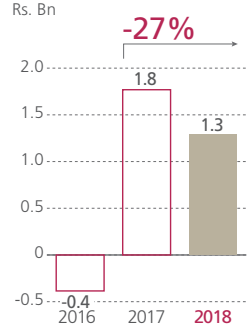


## EBITDA\*



\* FY 2018 EBITDA norm. for one-off gain of Rs. 3.7Bn

## NPAT\*



\* FY 2018 NPAT norm. for one-off gain of Rs. 3.7Bn

## Business Outlook

DBN serves over 800,000 individuals and corporates, providing multiple services including fixed telephony, hosted PABX offerings, broadband internet, Internet Data Centre (IDC), converged ICT solutions, telecommunication infrastructure, transmission and backbone services positioning itself as a strong contender in the fixed telecommunication market of Sri Lanka.

Fixed LTE broadband continued its growth momentum in 2018 with fierce competition. The Company was able to add over 140,000 customers during the year and sustain a subscriber market share over 30%. During the course of 2018, it continued to embark on penetration forays, where the subscriber base showed a noteworthy 45% growth. Continuing its commitment to provide all households with a broadband coverage, the company invested in expanding in Fixed LTE network. In 2018, DBN further strengthened its network with a total site count of over 2,200 sites whilst increasing its household coverage by 14pp.

In addition, DBN took a major step forward in Sri Lanka's 5G journey with the commissioning of South Asia's first fully functional and standards compliant 5G

transmission using commercial grade base stations and end user devices. 5G technology is designed to deliver an era of 'Intelligent Connectivity', bringing together the power of 2GBps + transmission speeds alongside cutting-edge technologies such as augmented and virtual reality, robotics, autonomous vehicles, artificial intelligence and machine learning based applications and cloud-based enterprise networks. 5G networks will augment 4G services with fundamental advancements with respect to network speeds, throughput, traffic capacity and ultra-low latency.

DBN's latest facility on cloud and colocation services "LEED Gold certified" contributes towards a low carbon footprint and supports the sustainability initiatives of the Axiata Group. IDC business recorded an accelerated growth of 61% during the year whilst maintaining a colocation utilisation rate of over 80%.

During 2018, Dialog under DBN, entered into a joint venture partnership with Orion City to build and manage the island's first ever High-Density Data Centre (200 racks) at the Orion City IT Park in Colombo, providing a particularly valuable option for Sri Lankan enterprises seeking a convenient, cost-effective site for their primary data centres.

# Business and Financial Review

## DIALOG TELEVISION

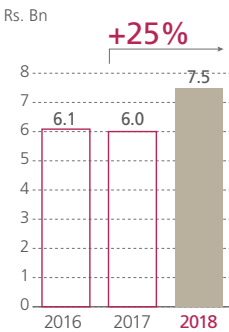
### Financial Review

DTV continued to consolidate its market leadership position in the digital pay television space with a subscriber growth of 17% YoY to exceed 1.1 Million subscribers by end 2018. Driven by the strong subscriber base, DTV revenue grew by a significant 25% to reach Rs. 7.5Bn for FY 2018, resulting in a contribution of 7% to Group revenue. The subscription revenue grew by 11% YoY, driven by healthy subscriber acquisitions.

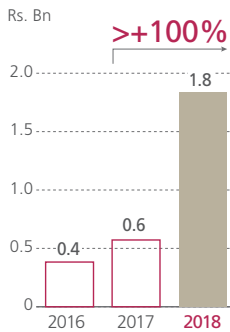
DTV has maintained a continuous growth momentum in the enterprise sector to secure 85% of the market share through the expansion of the IPTV Network and developing strategic partners in the leisure and condominium sectors.

DTV EBITDA was recorded at Rs. 1.8Bn for FY 2018, up 221% YoY, mainly driven by SLFRS 15 impact. Normalised for the SLFRS 15 impact, EBITDA declined 68% YoY to reach Rs. 0.2Bn for FY 2018. DTV Net Loss increased to Rs. 915Mn for FY 2018 relative to a Net Loss of Rs. 736Mn in FY 2017, resulting from increase in depreciation and forex losses.

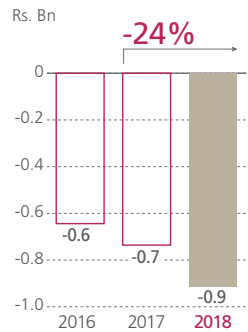
### Revenue



### EBITDA



### NPAT



### Business Review

DTV, the Group's Pay Television business continues to be in the forefront of the pay television industry in Sri Lanka. Year 2018 was a landmark year for DTV surpassing the 1 Million subscriber base during the year. DTV continued its growth momentum, recording a subscriber growth of 17% YoY.

DTV engaged in an aggressive service and product enhancement programme during 2018, featuring customer convenience, wider freedom of choice of services through a multiple product offering servicing different segments of users and network stay based cash back offers and affordability levers such as instalment schemes.

To drive higher network loyalty among existing postpaid customers, a new product termed 'Home Bundle' was launched in 2018 which enabled customers to enjoy

an additional DTV connection at home for 50% of the rental. DTV also carried out a focused exercise to gain and retain a higher base of revenue generating customers through the introduction of the Prepaid Super 6 Package, conversion of postpaid churned customers to prepaid and activities to deliver higher loyalty-based rewards to minimise churn.

The Company has an array of value-added services such as Rewind TV, Catch Up TV, Video on Demand, DTV On the GO and has expanded its local channel offering in order to cater to the sensorial satisfaction of a wider audience. DTV now delivers an extensive assortment of more than 130 Standard Definition (SD) and 10 High Definition (HD) channels at the end of 2018 striking a precise balance of both local and international channels to satisfy the entertainment needs of Sri Lankans, to remain Sri Lanka's No.1 Television Experience.

# 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 2018.

## 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 2018, 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. Dominic Paul Arena	1 June 2016	Non-Independent, Non-Executive Director
Mr. Willem Timmermans	10 May 2017	Non-Independent, Non-Executive Director
Dato' Mohd Izzaddin Idris	9 August 2018	Non-Independent, Non-Executive Director

Table 1 – Composition of the Board as at 31 December 2018

Mr. Chari TVT, who was a Non-Independent Non-Executive Director, completed his tenure as a nominee director of Axiata Group Berhad ("Axiata") on the Board and accordingly resigned from the Board of the Company with effect from 13 December 2018.

# Corporate Governance Report

Since the last AGM, Dato' Mohd Izzaddin Idris and Mr. Vivek Sood were appointed to the Board effective 9 August 2018 and 16 February 2019 respectively as nominee directors of Axiata Group Berhad.

The profiles of each Director are found on pages 15 to 20 of this Report.

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

As at 31 December 2018, the Board comprised 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 five 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. Dominic Paul Arena, Mr. Willem Timmermans and Dato' Mohd Izzaddin Idris 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 2018, 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
Mr. Supun Weerasinghe	6/6
Dr. Hans Wijayasuriya	6/6
Mr. Mohamed Muhsin	6/6
Mr. James Maclaurin	5/6
Deshamanya Mahesh Amalean	4/6
Mr. Chari TVT	5/6
Mr. Dominic Paul Arena	5/6
Mr. Willem Timmermans	4/6
Dato' Mohd Izzaddin Idris*	2/3

Table 2 –Board meeting Attendance

\* Appointed with effect from 9 August 2018.

► **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 Chair Persons 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 48 to 50.

## 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 of 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 2018 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	3/4

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 meets at least once a financial quarter.

The Company has complied with the requirements set out in the Listing Rules of Colombo Stock Exchange pertaining to Related Party Transactions.

The activities conducted by the RPTRC are set out in the RPTRC Report on page 51.

## 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 01 ex-officio member who is the Group Chief Financial Officer of Dialog.

The CIPMC held 03 meetings during the financial year ended 31 December 2018.

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 who are retiring and are eligible for re-election this year are mentioned in the Notice of the AGM on page 155.

## 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 2018.

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. 98.2Mn was paid to the Directors as emoluments for the financial year 2018.

## 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.

# Corporate Governance Report

## 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.

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 facing 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 48 to 50.

## 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 whistle blowing 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**

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 2018, the Company actively participated in 06 overseas investor conferences held in Dubai, London, 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 conducted 21 one-on-one meetings and conference calls with key local and foreign investors during the course of the year.

The Company also 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 <http://www.dialog.lk/quarterly-reports>. Additionally, the Company hosted 02 investor forums during the year for both local and foreign analysts/investors.

► **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 currently comprises of 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. Thandalam Veeravalli Thirumala Chari, who was a member of the BAC, resigned from the BAC, pursuant to his resignation from the Board effective 13 December 2018.

The BAC wishes to place on record its sincere appreciation to Mr. Thandalam Veeravalli Thirumala Chari for his invaluable contribution and counsel to the BAC during his tenure as a member.

The members of the BAC as at 31 December 2018 were:

1. Mr. Mohamed Muhsin – Independent, Non-Executive Director (Chairman)
2. Mr. James Maclaurin - Independent, Non-Executive Director

Mr. Vivek Sood was appointed to the BAC effective 16 February 2019.

## MEETINGS

The BAC had six meetings during the year 2018, 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. Thandalam Veeravalli Thirumala Chari	Resigned with effect from 13 December 2018	5/6
Mr. James Maclaurin	-	5/6



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 continued its focused on overseeing and reviewing cyber security initiatives and risks, reviewed reports submitted by the Special Affairs Unit on internal investigations and reviewed issues related to breach of ethics if any and reviewed risks and control issues related to Dialog's digital business investments.

At the request of the BAC, PricewaterhouseCoopers ("PwC"), External Auditors of the Company made a presentation to the Finance teams of the Group, at the Dialog Finance Day on the theme "Simple control lapses that result in significant losses", which had been attended by 105 employees of Dialog. PwC India had also made a presentation on the "The Finance Division of Tomorrow" based on the transformations taking place globally and the skillsets that will be required in the future.

The following include other key routine activities carried out by the BAC during 2018:

### 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;
- ▶ 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, Information Security including Cyber Security, Network Engineering and Network Security, Digital Services, and Sales & 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 28 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*

30 April 2019

# Report of the Related Party Transactions Review Committee



## ROLE OF THE 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.

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.

## COMPOSITION

The Committee presently comprises of two non-executive 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. Thandalam Veeravalli Thirumala Chari, who was a member of the Committee, resigned from the Board on 13 December 2018 and therefore relinquished his membership on the Committee effective 13 December 2018.

The members of the Committee as at 31 December 2018 were:

1. Mr. Mohamed Muhsin – Independent, Non-Executive Director (Chairman)
2. Mr. James Maclaurin - Independent, Non-Executive Director

## MEETINGS

The Committee had four meetings during the year 2018. 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. Thandalam Veeravalli Thirumala Chari	Resigned with effect from 13 December 2018	3/4
Mr. James Maclaurin	-	3/4

## POLICIES & PROCEDURES ADOPTED BY THE COMMITTEE

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.

## CONCLUSION

The Committee is satisfied that all RPTs reviewed by the Committee during the year 2018 were in compliance with the CSE Rules, Related Party Transactions principles, at arm's-length terms and not prejudicial to the interests of the Company and its minority shareholders and that the observations of the Committee have been duly communicated to the Board.

On behalf of the Related Party Transactions Review Committee.

**Mohamed Muhsin, FCA**  
Chairman

30 April 2019

# DIAL Share Information

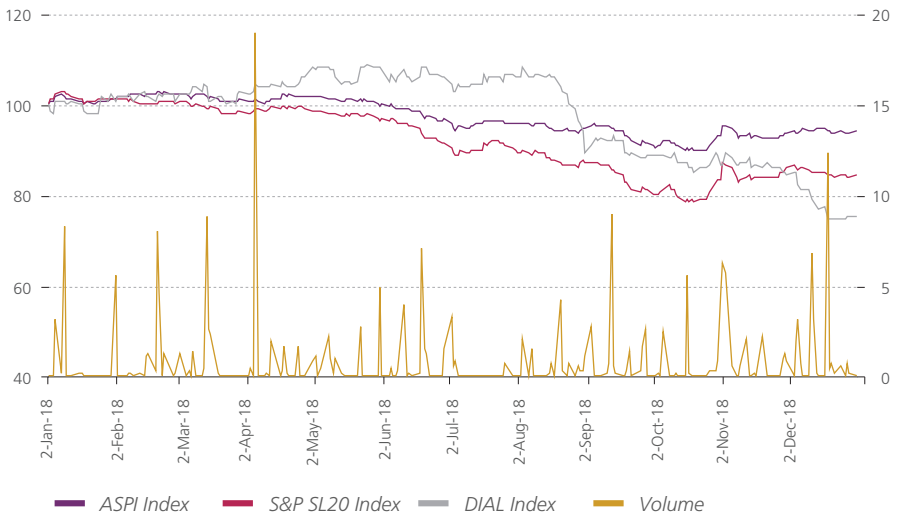


Figure 1: Share Volumes & Relative Performance Vs. Market

## THE DIAL SHARE

The Colombo Stock Exchange (CSE) demonstrated a considerable degree of volatility during the year 2018 as both ASPI and S&P SL20 indices declined 5.0% and 14.6% respectively. The negative performance was a result of multiple internal and external factors.

On the internal front, the political uncertainty that prevailed throughout the year dented investor confidence. This was exacerbated by the sovereign credit rating downgrade that led to foreign investors reducing exposure to Sri Lankan equities while local investors opted to remain on the sidelines. The tight monetary and fiscal conditions led to a GDP slowdown and low consumer confidence. This impacted corporate results leading to poor equity market performance.

On the external front, the US Federal Reserve continued its pre-announced policy rate hiking path, which led to broad-based capital outflows from emerging and frontier markets to developed markets. The said capital flight also led to pressure on CSE indices.

DIAL share started the year at Rs. 13.00 and traded between a high of Rs. 14.80 and a low of Rs. 9.90 to close the year at Rs. 10.10. The share outperformed the market for a majority of the year but ended below market by end 2018, due to lackluster market sentiment and regulatory challenges.

## MARKET CAPITALISATION

The total market capitalisation of the Company decreased by 22.3% to Rs. 82.3Bn during the year, compared to Rs. 105.9Bn in 2017. The contribution by DIAL to overall market capitalisation of CSE stood at 2.9% by end 2018 and held the Number 6 position on the list of companies with highest market capitalisation.

## DIVIDENDS

The Board of Directors, after taking into consideration Group performance and forward investment requirements to maintain the leadership position in the market, have resolved to propose for consideration by



	2018	Q4	Q3	Q2	Q1	2017
<b>Share Information</b>						
Highest Price (Rs.)	14.8	12.3	14.5	14.8	14.0	13.6
Lowest Price (Rs.)	9.9	9.9	11.6	13.6	12.8	10.4
Closing Price (Rs.)	10.1	10.1	11.9	14.2	13.8	13.0
<b>Trading Statistics of DIAL</b>						
Number of Transactions	10,428	4,718	2,434	1,756	1,520	5,717
Total Market Transactions (%)	1.2%	2.2%	1.2%	0.8%	0.6%	0.6%
Number of Shares Traded (Mn)	218	68	38	57	54	482
Total Shares Traded (%)	3.6%	4.5%	3.4%	4.3%	2.7%	5.7%
Public Float (%)	16.0%	5.0%	2.8%	4.2%	3.9%	35.5%
<b>Financial Performance</b>						
Turnover (Rs. Mn)	2,803	754	499	818	732	5,899
Avg. Daily Turnover (Rs. Mn)	11.7	12.4	8.1	13.9	12.6	24.5
Total Market Turnover (%)	1.4%	1.3%	1.6%	2.1%	1.0%	2.7%
<b>Market Valuation</b>						
Market Capitalisation (Rs. Mn)	82,252	82,252	96,911	115,642	112,384	105,869
Total Market Capitalisation (%)	2.9%	2.9%	3.5%	4.0%	3.7%	3.7%

Table 1: Market Information on DIAL Share

the shareholders of the Company, a cash dividend to ordinary shareholders amounting to Thirty-Seven Cents (Rs. 0.37) per share for FY 2018.

The said dividend, if approved by shareholders, would translate to a payout of 40% of consolidated Group NPAT for FY 2018, compared to the payout of 35% made for FY 2017.

### TOTAL SHAREHOLDER RETURN

The Total Shareholder Return (TSR) for the share was negative 18.8% in 2018, due to the decline in share price by 22.3% with dividend per share of Rs. 0.46 paid during the year. The market TSR based on ASPI decreased by 4.6%, while TSR based on S&P SL20 declined by 10.9% in 2018.

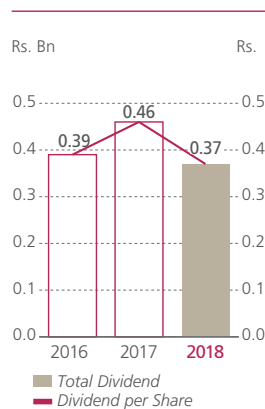


Figure 2: Distribution to Shareholders and Dividend per Share

# DIAL Share Information

## EARNINGS PER SHARE

The basic Earnings per Share (EPS) for the year was Rs. 0.92 compared to the EPS of Rs. 1.32 recorded in FY 2017 i.e. a decrease of 30.5% 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 11.0x earnings as at 31st December 2018 compared to 9.8x as at 31st December 2017. This resulted from the DIAL share price decreasing at a lower rate, compared to the decline in EPS, reflecting the resilience of the investors on DIAL share.

	2018	2017	2016
Market Cap (Rs. Bn)	82.3	105.9	85.5
Market Value Added Positive/(Negative) - (Rs. Bn)	(23.6)	20.3	(1.6)
Enterprise Value (Rs. Bn)	121.9	134.1	111.7
EV/EBITDA (x)	2.8	4.0	3.8
Basic EPS (Rs.)	0.92	1.32	1.11
PER (x)	11.0	9.8	9.5
Price to Book (x)	1.2	1.7	1.6
Dividend Yield (%)	3.7%	3.5%	3.7%

Table 2: Trading Multiples

## RETURN ON EQUITY AND RETURN ON INVESTED CAPITAL

The Return on Equity (ROE) for the Group decreased to 11.6% in 2018 from 18.6% in 2017. Return on Invested Capital (ROIC) for the Group declined marginally to 14.7% in 2018.

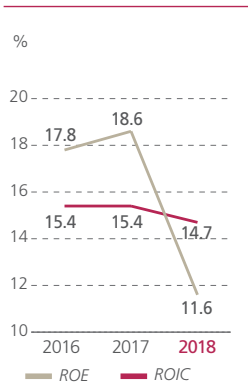


Figure 3: Return on Equity and Return on Invested Capital

## PRICE TO BOOK RATIO

The Price to Book ratio of the Group as at 31st December 2018 was 1.2 times, compared to 1.7 times last year.

## LIQUIDITY

The number of transactions in DIAL stock increased in 2018 as DIAL accounted for 1.2% of total market transactions, higher than the 0.6% recorded in 2017. The increase in transactions indicate higher retail participation in the share. However, the liquidity level of the share declined YoY on both a turnover and volume basis to record Rs. 2.8Bn and 218Mn respectively. DIAL share contributed 1.4% to total market turnover during 2018.

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 increased to 20,869 as at 31st December 2018, compared to the 20,082 in the previous year.

The public float of DIAL was 16.68% as at 31st December 2018. In terms of composition of the public float, foreign investors held 64% of the float, 30% was held by local institutional investors and 6% by local retail investors.

2018 marked an increase in local investor interest in DIAL. Accordingly, local investor composition increased to 36% in 2018 compared to 33% in the previous year.

## Composition of Shareholders

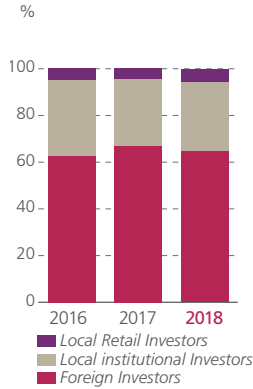


Figure 4: Trend in Composition of Shareholders

## DISTRIBUTION OF SHAREHOLDERS

	31 December 2018				31 December 2017			
	No. of Shareholders	%	No. of Shares Held	%	No. of Shareholders	%	No. of Shares Held	%
1 to 1,000	11,368	54.47	5,258,604	0.06	10,947	54.51	5,179,578	0.06
1,001 to 10,000	8,373	40.12	20,191,150	0.25	8,233	41.00	19,394,730	0.24
10,001 to 100,000	900	4.32	27,996,951	0.34	729	3.63		0.27
100,001 to 1,000,000	147	0.70	46,297,561	0.57	101	0.50	30,316,183	0.37
Over 1,000,000	81	0.39	8,044,034,139	98.78	72	0.36	8,066,518,895	99.05
<b>Total</b>	<b>20,869</b>	<b>100.00</b>	<b>8,143,778,405</b>	<b>100.00</b>	<b>20,082</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

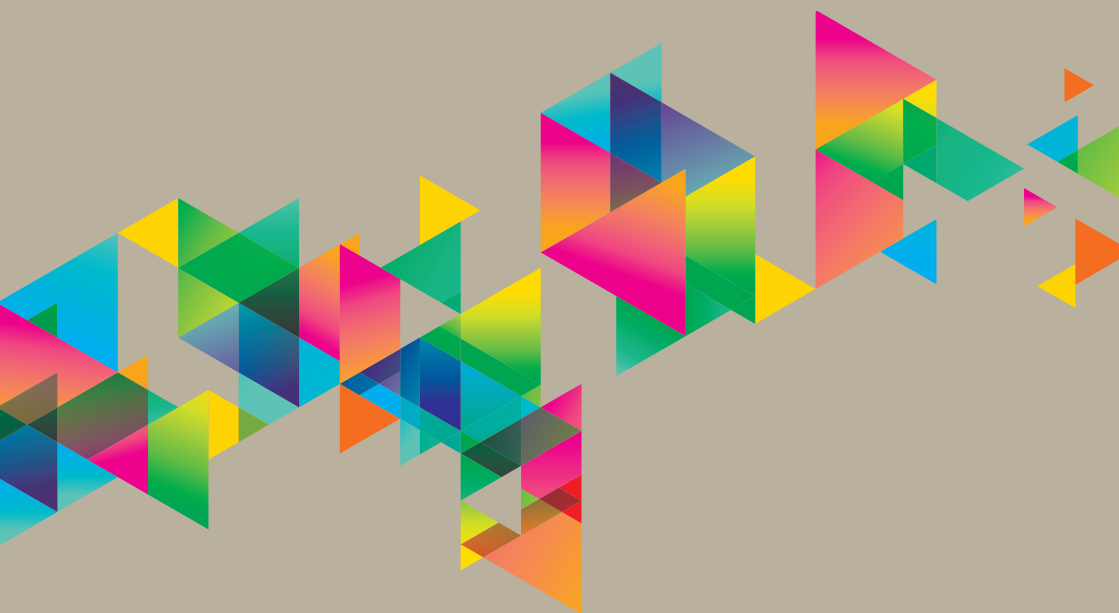
Table 3: Distribution of Shareholders

# DIAL Share Information

## TWENTY LARGEST SHAREHOLDERS OF THE COMPANY

No	Name of Shareholder	No. of Shares as at 31-Dec-2018	% of Holding	No. of Shares as at 31-Dec-2017	% of 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	2.22%
3	Citibank Newyork S/A Norges Bank Account 2	133,428,352	1.64%	132,214,879	1.62%
4	BNYM RE-UT Saga Tree LLC	118,595,642	1.46%	118,595,642	1.46%
5	JPMCB-Scottish ORL SML TR GTI 6018	83,426,021	1.02%	83,426,021	1.02%
6	Pershing LLC S/A Averbach Grauson & Co.	63,039,981	0.77%	63,039,981	0.77%
7	MSIP-Saga Tree Asia Master Fund	60,862,436	0.75%	60,862,436	0.75%
8	BNYMSANV RE-LF Ruffer Investment Funds: LF Ruffer Pacific and Emerging Markets Fund	57,314,300	0.70%	57,314,300	0.70%
9	MSIP-Vittoria Fund-St L.P.	54,512,186	0.67%	54,512,186	0.67%
10	Northern Trust Company S/A Hosking Global Fund PLC	53,709,332	0.66%	43,931,249	0.54%
11	State Street Luxembourg C/o SSBT-Alliancebernstein Next 50 Emerging Markets (Master) Fund SICAV-SIF S.C.Sp.	38,024,290	0.47%	38,024,290	0.47%
12	JPLMU-T Rowe Price Funds SICAV	30,228,280	0.37%	43,947,914	0.54%
13	Rubber Investment Trust Limited A/C # 01	27,154,119	0.33%	32,168,830	0.40%
14	J.B. Cocoshell (Pvt) Ltd	25,532,276	0.31%	7,560,317	0.09%
15	Mellon Bank N.A.-UPS Group Trust	18,880,000	0.23%	18,880,000	0.23%
16	Ceylon Investment PLC A/C # 02	18,797,647	0.23%	18,797,647	0.23%
17	Ceylon Guardian Investment Trust PLC A/C # 02	16,470,454	0.20%	16,470,454	0.20%
18	SSBT-Parametric Tax-Managed Emerging Markets Fund	15,786,381	0.19%	15,786,381	0.19%
19	MAS Capital (Private) Limited	15,091,350	0.19%	15,091,350	0.18%
20	Deutsche Bank AG as Trustee for JB Vantage Value Equity fund	14,289,887	0.18%	14,289,887	0.17%

Table 4: Twenty Largest Shareholders



## Financial Statements

Annual Report of the Board of Directors for  
the year ended 31 December 2018

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Company Statement of Changes in Equity	73
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# Annual Report of the Board of Directors for the year ended 31 December 2018

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 2018 as set out on pages 70 to 149.

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 CSE. 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], manpower for call centre operations and venture capital investment activities.

## 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 2018 are set out on pages 70 to 149.

## INDEPENDENT AUDITOR'S REPORT

The Independent Auditor's Report is set out on pages 64 to 69.

## ACCOUNTING POLICIES

The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards, which comprise of 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 75 to 90.

## 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 63.

## REVIEW OF BUSINESS

The state of affairs of the Company and the Group as at 31 December 2018 is set out in the statements of financial position on page 70. An assessment of the financial performance of the Company and the Group is set out in the statements of comprehensive income on page 71.

## PROPERTY, PLANT AND EQUIPMENT

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

## 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 72 and 73 to the financial statements.

## SUBSTANTIAL SHAREHOLDINGS

The parent company, Axiata Investments (Labuan) Limited, held 83.32 percent of the ordinary shares in issue of the Company at 31 December 2018. The main shareholders of the Company and the corresponding holding percentages are set out below:

Name of Shareholder	2018		2017	
	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	2.22%
3 CITI Bank New York S/A Norges Bank Account 2	133,428,352	1.64%	132,214,879	1.62%
4 BNYM RE-UT SAGA Tree LLC	118,595,642	1.46%	118,595,642	1.46%
5 JPMCB - Scottish ORL SML TR GTI 6018	83,426,021	1.02%	83,426,021	1.02%
6 Pershing LLC S/A Averbach Grauson and Co.	63,039,981	0.77%	63,039,981	0.77%
7 MSIP - Saga Tree Asia Master Fund	60,862,436	0.75%	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%	57,314,300	0.70%
9 MSIP - Vittoria Fund - ST L.P.	54,512,186	0.67%	54,512,186	0.67%
10 Northern Trust Company S/A Hosking Global Fund PLC	53,709,332	0.66%	43,931,249	0.54%

The percentage of shares held by the public as at 31 December 2018 was 16.68%, in the hands of 20,865 public shareholders (2017 - 16.68% in the hands of 20,078 public shareholders). The Float-adjusted market capitalisation as at 31 December 2018 is Rs. 13,719,660,603.

The Company is in compliance with the Minimum Public Holding requirement under Option 1 of Rule 7.13.1(a) of the Listing Rules of the Colombo Stock Exchange.

# Annual Report of the Board of Directors for the year ended 31 December 2018

## DIRECTORS

The Directors of the Company as at 31 December 2018 were;

Datuk Azzat Kamaludin (*Chairman*)

Mr. Supun Weerasinghe

(*Group Chief Executive Officer*)

Dr. Hansa Wijayasuriya

Mr. Mohamed Muhsin

Mr. James Maclaurin

Deshamanya Mahesh Amalean

Mr. Dominic Paul Arena

Mr. Willem Lucas Timmermans

Dato' Mohd Izzaddin Idris

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. Thandalam Veeravalli Thirumala Chari (Chari TVT) resigned with effect from 13 December 2018
- ▶ Appointments to the Board  
Dato' Mohd Izzaddin Idris was appointed with effect from 9 August 2018

Further, the Board of Directors at the Meeting held on 15 February 2019, resolved to appoint Mr. Vivek Sood as a Director with effect from 16 February 2019.

As Dato' Mohd Izzaddin Idris and Mr. Vivek Sood were appointed to the Board since the last Annual General Meeting which was held on 10 May 2018, Dato' Mohd Izzaddin Idris and Mr. Vivek Sood will submit themselves 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, Mr. James Maclaurin and Mr. Dominic Paul Arena retire by rotation and are eligible for re-election at the forthcoming Annual General Meeting.

Mr. Mohamed Muhsin who attained the age of 75 years on 16 October 2018 and Datuk Azzat Kamaludin who attained the age of 73 years on 8 September 2018 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 the 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	
	2018	2017
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 2018 was Rs. 28,103,913,434 (2017 - Rs. 28,103,913,434) comprising 8,143,778,405 ordinary shares (2017 - 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 non-recurrent related party transactions entered into by the Company in which the aggregate value exceeded the lower of 10% of the equity or 5% of the assets as per 31 December 2017 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 2018, 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.

### **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.

### **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. 100,653,519 (2017 - Rs. 124,284,029).

# Annual Report of the Board of Directors for the year ended 31 December 2018

## 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 written 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 39 to the financial statements.

By Order of the Board



**Mr. Supun Weerasinghe**  
*Director*



**Dr. Hans Wijayasuriya**  
*Director*



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

Colombo  
15 February 2019

# 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 from pages 64 to 69.

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 comprehensive income 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  
15 February 2019

# Independent Auditor's Report



**TO THE SHAREHOLDERS OF DIALOG  
AXIATA PLC**  
*Report on the audit of the financial statements*  
**Our opinion**

In our opinion, the financial statements of Dialog Axiata PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group") give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**What we have audited**

The financial statements of the Company and the consolidated financial statements of the Group, which comprise:

- ▶ the statement of financial position as at 31 December 2018;
- ▶ the statement of comprehensive income for the year then ended;
- ▶ the statement of changes in equity for the year then ended;
- ▶ the statement of cash flows for the year then ended; and
- ▶ the notes to the financial statements, which include a summary of significant accounting policies.

*Basis for opinion*

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

**Independence**

We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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T: +94 (11) 771 9700, 771 9838, F: +94 (11) 230 3197, www.pwc.com/lk*

**Partners** D.T.S.H. Mudalige FCA, C.S. Manoharan FCA  
S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA, T.U. Jayasinghe ACA

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## The Group:

Key audit matter	How our audit addressed the Key audit matter
<p><b><i>Carrying value of goodwill</i></b> (Refer note 7(e) in the financial statements)</p> <p>Under Sri Lanka Accounting Standards, the Group is required to annually test for impairment of the Cash Generating Units (CGUs) to which goodwill recorded in the financial statements had been allocated. This annual impairment test was significant to our audit due to following reasons:</p> <ul style="list-style-type: none"> <li>▶ the goodwill balance allocated to the CGUs of the Group as at 31 December 2018 was Rs 9.4 billion which is material to the financial statements;</li> <li>▶ management's impairment testing is based on assumptions and judgments relating to cash flow forecasts and earning projections of the related CGUs which are affected by expected future market or economic conditions; and</li> <li>▶ selection of the impairment testing technique varies based on specialised industries.</li> </ul>	<p>Our procedures included checking the inputs used in the impairment testing and reasonableness of the assumptions used in determining fair value.</p> <ul style="list-style-type: none"> <li>a) benchmarking management's key market-related assumptions in the impairment testing with external industry data and with assumptions made in the prior years in relation to revenue, EBIDTA margin, pre-tax discount rate and terminal growth rate, using the support of our valuation experts;</li> <li>b) checking the appropriateness of the selection of the impairment testing technique, with the support of our valuations experts;</li> <li>c) checking the mathematical accuracy of the impairment testing and agreeing relevant data to the approved management plans;</li> <li>d) assessing the reliability of management's forecasts and projections by comparing actual performance against previous forecasts and projections; and</li> <li>e) re-performing the sensitivity analysis performed by management by stress-testing the discount rate, terminal growth rate and revenue growth rate.</li> </ul>

## The Company and the Group:

Key audit matter	How our audit addressed the Key audit matter
<p><b><i>Revenue recognition – accuracy of revenue recorded given the complexity of systems</i></b> (Refer note 26 in the financial statements)</p> <p>Telecommunication service revenue of the Company which is consolidated with the Group revenue amounting to Rs. 84.5 billion for the year ended 31 December 2018 represents a significant component of the Company's and the Group's revenue.</p>	<p>Our audit procedures included controls testing and substantive procedures covering, in particular:</p> <ul style="list-style-type: none"> <li>a) evaluating the relevant IT systems and the design of controls, and testing the operating effectiveness of controls over the: <ul style="list-style-type: none"> <li>▶ capturing and recording of revenue transactions;</li> <li>▶ authorisation of rate changes and the rate input to the billing systems; and</li> <li>▶ system calculation of amounts billed to customers.</li> </ul> </li> </ul>

# Independent Auditor's Report

## TO THE SHAREHOLDERS OF DIALOG AXIATA PLC (CONTD.)

### *Report on the audit of the financial statements (Contd.)*

Key audit matter	How our audit addressed the Key audit matter
<p>We focused on this area as the accuracy of telecommunication service revenue is an inherent industry risk. It involves multiple element arrangements and revenue is processed by complex systems involving large volumes of data with a combination of different products and prices. The application of revenue accounting standard is complex and involves a number of key judgements and estimates.</p>	<p>b) checking the accounting treatment for significant new products and promotions launched with multiple element arrangements and testing that they are appropriately incorporated in the billing systems;</p> <p>c) examining material non-standard journal entries and other adjustments posted to revenue; and</p> <p>d) obtaining concurrence from firm's and technical specialist on the reasonability of the key judgements and estimates made by management in the first time application of SLFRS 15.</p>
<p><b><i>Carrying value of network assets, capital inventory and capital work in progress (CWIP)</i></b> (Refer note 8 in the financial statements)</p> <p>We focused on this area since the carrying value of the Company's and the Group's network assets, capital inventory and capital work in progress aggregating to Rs. 67 billion and Rs. 105 billion respectively represents a significant component in the Company's and the Group's statement of financial position as at 31 December 2018 and carries the risk of:</p> <ul style="list-style-type: none"> <li>▶ inclusion of long outstanding capital inventory without deployment;</li> <li>▶ existence of long outstanding CWIP items not commissioned for use; and</li> <li>▶ useful lives of assets shortening and technological obsolescence.</li> </ul>	<p>Our audit procedures included controls testing and substantive procedures covering, in particular:</p> <p>a) participating as observers at a quarterly senior management meeting where the impairment of network assets were discussed;</p> <p>b) examining minutes of the quarterly senior management meetings which included management discussions on impairment of network assets;</p> <p>c) comparing the engineers' assessment and confirmations on impairment of network assets with the impairment workings, supporting the general ledger entries;</p> <p>d) evaluating the time gaps between the dates of commissioning of assets for use and the capitalisation dates;</p> <p>e) checking board approvals for write-offs;</p>

Key audit matter	How our audit addressed the Key audit matter
	<p>f) checking the capital inventory items for obsolescence and ageing of key CWIP projects and impairment indicators, if any;</p> <p>g) physically verifying network assets, capital inventory assets to identify any impairment or indicators thereon; and</p> <p>h) inquiring from senior management about provisioning for accelerated depreciation and impairment.</p>

**Other information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of management and those charged with governance for the financial statements**

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.

In preparing the separate/ consolidated financial statements, management is responsible for assessing the Company's/ Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company/ Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Independent Auditor's Report

## TO THE SHAREHOLDERS OF DIALOG AXIATA PLC (CONTD.)

### *Report on the audit of the financial statements (Contd.)*

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Company's and the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's/ Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate/ consolidated financial statements or, if such disclosures are inadequate, to modify our

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company/ Group to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the Key audit matters. We describe these matters in our auditor's report unless law or regulation precludes



# Statements of Financial Position

(all amounts in Sri Lanka Rupees thousands)

	Note	Group 31 December 2018	2017	Company 31 December 2018	2017
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	7	22,818,458	19,118,899	7,966,046	6,403,659
Property, plant and equipment	8	111,256,617	100,018,295	70,354,265	65,461,770
Deferred tax assets	23	19,455	3,572	-	-
Investment in subsidiaries	9	-	-	49,137,458	47,541,414
Investment in associates	10	132,139	106,211	-	27,742
Trade and other receivables	14	187,147	186,385	187,147	591,560
Other financial assets	12	366,028	287,269	-	466,655
		134,779,844	119,720,631	127,644,916	120,492,800
<b>Current assets</b>					
Inventories	13	1,122,995	863,252	64,260	107,303
Trade and other receivables	14	17,757,629	15,535,339	24,581,820	14,209,175
Other financial assets	12	835,018	775,059	-	-
Derivative financial instruments	21	-	14,311	-	14,311
Cash and cash equivalents	15	10,097,521	8,410,960	7,839,159	7,886,345
		29,813,163	25,598,921	32,485,239	22,217,134
<b>Total assets</b>		<b>164,593,007</b>	<b>145,319,552</b>	<b>160,130,155</b>	<b>142,709,934</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	39,163,921	33,583,241	47,902,571	46,178,818
Non-controlling interest	17	9,120	(6,158)	-	-
<b>Total equity</b>		<b>67,276,954</b>	<b>61,680,996</b>	<b>76,006,484</b>	<b>74,282,731</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	20	40,766,008	25,629,323	40,766,008	25,629,323
Other financial liabilities	19	8,311	297,205	-	-
Deferred revenue	22	938,037	1,394,415	938,037	1,133,841
Contract liabilities	26(b)	819,821	-	93,238	-
Employee benefit payables	24	1,294,416	1,353,939	1,103,468	1,170,841
Provision for other liabilities	25	1,588,097	1,738,411	1,324,712	1,464,309
		45,414,690	30,413,293	44,225,463	29,398,314
<b>Current liabilities</b>					
Trade and other payables	18	35,640,356	41,098,872	27,179,708	28,873,036
Borrowings	20	9,012,708	10,966,157	7,187,413	9,319,590
Other financial liabilities	19	460,291	283,360	-	-
Contract liabilities	26(b)	5,847,592	-	4,625,337	-
Current income tax liabilities		940,416	876,874	905,750	836,263
		51,901,363	53,225,263	39,898,208	39,028,889
<b>Total liabilities</b>		<b>97,316,053</b>	<b>83,638,556</b>	<b>84,123,671</b>	<b>68,427,203</b>
<b>Total equity and liabilities</b>		<b>164,593,007</b>	<b>145,319,552</b>	<b>160,130,155</b>	<b>142,709,934</b>
Net assets per share (Rs.)		8.26	7.57	9.33	9.12

The notes on pages 75 to 149 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  
15 February 2019

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  
15 February 2019



**Dr. Hans Wijayasuriya**  
Director  
15 February 2019

# Statements of Comprehensive Income

(all amounts in Sri Lanka Rupees thousands)

	Note	Group		Company	
		Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from contracts with customers	26	109,156,685	94,195,890	84,512,660	77,595,632
Direct costs	27	(58,871,028)	(49,242,786)	(42,772,281)	(40,555,282)
Gross profit		50,285,657	44,953,104	41,740,379	37,040,350
Distribution costs	27	(14,381,371)	(14,136,950)	(12,133,037)	(11,405,762)
Administrative costs	27	(23,004,160)	(16,059,113)	(16,794,692)	(11,823,908)
Provision write back	18(a)	3,698,280	-	-	-
Other income	29	124,624	45,236	91,208	81,862
Operating profit		16,723,030	14,802,277	12,903,858	13,892,542
Finance income	30	274,350	244,612	311,725	286,046
Finance costs	30	(7,448,600)	(2,599,217)	(6,858,328)	(2,047,442)
Finance costs - net	30	(7,174,250)	(2,354,605)	(6,546,603)	(1,761,396)
Share of profit / (loss) of associates - net of tax	10	1,432	(13,426)	-	-
Profit before income tax		9,550,212	12,434,246	6,357,255	12,131,146
Income tax expense	31	(2,100,745)	(1,674,491)	(1,997,918)	(1,629,875)
<b>Profit for the year</b>		<b>7,449,467</b>	<b>10,759,755</b>	<b>4,359,337</b>	<b>10,501,271</b>
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to comprehensive income:</b>					
- remeasurements of defined benefit obligation	24(a)	86,850	181,047	66,983	147,406
<b>Items that may be subsequently reclassified to comprehensive income:</b>					
- net change in cash flow hedge		(22,392)	37,653	(22,392)	37,653
<b>Other comprehensive income for the year</b>		<b>64,458</b>	<b>218,700</b>	<b>44,591</b>	<b>185,059</b>
<b>Total comprehensive income for the year</b>		<b>7,513,925</b>	<b>10,978,455</b>	<b>4,403,928</b>	<b>10,686,330</b>
Profit / (loss) for the year is attributable to:					
- owners of the Company		7,501,334	10,785,424	4,359,337	10,501,271
- non-controlling interest		(51,867)	(25,669)	-	-
Total comprehensive income for the year is attributable to:					
- owners of the Company		7,565,792	11,004,124	4,403,928	10,686,330
- non-controlling interest		(51,867)	(25,669)	-	-
Basic earnings per share for profit attributable to the ordinary equity holders of the Company (Rs.)	32(a)	0.92	1.32	0.54	1.29

The notes on pages 75 to 149 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

	Note	Attributable to owners of the Company		Non- controlling interest	Total
		Stated capital	Reserves		
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
<b>Restated total equity as at 1 January 2018</b>		<b>28,103,913</b>	<b>35,225,463</b>	<b>(6,158)</b>	<b>63,323,218</b>
Profit / (loss) for the year		-	7,501,334	(51,867)	7,449,467
Other comprehensive income		-	64,458	-	64,458
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>7,565,792</b>	<b>(51,867)</b>	<b>7,513,925</b>
Non-controlling interest on acquisition of subsidiary		-	-	69,506	69,506
Transactions with non-controlling interest		-	2,361	(2,361)	-
Employee share scheme - value of employee services		-	116,443	-	116,443
Dividends to equity shareholders	32(b)	-	(3,746,138)	-	(3,746,138)
<b>Balance at 31 December 2018</b>		<b>28,103,913</b>	<b>39,163,921</b>	<b>9,120</b>	<b>67,276,954</b>
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 scheme - value of employee services		-	16,341	-	16,341
Dividends to equity shareholders	32(b)	-	(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>

The notes on pages 75 to 149 form an integral part of these financial statements.

# Company Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

	Note	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
<b>Restated total equity as at 1 January 2018</b>		<b>28,103,913</b>	<b>47,128,338</b>	<b>75,232,251</b>
Profit for the year		-	4,359,337	4,359,337
Other comprehensive income		-	44,591	44,591
<b>Total comprehensive income for the year</b>		-	<b>4,403,928</b>	<b>4,403,928</b>
Employee share scheme - value of employee services		-	116,443	116,443
Dividends to equity shareholders	32(b)	-	(3,746,138)	(3,746,138)
<b>Balance at 31 December 2018</b>		<b>28,103,913</b>	<b>47,902,571</b>	<b>76,006,484</b>
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 scheme - value of employee services		-	16,341	16,341
Dividends to equity shareholders	32(b)	-	(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>

The notes on pages 75 to 149 form an integral part of these financial statements.

# Statements of Cash Flows

(all amounts in Sri Lanka Rupees thousands)

	Note	Group		Company	
		31 December 2018	2017	31 December 2018	2017
<b>Cash flows from operating activities</b>					
Cash generated from operations	33(a)	33,100,346	38,331,388	20,205,423	30,635,762
Interest received		312,478	254,019	295,327	244,641
Interest paid		(2,049,509)	(1,740,295)	(2,017,442)	(1,440,974)
Taxes paid		(1,976,810)	(1,635,272)	(1,903,666)	(1,575,933)
Employee benefits paid	24	(61,032)	(56,069)	(45,442)	(49,308)
<b>Net cash generated from operating activities</b>		<b>29,325,473</b>	<b>35,153,771</b>	<b>16,534,200</b>	<b>27,814,188</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(30,442,703)	(26,515,221)	(18,989,669)	(17,642,350)
Purchase of intangible assets		(1,358,019)	(3,844,823)	(1,211,692)	(3,545,927)
Acquisition of subsidiary, net of cash acquired		19	(997,938)	-	(1,072,651)
Increase in interest in subsidiaries		-	-	(592,468)	(247,367)
Advances to subsidiaries	37(b)	-	-	(157,275)	(1,006,000)
Investment in associates		(131,250)	-	-	-
Loans to subsidiary	37(b)	-	-	-	(60,000)
Purchase of other financial assets		(125,713)	(26,273)	-	-
Proceeds from sale of financial assets		120	1,042	-	-
Proceeds from sale of property, plant and equipment		130,827	30,335	130,672	25,599
<b>Net cash used in investing activities</b>		<b>(31,926,719)</b>	<b>(31,352,878)</b>	<b>(20,820,432)</b>	<b>(23,548,696)</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings	33(b)	(7,102,234)	(7,107,399)	(6,439,176)	(6,164,055)
Proceeds from borrowings	33(b)	14,635,337	7,095,635	13,963,439	6,164,055
Dividends paid to ordinary shareholders		(3,746,138)	(3,176,074)	(3,746,138)	(3,176,074)
Transactions with non-controlling interests		-	(247,367)	-	-
Proceeds from share issue - non-controlling interests		39,921	-	-	-
<b>Net cash generated from / (used in) financing activities</b>		<b>3,826,886</b>	<b>(3,435,205)</b>	<b>3,778,125</b>	<b>(3,176,074)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,225,640</b>	<b>365,688</b>	<b>(508,107)</b>	<b>1,089,418</b>
<b>Movement in cash and cash equivalents</b>					
At the beginning of year		8,410,960	8,044,848	7,886,345	6,796,503
Increase / (decrease)		1,225,640	365,688	(508,107)	1,089,418
Effect of exchange rate changes		460,921	424	460,921	424
<b>At end of year</b>	<b>15</b>	<b>10,097,521</b>	<b>8,410,960</b>	<b>7,839,159</b>	<b>7,886,345</b>

The notes on pages 75 to 149 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], manpower for call centre operations and venture capital investment activities.

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 15 February 2019.

## 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 2018

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- (i) SLFRS 9, 'Financial Instruments', replaces the multiple classification and measurement models in LKAS 39, 'Financial instruments: Recognition and measurement', with a single model that has initially only two classification categories: amortised cost and fair value.
- (ii) SLFRS 15, 'Revenue from Contracts with Customers', replaces 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.
- (iii) Amendments to SLFRS 2, 'Classification and Measurement of Share-based Payment Transactions', 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.

# 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.)

#### (a) New accounting standards, amendments and interpretations adopted in 2018 (Contd.)

- (iv) Amendments to SLFRS 1, 'First Time adoption of Sri Lanka Accounting Standards', delete short-term exemptions covering transition provisions of SLFRS 7, 'Financial Instruments Disclosures', LKAS 19, 'Employee Benefits', and SLFRS 10, 'Consolidated Financial Statements', which are no longer relevant.
- (v) 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.

The Company and the Group had to change its accounting policies following the adoption of SLFRS 9, 'Financial Instruments' and SLFRS 15, 'Revenue from Contracts with Customers'. This is disclosed in note 38. Most of the other amendments listed above are not expected to significantly affect the current or future periods.

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

- (i) SLFRS 16, 'Leases', primarily will affect the accounting by lessees and will result in the recognition of almost all leases on statement of financial position. 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.
- (ii) IFRIC 23, 'Uncertainty over Income Tax Treatments', explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The interpretation is effective for accounting periods beginning on or after 1 January 2019.

- (iii) Amendments to SLFRS 9, 'Financial Instruments', enable entities to measure certain pre-payable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through comprehensive income. The amendment to the standard is effective for accounting periods beginning on or after 1 January 2019.
- (iv) Amendments to LKAS 28, 'Long-term Interest in Associates and Joint Ventures', clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. The amendment to the standard is effective for accounting periods beginning on or after 1 January 2019.
- (v) Amendments to LKAS 12, 'Income Taxes', clarifies that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised. The improvements to the standard is effective for accounting periods beginning on or after 1 January 2019.
- (vi) Amendments to LKAS 23, 'Borrowing Costs', clarifies that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. The improvements to the standard is effective for accounting periods beginning on or after 1 January 2019.
- (vii) Amendments to SLFRS 3, 'Business Combination', clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages. The improvements to the standard is effective for accounting periods beginning on or after 1 January 2019.

- (viii) Amendments to LKAS 19, 'Employee Benefits', clarify the accounting for defined benefit plan amendments, curtailments and settlements. The amendment to the standard is effective for accounting periods beginning on or after 1 January 2019.

Apart from SLFRS 16, 'Leases', the adoption of amendments to published standards are not expected to have a material impact to the financial statements of the Company and the Group. The impact of SLFRS 16, 'Leases' is still being assessed.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company and the Group in the current or future reporting periods and on foreseeable future transactions.

## 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 comprises the fair values of the assets transferred, the liabilities incurred to the former owners of the acquired business, and the equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, 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 acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred.

The excess of the consideration transferred, 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 recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the acquiree the difference is recognised directly in comprehensive income as a bargain purchase.

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 comprehensive income.

Intercompany 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) 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 after initially being recognised at cost.

# 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) Equity method

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 comprehensive income, 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.

#### (d) Changes in ownership interests

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 a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the

entity is remeasured to its fair value with the change in carrying amount recognised in comprehensive income. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate 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 comprehensive income.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to comprehensive income 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 comprehensive income. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income, within finance costs.

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 comprehensive income are recognised in comprehensive income as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income 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 comprehensive income 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 comprehensive income.

# 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 comprehensive income 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 represents the excess of the cost of acquisition of subsidiaries over the Group's share of the fair value of the identifiable net assets including contingent liabilities of subsidiaries at the date of acquisition and fair value of any pre-existing equity interest in the subsidiaries.

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 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 is carried at cost less accumulated impairment losses. 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.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### (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) to five (5) years.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- ▶ it is technically feasible to complete the software product so that it will be available for use;

- ▶ management intends to complete the software product and use or sell it;
- ▶ there is an ability to use or sell the software product;
- ▶ it can be demonstrated how the software will generate probable future economic benefits;
- ▶ adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- ▶ 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 include 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.

**(d) Research and development**

Research expenditure and development expenditure that do not meet the criteria in (c) above are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

**(e) Other intangibles**

**(i) Contract costs**

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. Contract 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 comprehensive income. Disposal related costs are expensed as incurred.

**2.7 Impairment of non-financial assets (excluding goodwill)**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. The impairment loss is charged to comprehensive income. Any subsequent increase in recoverable amount is recognised in comprehensive income.

# 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

#### (a) Classification

The Company and the Group classify its financial assets in the following measurement categories.

- ▶ those to be measured at amortised cost,
- ▶ those to be measured at fair value through other comprehensive income (OCI) or through profit or loss.

The classification depends on the Company's and the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in comprehensive income or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company and the Group have made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company and the Group reclassify debt investments when and only when its business model for managing those assets changes.

#### (b) 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 Company and the Group measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (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 comprehensive income.

#### (c) Subsequent measurement

##### (i) Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which debt instruments are classified:

- ▶ **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in comprehensive income and presented in other income/(losses) together with foreign exchange gains and losses.
- ▶ **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to comprehensive income and recognised in other income/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in comprehensive income.
- ▶ **FVTPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in comprehensive income and presented net within other gains/(losses) in the period in which it arises.

##### (ii) Equity instruments

The Company and the Group subsequently measure all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains

and losses to comprehensive income following the derecognition of the investment. Dividends from such investments continue to be recognised in comprehensive income as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### **(d) Impairment**

The Company and Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company and the Group apply the simplified approach permitted by SLFRS 9, 'Financial Instruments', which requires expected lifetime losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of customers and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

#### **(e) 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.

#### **(f) 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.

#### **(g) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to 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 the Group designate certain derivatives as either:

- ▶ Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges),
- ▶ Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- ▶ Hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Company and the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company and the Group documents its risk management objective and strategy for undertaking its hedge transactions.

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.

# 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.)

#### (g) Derivatives and hedging activities (Contd.)

##### (i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in comprehensive income, 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 comprehensive income 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 comprehensive income within 'Other income'.

Amounts accumulated in equity are reclassified to the comprehensive income in the periods when the hedged item affects the comprehensive income. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in comprehensive income 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 statement of total comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to comprehensive income 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 comprehensive income within 'Other income'. Gains and losses accumulated in equity are included in comprehensive income 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 estimated costs necessary to make the sale. In arriving at the net realisable value, due allowance is made for all obsolete and slow-moving items.

### 2.10 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within a year and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company and the Group hold the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Other receivables generally arise from transactions outside the usual operating activities of the Group and the Company.

## 2.11 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

## 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.

## 2.13 Trade payables

These amounts represent liabilities for goods and services provided to the Company and the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities

unless payment is not due within 12 months after the reporting period. They are recognised initially at their 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. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in comprehensive income 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 removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. Borrowings are classified as current liabilities unless the Company and the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

## 2.15 Borrowing cost

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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. Other borrowing costs are expensed in the period in which they are incurred.

# 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.)

### 2.16 Income taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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 regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred 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 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 comprehensive income. 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 tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries and associates where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in comprehensive income, 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.

### 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 obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries.

The present value of the defined benefit obligation is 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 comprehensive income. 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 comprehensive income in employee benefit expense, except where included in the cost of an asset. Changes in the present value of the defined benefit obligation

resulting from plan amendments or curtailments are recognised immediately in comprehensive income as past service costs.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. 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 when employment is terminated by the Company and the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company and the Group recognises termination benefits at the earlier of the following dates: (a) when the entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of LKAS 37 and involves the payment of terminations 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 12 months after the end of the reporting period are discounted to present value.

#### **(e) Share-based compensation**

The Company operates an equity-settled, share-based compensation plan for its employees. The fair value of options granted is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options 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.

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 each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in comprehensive income, with a corresponding adjustment to equity.

### **2.18 Contract liabilities**

A contract liability is the obligation to transfer goods or services to a customer for which the Company and the Group has received consideration from the customer. If a customer pays consideration before the entity transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the entity performs under the contract.

### **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, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

# 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.)

### 2.19 Provisions (Contd.)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### 2.20 Contingent liabilities and contingent assets

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group. The Group does not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain. In the acquisition of subsidiaries by the Company and the Group under a business combination, the contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any NCI.

The Group recognises separately the contingent liabilities of the acquirers as part of allocating the cost of a business combination where their fair values cannot 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.

### 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 comprehensive income 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 comprehensive income 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 property, plant and equipment where the Company and the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the comprehensive income 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 or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

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 comprehensive income over the lease term on the same basis as the lease expense.

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company and the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to comprehensive income on a straight-line basis over the period of the lease.

Lease income from operating leases where the Company and the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature.

### **2.23 Revenue recognition**

#### **(a) Revenue from contracts with customers**

Goods and services deliverable under contracts with customers are identified as separate performance obligations ('obligations') to the extent that the customer can benefit from the goods or services on their own or together with other resources that are readily available to the customer and that the separate goods and services are considered distinct from other goods and services in the agreement. Where individual goods and services do not meet the criteria to be identified as separate obligations they are aggregated with other goods and/or services in the agreement until a separate obligation is identified.

The Company and the Group determines the transaction price to which it expects to be entitled to in return for providing the promised obligations to the customer based on the committed contractual

amounts, net of sales taxes and discounts. The transaction price is allocated between the identified obligations according to the relative standalone selling prices of the obligations. The standalone selling price of each obligation deliverable in the contract is determined according to the prices that the Company and the Group would achieve by selling the same goods and/or services included in the obligation to a similar customer on a standalone basis. Where the Group does not sell equivalent goods or services in similar circumstances on a standalone basis it is necessary to estimate the standalone price. When estimating the standalone price, the Group maximises the use of external input; observing the standalone prices for similar goods and services when sold by third parties or using a cost-plus reasonable margin approach.

Revenue is recognised when the respective obligations in the contract are delivered to the customer and payment remains probable. The revenue is recognised as follows:

#### **(i) Domestic and international telecommunications service revenue**

Revenue from the provision of telecommunication services, such as call time, messaging, data services and information provision, fees for connecting users of other fixed line and mobile networks to the Company's and the Group's network is recognised when or as the entity performs the related service during the agreed service period. The customers are charged Government taxes at the applicable rates and the revenue is recognised net of such taxes.

#### **(ii) Pay TV and fixed broadband services**

Each subscription to a contract for Pay TV and fixed broadband service is considered as a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. The providing of set-top boxes, routers and connection fees for the exclusive use of the Group's services do not represent distinct services or goods, and they are to be combined with the subscription service as a single performance obligation satisfied over time. Revenue is recognised over the period the service is performed from the activation date of the subscription and as the service is provided.

# 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 (Contd.)

#### (a) Revenue from contracts with customers (Contd.)

##### (iii) Revenue from other network operators and international settlement

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 when the related services are performed, based on traffic minutes/second rates stipulated in the relevant agreements and regulations.

##### (iv) Sales of goods

Revenue from the sale of goods is recognised when the control of the goods is transferred to the customer. For goods, this usually occurs at the contract inception when the customer takes the possession of the goods.

##### (v) Bundled Packages

If a good or service is separately identifiable from other items in a bundled package and if a customer can benefit from it, the Company and the Group recognise revenue for individual goods and services separately. The consideration is allocated between separate goods and services in a bundle based on their standalone selling prices. The standalone selling prices are determined based on the list prices at which the Company and the Group sells mobile devices and network services separately. Post-paid contracts including handsets are evaluated, to determine if they contain a significant financing component. For the contracts where the timing difference between customer payment and transfer of goods or services is expected to be one year or less, the Company and the Group has elected to apply the practical expedient that allows not to adjust the transaction price for the significant financing components.

##### (b) 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.

##### (c) 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 continue 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 are recognised on accrual basis.

##### (d) Dividend income

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

##### (e) 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.

### 2.24 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company and the Group by the weighted average number of ordinary shares outstanding during the financial year.

### 2.25 Comparatives

In accordance with the transition provisions in SLFRS 9, 'Financial Instruments' and SLFRS 15, 'Revenue from Contracts with Customers', the new standards have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2018. Comparatives for the 2017 financial year have not been restated.

### 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.

Market risk consists of:

- ▶ Foreign currency exchange risk - risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.
- ▶ Fair value interest rate risk - risk that the value of a financial instrument will fluctuate due to changes in market interest rates.
- ▶ 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.
- ▶ 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.

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.

Liquidity risk (funding risk) - risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

#### (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 2018, with all other variables held constant, it will result in a net foreign exchange difference of Rs. 400Mn (2017 - 204Mn) 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.

# 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 (Contd.)

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

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 2018, with all other variables held constant, it will result in a lower/higher interest expense of the Company and the Group amounting to Rs. 466Mn (2017 - 221Mn).

#### (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.

For trade receivables, the Company and the Group apply the simplified approach permitted by SLFRS 9, 'Financial Instruments', which requires lifetime expected losses to be recognised from initial recognition of the receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of customers and the corresponding historical credit losses experienced.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

#### (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 2018</b>					
Borrowings	4,302,750	4,550,000	9,372,789	31,538,433	-
Trade and other payables	33,043,347	1,544,915	-	-	-
Other financial liabilities	503,581	358,214	17,291	3,520	-
<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	-
<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 2018</b>					
Borrowings	2,477,455	4,550,000	9,372,789	31,538,433	-
Trade and other payables	25,993,736	169,335	-	-	-
<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	-	-	-

# 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's 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	
	2018	2017	2018	2017
Debt	45,935,297	33,268,014	45,742,633	33,084,190
Total capital	67,276,954	61,680,996	76,006,484	74,282,731
<b>Gearing ratio</b>	<b>0.68</b>	<b>0.54</b>	<b>0.60</b>	<b>0.45</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 prices (unadjusted) in active markets for identified assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from price).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

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	
	2018	2017	2018	2017	2018	2017	2018	2017
<b>Financial assets</b>								
Available-for-sale financial assets:								
- Investment in unquoted convertible redeemable bonds	-	-	-	-	-	25,000	-	25,000
- 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	1,024	1,762	-	-	-	-	1,024	1,762
- Investment in unquoted equities	-	-	-	-	119,469	-	119,469	-
Financial assets at fair value through other comprehensive income								
- Investment in unquoted equities	-	-	-	-	346	-	346	-

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

The fair value of financial instruments that are not traded in an active market (for example, 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 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 (CONTD.)

### (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.

The following table presents the changes in level 3 items for the year ended 31 December 2018 and 31 December 2017.

	Convertible bonds	Unlisted equity securities	Total
As at 1 January 2017	40,000	-	40,000
Addition	25,000	346	25,346
Converted to equity	(40,000)	-	(40,000)
As at 31 December 2017	25,000	346	25,346
Converted to equity	(25,000)	-	(25,000)
Addition	-	119,469	119,469
<b>As at 31 December 2018</b>	<b>-</b>	<b>119,815</b>	<b>119,815</b>

## 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.

# Notes to the Financial Statements

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

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTD.)

### (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.

### (k) Revenue from contracts with customers

Where the Company and the Group do not sell equivalent goods or services in similar circumstances on a standalone basis it is necessary to estimate the standalone price. When estimating the standalone price, the Company and the Group maximise the use of external inputs; methods for estimating standalone prices include determining the standalone price of similar goods and services sold by the Company and the Group, observing the standalone prices for similar goods and services when sold by third parties or using a cost-plus reasonable margin approach.

When the Company and the Group have control of goods or services when they are delivered to a customer, then the Group is the principal in the sale to the customer; otherwise the Company and the Group are acting as agents. Whether the Company and the Group are considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgements impact the amount of reported revenue and operating expenses.

## 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 2018, 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 2018 are as follows:

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Revenue from external customers	86,460,239	15,206,870	7,489,576	-	109,156,685
Inter-segment revenue	1,514,935	2,002,457	14,127	-	3,531,519
<b>Total segmental revenue</b>	<b>87,975,174</b>	<b>17,209,327</b>	<b>7,503,703</b>	<b>-</b>	<b>112,688,204</b>
Segment operating profit / (loss) for the year	12,059,335	5,282,588	(662,249)	43,356	16,723,030
Finance costs - net					(7,174,250)
Share of profit from associates - net of tax					1,432
Profit before income tax					9,550,212
Income tax expense					(2,100,745)
<b>Profit for the year</b>					<b>7,449,467</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	17,180,038	6,680,562	2,491,390	676,567	27,028,557

## 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 assets and liabilities at 31 December 2018 and capital expenditure for the year then ended are as follows:

	Mobile operation	Fixed telephony and broadband operation	Television operation	Elimination /adjustment	Group
Assets	165,715,525	46,457,027	8,667,973	(40,738,072)	180,102,453
Inter-segment assets	(14,215,145)	(2,851)	(1,291,450)	-	(15,509,446)
<b>Total assets</b>	<b>151,500,380</b>	<b>46,454,176</b>	<b>7,376,523</b>	<b>(40,738,072)</b>	<b>164,593,007</b>
Liabilities	90,390,563	17,699,658	4,966,377	-	113,056,598
Inter-segment liabilities	(4,334,777)	(9,838,679)	(1,567,089)	-	(15,740,545)
<b>Total liabilities</b>	<b>86,055,786</b>	<b>7,860,979</b>	<b>3,399,288</b>	<b>-</b>	<b>97,316,053</b>
Capital expenditure	21,264,066	12,683,692	468,291	-	34,416,049

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)

## 7 INTANGIBLE ASSETS

### (a) Group

	Goodwill	Licenses	Computer software	Contract costs	Others	Total
At 1 January 2018						
Cost	9,999,831	13,444,526	7,027,359	-	1,484,406	31,956,122
Accumulated amortisation	-	(5,768,358)	(6,115,486)	-	(953,379)	(12,837,223)
<b>Net book amount</b>	<b>9,999,831</b>	<b>7,676,168</b>	<b>911,873</b>	<b>-</b>	<b>531,027</b>	<b>19,118,899</b>
Year ended 31 December 2018						
Opening net book amount	9,999,831	7,676,168	911,873	-	531,027	19,118,899
Opening adjustment as at 1 January 2018	-	-	-	3,933,978	(175,124)	3,758,854
Acquisition through business combinations	76,137	-	21,177	-	1,892	99,206
Additions	-	752,826	1,739,000	4,128,854	-	6,620,680
Disposals	-	(271,786)	(6,337)	-	-	(278,123)
Impairment charge	(660,329)	-	-	-	-	(660,329)
Amortisation charge [Note 33(a)]	-	(1,256,232)	(1,247,322)	(3,261,793)	(75,382)	(5,840,729)
<b>Closing net book amount</b>	<b>9,415,639</b>	<b>6,900,976</b>	<b>1,418,391</b>	<b>4,801,039</b>	<b>282,413</b>	<b>22,818,458</b>
At 31 December 2018						
Cost	10,075,968	13,853,100	8,779,720	8,062,832	1,486,298	42,257,918
Accumulated amortisation / provision for impairment	(660,329)	(6,952,124)	(7,361,329)	(3,261,793)	(1,203,885)	(19,439,460)
<b>Net book amount</b>	<b>9,415,639</b>	<b>6,900,976</b>	<b>1,418,391</b>	<b>4,801,039</b>	<b>282,413</b>	<b>22,818,458</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 combinations	709,933	-	7,044	-	-	716,977
Additions	-	2,907,892	1,109,026	-	220,421	4,237,339
Write-off	-	-	-	-	(41,899)	(41,899)
Amortisation charge [Note 33(a)]	-	(1,132,872)	(914,340)	-	(180,360)	(2,227,572)
<b>Closing net book amount</b>	<b>9,999,831</b>	<b>7,676,168</b>	<b>911,873</b>	<b>-</b>	<b>531,027</b>	<b>19,118,899</b>
At 31 December 2017						
Cost	9,999,831	13,444,526	7,027,359	-	1,484,406	31,956,122
Accumulated amortisation	-	(5,768,358)	(6,115,486)	-	(953,379)	(12,837,223)
<b>Net book amount</b>	<b>9,999,831</b>	<b>7,676,168</b>	<b>911,873</b>	<b>-</b>	<b>531,027</b>	<b>19,118,899</b>

(b) Company

	Licenses	Computer software	Contract costs	Others	Total
At 1 January 2018					
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>-</b>	<b>356,054</b>	<b>6,403,659</b>

Year ended 31 December 2018

Opening net book amount	5,201,164	846,441	-	356,054	6,403,659
Opening adjustment as at 1 January 2018	-	-	1,458,562	-	1,458,562
Additions	731,354	1,532,987	1,409,821	-	3,674,162
Disposals	(271,786)	(6,340)	-	-	(278,126)
Amortisation charge [Note 33(a)]	(839,260)	(1,180,748)	(1,197,753)	(74,450)	(3,292,211)
<b>Closing net book amount</b>	<b>4,821,472</b>	<b>1,192,340</b>	<b>1,670,630</b>	<b>281,604</b>	<b>7,966,046</b>

At 31 December 2018

Cost	8,872,140	8,174,488	2,868,383	1,182,189	21,097,200
Accumulated amortisation	(4,050,668)	(6,982,148)	(1,197,753)	(900,585)	(13,131,154)
<b>Net book amount</b>	<b>4,821,472</b>	<b>1,192,340</b>	<b>1,670,630</b>	<b>281,604</b>	<b>7,966,046</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>-</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>-</b>	<b>356,054</b>	<b>6,403,659</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	
	2018	2017	2018	2017
Direct costs	1,452,367	1,180,558	981,492	794,063
Distribution costs	2,699,269	-	1,129,971	-
Administrative costs	1,689,093	1,047,014	1,180,748	889,865
	<b>5,840,729</b>	<b>2,227,572</b>	<b>3,292,211</b>	<b>1,683,928</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.

	2018	2017
Television operation	1,272,532	1,504,455
Device sales operation	231,923	-
Fixed telephony and broadband operation	7,125,114	7,125,114
Digital commerce operation	-	660,329
Financial services operation	709,933	709,933
e-learning operation	76,137	-
	<b>9,415,639</b>	<b>9,999,831</b>

The goodwill allocated to e-learning operation CGU is acquired as a result of acquisition of Headstart (Private) Limited during current financial year.

The recoverable amounts of television operation's, device sales operation's, fixed telephony and broadband operation's, digital commerce operation's and financial services operation's CGUs are determined based on the Value In Use ('VIU') calculations and e-learning operation's CGU is based on Fair Value Less Cost to Sell ('FVLCS').

Based on the impairment test performed, no provision for impairment of goodwill was recognised as of 31 December 2018, since the recoverable amounts exceeded the carrying value, with the exception of the digital commerce operation.

The management is of the view that the CGU of the digital commerce operation has no recoverable value as at 31 December 2018. Hence, Group has recognised an impairment charge of Rs. 660Mn, on account of goodwill relating to this CGU.

The Group applies the following methods for VIU and FVLCS calculations.

#### (i) Discounted Cash Flow ('DCF') method

The VIU of television operation, device sales operation, fixed telephony and broadband operation and digital commerce 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) Residual Income ('RI') method

The VIU of the financial services operations was determined using the RI method.

#### (iii) Revenue multiples method

The FVLCS of e-learning operation is calculated by applying revenue multiples.

The following assumptions are applied in the VIU computation.

#### DCF method

##### ► *EBITDA margin*

Projected EBITDA margin is determined based on expected growth potential in fixed telephony and broadband operation, television operation, digital commerce operation and device sales operation tapping further into developing markets.

##### ► *Free cash flow (FCF)*

FCF projections are based on EBITDA and Capital expenditure (Capex) projections.

##### ► *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, television operation, digital commerce operation and device sales operation growth potential in Sri Lanka for the foreseeable future.

Given below are the variables used for the impairment test for 2018 and 2017 under DCF method:

	Fixed telephony and broadband operation		Television operation		Device sales operation	Digital commerce operation
	2018	2017	2018	2017	2018	2018
EBITDA margin	50%	51%	32%	24%	4%	-37.6%
Capex to revenue ratio	25%	47%	7.5%	14%	-	5%
Pre-tax discount rate	13.12%	14.41%	13.12%	14.41%	13.12%	13.12%
Terminal growth rate	3%	3%	3%	3%	0.05%	2.5%

#### 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.

#### Revenue multiples method

##### ► *Revenue multiple*

Revenue multiple is calculated based on the average revenue multiples of selected peer companies by benchmarking the CGU against the businesses with similar characteristics, comparable growth potentials and comparable market enablers.

# Notes to the Financial Statements

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

## 7 INTANGIBLE ASSETS (CONTD.)

### (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 is required for the carrying value of the goodwill, with the exception of the digital commerce operation, including where realistic variances are applied to key assumptions.

The recoverable amounts of fixed telephony and broadband operation and television operation CGUs would equal its carrying amount if the key assumptions were to change as follows:

	Fixed telephony and broadband operation		Television operation	
	From	To	From	To
EBITDA margin	50.00%	41.10%	32.00%	12.61%
Capex to revenue ratio	25.00%	33.90%	7.50%	12.61%
Pre-tax discount rate	13.12%	18.80%	13.12%	18.23%
Terminal growth rate	3.00%	(7.30%)	3.00%	(4.99%)

## 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 2018						
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 2018						
Opening net book amount	3,480,943	84,331,781	2,270,987	2,646	9,931,938	100,018,295
Acquisition through business combination	-	5,444	2,841	-	-	8,285
Additions	6,059	(91,547)	66,896	-	31,828,754	31,810,162
Transferred from CWIP	236,504	25,303,553	848,218	-	(26,388,275)	-
Disposals	-	(10,033)	(236)	-	-	(10,269)
Adjustments	-	(72,466)	-	-	-	(72,466)
Impairment provision and assets written off	-	(331,930)	(17,339)	-	(5,873)	(355,142)
Depreciation charge [Note 33(a)]	(225,986)	(18,864,552)	(1,050,899)	(811)	-	(20,142,248)
<b>Closing net book amount</b>	<b>3,497,520</b>	<b>90,270,250</b>	<b>2,120,468</b>	<b>1,835</b>	<b>15,366,544</b>	<b>111,256,617</b>
At 31 December 2018						
Cost	4,724,191	211,790,623	10,406,928	184,503	16,994,806	244,101,051
Accumulated depreciation / provision for impairment	(1,226,671)	(121,520,373)	(8,286,460)	(182,668)	(1,628,262)	(132,844,434)
<b>Net book amount</b>	<b>3,497,520</b>	<b>90,270,250</b>	<b>2,120,468</b>	<b>1,835</b>	<b>15,366,544</b>	<b>111,256,617</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	-	(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>

# 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.)

### (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 2018						
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 2018						
Opening net book amount	2,397,522	56,449,851	480,126	488	6,133,783	65,461,770
Additions	6,059	(101,740)	36,833	-	18,778,737	18,719,889
Transferred from CWIP	211,304	15,767,632	243,335	-	(16,222,271)	-
Disposals	-	(10,010)	-	-	-	(10,010)
Adjustments	-	(72,466)	-	-	-	(72,466)
Impairment provision and assets write off	-	(332,582)	-	-	(5,973)	(338,555)
Depreciation charge [Note 33(a)]	(179,831)	(12,986,784)	(239,509)	(239)	-	(13,406,363)
<b>Closing net book amount</b>	<b>2,435,054</b>	<b>58,713,901</b>	<b>520,785</b>	<b>249</b>	<b>8,684,276</b>	<b>70,354,265</b>
At 31 December 2018						
Cost	3,555,706	138,669,814	2,272,973	119,828	9,768,981	154,387,302
Accumulated depreciation / provision for impairment	(1,120,652)	(79,955,913)	(1,752,188)	(119,579)	(1,084,705)	(84,033,037)
<b>Net book amount</b>	<b>2,435,054</b>	<b>58,713,901</b>	<b>520,785</b>	<b>249</b>	<b>8,684,276</b>	<b>70,354,265</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 and assets write off	-	(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>

(c) Capital work-in progress mainly comprises network related assets.

(d) Depreciation expense has been charged under following expense categories:

Expense categories:	Group		Company	
	2018	2017	2018	2017
Direct costs	16,155,579	13,606,299	12,944,527	11,070,833
Administrative costs	3,986,669	3,221,523	461,836	368,101
	<b>20,142,248</b>	<b>16,827,822</b>	<b>13,406,363</b>	<b>11,438,934</b>

(e) Impairment (reversals) / provisions and assets write off have been charged under following expense categories:

Expense categories:	Group		Company	
	2018	2017	2018	2017
Direct costs	(43,075)	(36,053)	-	-
Administrative costs	398,217	89,733	338,555	67,443
	<b>355,142</b>	<b>53,680</b>	<b>338,555</b>	<b>67,443</b>

(f) At 31 December 2018, property, plant and equipment include fully depreciated assets which are still in use, the cost of which amounted to Rs. 36,146Mn (2017 - Rs. 31,158Mn) and Rs. 64,344Mn (2017 - Rs. 58,622Mn), for the Company and the Group respectively.

(g) The land and buildings are not secured against any bank borrowings.

(h) The impairment provision relates to assets which are technologically obsolete and assets decommissioned or discontinued.

## 9 INVESTMENT IN SUBSIDIARIES

Name of the subsidiary	Note	% Holding	2018	2017
Dialog Television (Private) Limited ('DTV')		100%	8,040,020	8,040,020
Dialog Broadband Networks (Private) Limited ('DBN')		100%	37,786,658	37,786,658
Digital Holdings Lanka (Private) Limited ('DHL')		100%	1,193,307	-
Dialog Device Trading (Private) Limited ('DDT')		100%	204,988	-
Communiq Broadband Network (Private) Limited ('CBN')		100%	-	-
Telecard (Private) Limited		100%	-	-
Digital Commerce Lanka (Private) Limited ('DCL')	(a)	100%	-	394,719
Dialog Business Services (Private) Limited ('DBS')		100%	-	-
Digital Health (Private) Limited ('DH')		53.2%	-	-
Dialog Finance PLC ('DFP')		98.88%	1,912,485	1,320,017
Dialog Axiata Digital Innovation Fund (Private) Limited ('DADIF')		25%	-	-
Headstart (Private) Limited ('Headstart')		50.59%	-	-
			<b>49,137,458</b>	<b>47,541,414</b>

# Notes to the Financial Statements

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

## 9 INVESTMENT IN SUBSIDIARIES (CONTD.)

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	Providing manpower for call centre operations	Sri Lanka
Dialog 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
Headstart (Private) Limited	e-learning products and services	Sri Lanka

- (a) The management is of the view that the investment in DCL has no recoverable value as at 31 December 2018. Hence, the Company has recognised an impairment charge of Rs. 395Mn, on account of the investment relating to DCL.

## 10 INVESTMENT IN ASSOCIATES

	Note	Group		Company	
		2018	2017	2018	2017
At 1 January		106,211	72,230	27,742	27,742
Share of profit / (loss)	33(a)	1,432	(13,426)	-	-
Transfers from available-for-sale financial assets	[12 (a)]	-	40,000	-	-
Investment during the year		131,250	-	-	-
Share buyback	(a)	(13,871)	-	(13,871)	-
Provision for impairment	(b)	(30,109)	-	(13,871)	-
Transferred to investment in subsidiaries	(c)	(62,774)	-	-	-
Interest receivable capitalised		-	7,407	-	-
<b>At 31 December</b>		<b>132,139</b>	<b>106,211</b>	<b>-</b>	<b>27,742</b>

- (a) Firstsource Dialog Solutions (Private) Limited ('FDSL') acquired 4,610,520 ordinary shares from the shareholders of FDSL, 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 FDSL.
- (b) The management is of the view that the investment in FDSL has no recoverable value as at 31 December 2018. Hence, the Company and the Group has recognised an impairment charge of Rs. 14Mn and Rs. 30Mn respectively on account of the investment relating to FDSL.
- (c) Redeemable convertible bonds issued by Headstart (Private) Limited ('Headstart') amounting to Rs. 25Mn were converted to equity consisting of 258 ordinary shares on 1 January 2018. Subsequent to the said conversion, the total shareholding of Digital Holdings Lanka (Private) Limited in Headstart increased from 43.37% to 50.59%. Accordingly carrying amount of investment in associate was transferred to the investment in subsidiaries.
- (d) Investment in associate during the year ended 31 December 2018 represents the ownership of 35% of stated capital of Digital Reality (Private) Limited incorporated and domiciled in Sri Lanka.
- (e) **The Group's share of the revenue and results of the associates are as follows:**

	Group	
	2018	2017
Revenue from contracts with customers	-	65,376
Other income	3,424	1,166
Expenses	(1,776)	(79,968)
<b>Profit / (loss) before tax</b>	<b>1,648</b>	<b>(13,426)</b>
Income tax expense	(216)	-
<b>Profit / (loss) after tax</b>	<b>1,432</b>	<b>(13,426)</b>

- (f) **The Group's share of the assets and liabilities of the associates are as follows:**

	Group	
	2018	2017
Non-current assets	26,999	13,598
Current assets	108,619	47,602
Non-current liabilities	-	(2,152)
Current liabilities	(4,151)	(16,699)
Net assets	131,467	42,349
Goodwill	672	63,862
	<b>132,139</b>	<b>106,211</b>

# Notes to the Financial Statements

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

## 11 FINANCIAL INSTRUMENTS

### (a) Financial instruments by category

The group holds the following financial instruments:

Financial assets	Group		Company	
	2018	2017	2018	2017
Financial assets at amortised cost				
Trade receivables	16,422,404	14,525,094	23,589,509	13,499,592
Other financial assets at amortised cost	1,080,208	975,094	-	466,655
Held-to-maturity investments	-	60,126	-	-
Cash and cash equivalents	10,097,521	8,410,960	7,839,159	7,886,345
Financial assets at Fair Value through Other Comprehensive Income ('FVOCI')	346	-	-	-
Available for sales financial assets	-	25,346	-	-
Financial assets at Fair Value through Profit or Loss ('FVTPL')	120,493	1,762	-	-
Derivative financial instruments used for hedging	-	14,311	-	14,311

Financial liabilities	Group		Company	
	2018	2017	2018	2017
Liabilities at amortised cost				
Trade and other payables	35,451,676	36,744,414	26,991,029	25,162,197
Borrowings	49,778,716	36,595,480	47,953,421	34,948,913
Other financial liabilities	468,602	580,565	-	-

Impact of the change in accounting policy following the adoption of SLFRS 9, 'Financial Instruments' on the classification of financial assets is given in note 38.

### (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	
	2018	2017	2018	2017
<b>Subscribers</b>				
- Individual	1,594,991	1,624,710	649,045	779,083
- Corporate	1,871,935	1,373,304	658,664	622,172
<b>Operators</b>				
- Domestic	2,367,053	1,390,564	2,046,311	1,117,480
- International	3,621,915	2,593,174	3,408,045	2,593,174
Distributors	1,106,254	684,012	784,433	490,474
	<b>10,562,148</b>	<b>7,665,764</b>	<b>7,546,498</b>	<b>5,602,383</b>

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	
	2018	2017	2018	2017
AAA Ika	2,616,043	1,394,060	1,190,502	1,206,639
AA+ Ika	241,409	503,626	220,955	459,982
AA Ika	498,674	2,691,505	822,428	2,649,949
AA- Ika	3,461,129	686,078	3,440,715	582,974
A+ Ika to A- Ika	3,235,891	3,041,339	2,134,012	2,695,401
Below A	16,540	74,974	8,152	49,912
Non-rated	1,436	4,072	1,200	231,560
Cash in hand	26,399	15,306	21,195	9,928
	<b>10,097,521</b>	<b>8,410,960</b>	<b>7,839,159</b>	<b>7,886,345</b>

The carrying amounts of cash and cash equivalents are denominated in following currencies:

Cash at bank and in hand and short-term bank deposits	Group		Company	
	2018	2017	2018	2017
Cash at bank and in hand				
Sri Lanka rupees	5,423,123	2,641,066	2,540,226	2,028,981
United States dollars	2,540,226	1,116,172	3,102,705	1,116,172
	<b>7,963,349</b>	<b>3,757,238</b>	<b>5,642,931</b>	<b>3,145,153</b>
Short-term bank deposits				
Sri Lanka rupees	638,625	2,449,600	1,495,547	2,537,070
United States dollars	1,495,547	2,204,122	700,681	2,204,122
	<b>2,134,172</b>	<b>4,653,722</b>	<b>2,196,228</b>	<b>4,741,192</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 2018</b>			
Trade and other receivables	5,678,671	(1,501,765)	4,176,906
Trade and other payables	(2,533,916)	1,501,765	(1,032,151)
<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)

# Notes to the Financial Statements

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

## 12 OTHER FINANCIAL ASSETS

	Note	Group		Company	
		2018	2017	2018	2017
<b>Non-current</b>					
Available-for-sale financial assets	(a)	-	25,000	-	-
Other financial assets at amortised cost	(b)	246,559	260,325	-	466,655
Held to maturity financial assets		-	1,944	-	-
Financial assets at Fair Value through Profit or Loss ('FVTPL')	(d)	119,469	-	-	-
		<b>366,028</b>	<b>287,269</b>	<b>-</b>	<b>466,655</b>
<b>Current</b>					
Available-for-sale financial assets	(a)	-	346	-	-
Other financial assets at amortised cost	(b)	833,648	714,769	-	-
Held to maturity financial assets		-	58,182	-	-
Financial assets at Fair Value through Other Comprehensive Income ('FVOCI')	(c)	346	-	-	-
Financial assets at FVTPL	(d)	1,024	1,762	-	-
		<b>835,018</b>	<b>775,059</b>	<b>-</b>	<b>-</b>

### (a) Available-for-sale financial assets

	Note	Group	
		2018	2017
Investment in convertible bonds	(i)	-	25,000
Investment in unquoted shares		-	346
		<b>-</b>	<b>25,346</b>

### (i) Investment in convertible bonds

	Note	Group	
		2018	2017
At 1 January		25,000	40,000
Investment made during the year		-	25,000
Transferred to investment in associates		-	(40,000)
Reclassified to financial assets at amortised cost	[b (ii)]	(25,000)	-
<b>At 31 December</b>		<b>-</b>	<b>25,000</b>

### (b) Other financial assets at amortised cost

	Note	Group		Company	
		2018	2017	2018	2017
Loans and receivables to intercompany	(i)	-	-	-	466,655
Other loans and receivables		1,353,527	1,048,897	-	-
		1,353,527	1,048,897	-	466,655
Less: Loss allowance		(273,320)	(73,803)	-	-
		<b>1,080,207</b>	<b>975,094</b>	<b>-</b>	<b>466,655</b>

- (i) The carrying value of loans and receivables to Digital Commerce Lanka (Private) Limited ('DCL') was converted to an equity investment in DCL on 22 March 2018.
- (ii) The redeemable convertible bond issued by Headstart (Private) Limited ('Headstart') amounting to Rs. 25Mn, which was reclassified from available for sales financials assets to financial assets at amortised cost at the beginning of the current financial year, were converted to the equity consisting of 258 ordinary shares on 1 January 2018. Subsequent to the said conversion, the total shareholding of Digital Holdings Lanka (Private) Limited in Headstart increased from 43.37% to 50.59%.
- (c) The carrying value of investment in FVOCI represents the fair value of the investment in shares in the Credit Information Bureau of Sri Lanka by Dialog 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 Dialog Finance PLC and investment in unquoted equity investments by Dialog Axiata Digital Innovation Fund (Private) Limited.

### 13 INVENTORIES

	Group		Company	
	2018	2017	2018	2017
Phone stock	1,520,965	154,047	100,606	154,047
Accessories and consumables	168,886	1,023,305	156,382	200,018
Provision for slow moving inventory	(566,856)	(314,100)	(192,728)	(246,762)
	<b>1,122,995</b>	<b>863,252</b>	<b>64,260</b>	<b>107,303</b>

### 14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018	2017	2018	2017
<b>Current</b>				
Trade receivables	14,405,656	11,552,807	9,382,722	7,596,839
Less: provision for impairment of trade receivables	(3,843,508)	(3,887,043)	(1,836,224)	(1,994,456)
Net trade receivables	10,562,148	7,665,764	7,546,498	5,602,383
Receivables from related companies [Note 37 (d)]	490,738	349,978	13,954,249	3,776,463
Prepayments	1,335,226	1,196,631	992,312	895,969
Other receivables	5,369,517	6,322,966	2,088,761	3,934,360
	<b>17,757,629</b>	<b>15,535,339</b>	<b>24,581,820</b>	<b>14,209,175</b>
<b>Non-current</b>				
Receivables from related companies [Note 37 (d)]	-	-	-	405,175
Other receivables	187,147	186,385	187,147	186,385
	<b>187,147</b>	<b>186,385</b>	<b>187,147</b>	<b>591,560</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.

## 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.)

#### (b) Trade receivables by credit quality are as follows:

	Group		Company	
	2018	2017	2018	2017
Neither past due nor impaired	5,090,083	4,828,301	3,678,725	3,941,691
Past due but not impaired	5,472,065	2,837,463	3,867,773	1,660,692
Impaired	3,843,508	3,887,043	1,836,224	1,994,456
	<b>14,405,656</b>	<b>11,552,807</b>	<b>9,382,722</b>	<b>7,596,839</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	
	2018	2017	2018	2017
Amount overdue:				
1 month to 6 months	5,433,723	2,713,034	3,837,813	1,556,461
6 months to 1 year	38,342	124,429	29,960	104,231
More than 1 year	-	-	-	-
	<b>5,472,065</b>	<b>2,837,463</b>	<b>3,867,773</b>	<b>1,660,692</b>

#### (d) The movement of the provision for impairment of trade receivables are as follows:

	Group		Company	
	2018	2017	2018	2017
At 1 January	3,887,043	3,160,046	1,994,456	1,773,750
Provision for impairment of trade receivables	1,283,932	761,017	428,865	254,726
Receivables written off during the year as uncollectible	(1,327,467)	(34,020)	(587,097)	(34,020)
<b>At 31 December</b>	<b>3,843,508</b>	<b>3,887,043</b>	<b>1,836,224</b>	<b>1,994,456</b>

#### (e) The carrying amounts of trade receivables are denominated in following currencies:

	Group		Company	
	2018	2017	2018	2017
Sri Lanka rupees	6,728,981	5,070,242	3,927,201	3,006,861
United States dollars	3,833,167	2,595,522	3,619,297	2,595,522
	<b>10,562,148</b>	<b>7,665,764</b>	<b>7,546,498</b>	<b>5,602,383</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	
	2018	2017	2018	2017
Cash at bank and in hand	7,963,349	3,757,238	5,642,931	3,145,153
Short-term bank deposits	2,134,172	4,653,722	2,196,228	4,741,192
<b>Cash and cash equivalents</b>	<b>10,097,521</b>	<b>8,410,960</b>	<b>7,839,159</b>	<b>7,886,345</b>

(b) Cash and cash equivalents of the Company and the Group include restricted cash deposited in the following financial institutions:

	Group		Company	
	2018	2017	2018	2017
People's Bank, amount deposited in settlement account to facilitate NFC Travel card value	65,213	57,594	65,213	57,594
Hatton National Bank PLC, amount deposited in custodian accounts to facilitate Ez cash operation	530,000	430,000	530,000	430,000
	<b>595,213</b>	<b>487,594</b>	<b>595,213</b>	<b>487,594</b>

## 16 STATED CAPITAL

(a)

	Ordinary shares issued and fully paid	Stated capital
At 1 January 2018	28,103,913	28,103,913
<b>At 31 December 2018</b>	<b>28,103,913</b>	<b>28,103,913</b>
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>

(b) Movement in shares

	Number of ordinary shares
At 1 January 2018	8,143,778,405
<b>At 31 December 2018</b>	<b>8,143,778,405</b>
At 1 January 2017	8,143,778,405
<b>At 31 December 2017</b>	<b>8,143,778,405</b>

# Notes to the Financial Statements

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

## 17 RESERVES

	Note	Group		Company	
		2018	2017	2018	2017
<b>Attributable to the owners of the Company</b>					
Retained earnings		39,031,137	33,544,508	47,769,787	46,140,085
Share-based payments reserve	(a)	132,784	16,341	132,784	16,341
Hedging reserve	(b)	-	22,392	-	22,392
		<b>39,163,921</b>	<b>33,583,241</b>	<b>47,902,571</b>	<b>46,178,818</b>
<b>Attributable to the non-controlling interest</b>					
Non-controlling interest		9,120	(6,158)	-	-
		9,120	(6,158)	-	-
<b>At 31 December</b>		<b>39,173,041</b>	<b>33,577,083</b>	<b>47,902,571</b>	<b>46,178,818</b>

The movement of the reserves is as follows:

Group	Share - based			Total
	payments reserve	Hedging reserve	Retained earnings	
Balance at 1 January 2018	16,341	22,392	33,544,508	33,583,241
Change in accounting policy	-	-	1,642,222	1,642,222
Restated total equity as at 1 January 2018	16,341	22,392	35,186,730	35,225,463
Profit for the year	-	-	7,501,334	7,501,334
Other comprehensive income:				
- net change in cash flow hedge	-	(22,392)	-	(22,392)
- remeasurement gains on defined benefit obligation	-	-	86,850	86,850
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(22,392)</b>	<b>7,588,184</b>	<b>7,565,792</b>
Transactions with non-controlling interest	-	-	2,361	2,361
Employee share schemes - value of employee services	116,443	-	-	116,443
Dividends to equity shareholders	-	-	(3,746,138)	(3,746,138)
<b>Balance at 31 December 2018</b>	<b>132,784</b>	<b>-</b>	<b>39,031,137</b>	<b>39,163,921</b>
Balance at 1 January 2017	-	(15,261)	25,917,808	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>-</b>	<b>37,653</b>	<b>10,966,471</b>	<b>11,004,124</b>
Transactions with non-controlling interest	-	-	(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>22,392</b>	<b>33,544,508</b>	<b>33,583,241</b>

Company	Share-based payments reserve	Hedging reserve	Retained earnings	Total
Balance at 1 January 2018	16,341	22,392	46,140,085	46,178,818
Change in accounting policy	-	-	949,520	949,520
Restated total equity as at 1 January 2018	16,341	22,392	47,089,605	47,128,338
Profit for the year	-	-	4,359,337	4,359,337
Other comprehensive income:				
- net change in cash flow hedge	-	(22,392)	-	(22,392)
- remeasurement gains on defined benefit obligation	-	-	66,983	66,983
<b>Total comprehensive income for the year</b>	-	<b>(22,392)</b>	<b>4,426,320</b>	<b>4,403,928</b>
Employee share schemes - value of employee services	116,443	-	-	116,443
Dividends to equity shareholders	-	-	(3,746,138)	(3,746,138)
<b>Balance at 31 December 2018</b>	<b>132,784</b>	-	<b>47,769,787</b>	<b>47,902,571</b>
Balance at 1 January 2017	-	(15,261)	38,667,482	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>22,392</b>	<b>46,140,085</b>	<b>46,178,818</b>

#### (a) Share based payment reserves

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 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.

	2018		2017	
	Fair value in Rs. per share	Share Options	Fair value in Rs. per share	Share Options
As at 1 January 2018	10.81	18,134,300	-	-
Options granted during the year	12.64	18,181,250	10.81	18,134,300
Number of unexercised options as at 31 December		<b>36,315,550</b>		<b>18,134,300</b>

# Notes to the Financial Statements

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

## 17 RESERVES (CONTD.)

### (a) Share based payment reserves (Continued)

Share options outstanding at the end of the year have the following vesting dates.

Grant date	Vesting date	Fair value in Rs. per share	Share options 31 Dec 2018	Share options 31 Dec 2017
1 October 2017	30 September 2020	10.81	18,134,300	18,134,300
1 May 2018	30 April 2021	12.64	18,181,250	-
			<b>36,315,550</b>	<b>18,134,300</b>

- (b) The hedging reserve represents the fair value relating to a 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. Hedging contract matured on 29 July 2018.

Further, no tax is applicable for the movement of the hedging reserve recorded in other comprehensive income.

## 18 TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
Trade payables	8,582,450	7,672,391	5,054,332	4,081,959
Amount due to ultimate parent company [Note 37 (e)]	1,361,268	799,663	1,361,268	799,663
Amounts due to related companies [Note 37 (e)]	589,514	3,368,570	590,196	3,450,276
Deferred revenue (Note 22)	188,681	4,354,458	188,681	3,710,839
Accrued expenses	17,802,587	18,349,902	15,375,450	12,511,831
Customer deposits	1,197,856	1,206,448	1,136,027	1,152,022
Other payables	5,918,000	5,347,440	3,473,754	3,166,446
	<b>35,640,356</b>	<b>41,098,872</b>	<b>27,179,708</b>	<b>28,873,036</b>

- (a) Accrued expenses of the Group in 2017 included a provision made as a matter of prudence in financial year 2012, for a possible claim amounting to a sum of Rs. 3,698,280,185, consequent to a judgement delivered by the Commercial High Court of Sri Lanka against Suntel Limited (which was subsequently amalgamated with DBN) on 9 March 2012. A Petition of Appeal challenging the said judgment of the Commercial High Court was made by DBN to the Supreme Court of Sri Lanka on 23 April 2012. Final judgment was delivered by the Supreme Court of Sri Lanka on 14 December 2018 in favour of DBN by allowing the appeal of DBN and setting aside the said judgment of the Commercial High Court which was in favour of Electroteks Network Services (Private) Limited. Accordingly, a reversal of the full provision was made in 2018.

## 19 OTHER FINANCIAL LIABILITIES

	Group	
	2018	2017
<b>Current</b>		
Deposits from customers	460,291	283,360
	<b>460,291</b>	<b>283,360</b>

	Group	
	2018	2017
<b>Non-current</b>		
Deposits from customers	8,311	297,205
	<b>8,311</b>	<b>297,205</b>

## 20 BORROWINGS

	Note	Group		Company	
		2018	2017	2018	2017
<b>Current</b>					
Bank overdrafts		3,843,419	3,327,466	2,210,788	1,864,723
Bank borrowings	(a)	5,169,289	7,638,691	4,976,625	7,454,867
		<b>9,012,708</b>	<b>10,966,157</b>	<b>7,187,413</b>	<b>9,319,590</b>

	Note	Group		Company	
		2018	2017	2018	2017
<b>Non-current</b>					
Bank borrowings	(a)	40,766,008	25,629,323	40,766,008	25,629,323
		<b>40,766,008</b>	<b>25,629,323</b>	<b>40,766,008</b>	<b>25,629,323</b>

### (a) Bank borrowings

#### (i) Bank borrowings - foreign

Bank borrowings comprise syndicated term loan of USD 181Mn which carries an interest rate of USD 3 Months LIBOR+1.21% p.a.

The effective interest rate on bank borrowings ranges from 3.43% to 4.38% p.a. (2017 - 2.50% to 3.35% p.a.)

#### (ii) Bank borrowings - local

Bank borrowings comprise a term loan 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 and a term loan of 2.7Bn which carries an interest rate of 3 Months SLIBOR +1.24% p.a.

The effective interest rate on bank borrowings ranges from 9.57% to 9.83% p.a. (2017 – 9.80% to 10.93% p.a.)

## 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	
	2018	2017	2018	2017
3 months or less	4,302,750	5,166,023	2,477,455	3,519,456
3-6 months	1,597,484	1,655,915	1,597,484	1,655,915
6-12 months	3,112,474	4,144,219	3,112,474	4,144,219
1-5 years	40,766,008	25,629,323	40,766,008	25,629,323
	<b>49,778,716</b>	<b>36,595,480</b>	<b>47,953,421</b>	<b>34,948,913</b>

(c) The carrying amounts of the Company's and the Group's borrowings are denominated in following currencies:

	Group		Company	
	2018	2017	2018	2017
Sri Lanka rupees	16,318,820	13,319,826	14,493,525	11,673,259
United States dollars	33,459,896	23,275,654	33,459,896	23,275,654
	<b>49,778,716</b>	<b>36,595,480</b>	<b>47,953,421</b>	<b>34,948,913</b>

(d) The carrying amounts at amortised cost and fair value of non-current borrowings are as follows:

	Group		Company	
	2018	2017	2018	2017
Bank borrowings	40,766,008	25,629,323	40,766,008	25,629,323

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

	Group / Company	
	2018	2017
Interest rate swaps - cash flow hedge	-	14,311
<b>At 31 December</b>	<b>-</b>	<b>14,311</b>
Current	-	14,311
Non-current	-	-
<b>Interest rate swaps - cash flow hedge</b>	<b>-</b>	<b>14,311</b>

Hedging contract matured on 29 July 2018.

## 22 DEFERRED REVENUE

	Group		Company	
	2018	2017	2018	2017
At 1 January	5,748,873	5,443,916	4,844,680	4,485,636
Prepaid revenue and connection fees	86,632,225	79,487,390	83,574,014	76,592,232
Release of prepaid revenue and connection fees to comprehensive income	(86,371,773)	(78,950,643)	(82,915,346)	(76,022,604)
Release of TDC disbursements to comprehensive income (Note 33)	(200,597)	(231,790)	(200,192)	(210,584)
Transferred to contract liabilities	(4,682,010)	-	(4,176,438)	-
<b>At 31 December</b>	<b>1,126,718</b>	<b>5,748,873</b>	<b>1,126,718</b>	<b>4,844,680</b>

	Group		Company	
	2018	2017	2018	2017
Current (Note 18)	188,681	4,354,458	188,681	3,710,839
Non-current	938,037	1,394,415	938,037	1,133,841
	<b>1,126,718</b>	<b>5,748,873</b>	<b>1,126,718</b>	<b>4,844,680</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	
	2018	2017
Deferred income tax liabilities	(19,080)	(22,056)
Deferred income tax assets	38,535	25,628
<b>Net deferred income tax assets</b>	<b>19,455</b>	<b>3,572</b>

- (b) The movement on the deferred income tax account is as follows:

	Group	
	2018	2017
At 1 January	3,572	-
Acquisition from business combination	854	5,347
Credited / (charged) to comprehensive income:		
- PPE	1,005	88
- Retirement benefit obligations	449	78
- Impairment of other financial assets	13,228	1,550
- Net investment in leases	1,116	155
- Unutilised tax losses	(769)	(3,646)
<b>At 31 December</b>	<b>19,455</b>	<b>3,572</b>

- (c) The balance comprises temporary differences attributable to:

	Group	
	2018	2017
Retirement benefit obligations	1,903	1,456
Impairment of other financial assets	23,489	10,261
Unutilised tax losses	13,143	13,911
<b>Total deferred tax asset before offsetting</b>	<b>38,535</b>	<b>25,628</b>
Offsetting deferred tax liability on:		
- PPE	(16,271)	(4,668)
- Net investment in leases	(2,809)	(17,388)
<b>Deferred tax asset after offsetting</b>	<b>19,455</b>	<b>3,572</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. 19Mn was recognised in respect of deductible temporary differences and unutilised tax losses related to Dialog Finance PLC. Deferred income tax asset of Rs. 2.6Bn (2017 - Rs. 3.4Bn) was not recognised in respect of other subsidiaries in the consolidated financial statements.

## 24 EMPLOYEE BENEFIT PAYABLES

	Note	Group		Company	
		2018	2017	2018	2017
Defined benefit obligations	(a)	1,059,635	1,002,715	868,687	819,617
Other payables	(b)	234,781	351,224	234,781	351,224
		<b>1,294,416</b>	<b>1,353,939</b>	<b>1,103,468</b>	<b>1,170,841</b>

### (a) Defined benefit obligations

(i) *The movement in the present value of defined benefit obligations over the year is as follows:*

	Group		Company	
	2018	2017	2018	2017
At 1 January	1,002,715	1,005,051	819,617	834,609
Acquisition through business combination	2,956	10,121	-	-
Current service cost	97,334	96,528	75,845	75,309
Interest expense	104,512	128,131	85,650	106,413
Total amount recognised in comprehensive income (Note 33)	201,846	224,659	161,495	181,722
Remeasurement (gains) / losses:				
- Gains from changes in financial assumptions	(126,648)	(225,705)	(108,922)	(188,960)
- (Gains) / losses from changes in demographic assumptions	(9,222)	(1,943)	(3,037)	3,063
- Experience adjustments	49,020	46,601	44,976	38,491
Total amount recognised in other comprehensive income	(86,850)	(181,047)	(66,983)	(147,406)
Benefits paid	(61,032)	(56,069)	(45,442)	(49,308)
<b>At 31 December</b>	<b>1,059,635</b>	<b>1,002,715</b>	<b>868,687</b>	<b>819,617</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 2018 by Actuaries, Messrs Actuarial & Management Consultants (Private) Limited.

#### (ii) The principal actuarial valuation assumptions used are as follows:

	Group		Company	
	2018	2017	2018	2017
Discount rate	12.35%	10.45%	12.35%	10.45%
Future salary growth rate	7.00%	7.00%	7.00%	7.00%

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 7.63%	Increase by 5.72%	Decrease by 6.21%	Increase by 6.93%
Future salary growth rate	1.00%	Increase by 6.27%	Decrease by 8.21%	Increase by 7.49%	Decrease by 6.80%

The above sensitivity analysis is 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 obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation 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 obligation is 7.31 (2017 - 8.17) years and average time to benefit pay-out is 10.92 (2017 - 10.74) years for the Company. The distribution of the timing of undiscounted benefit payments is as follows:

	Group 2018	Company 2018
Less than 1 year	88,714	74,155
Between 1-2 years	193,932	173,285
Between 2-5 years	401,309	354,314
Over 5 years	2,482,846	1,966,406
	<b>3,166,801</b>	<b>2,568,160</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 Obligation ('ARO').

	Group		Company	
	2018	2017	2018	2017
At 1 January	1,738,411	1,309,731	1,464,309	1,090,532
Amounts (reversed) / capitalised	(134,918)	241,201	(130,950)	208,950
Adjustment for fully depreciated ARO assets (Credited) / charged to the comprehensive income (Note 30)	(10,636)	(15,089)	(5,652)	(7,423)
	(4,760)	202,568	(2,995)	172,250
<b>At 31 December</b>	<b>1,588,097</b>	<b>1,738,411</b>	<b>1,324,712</b>	<b>1,464,309</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	
	2018	2017	2018	2017
Inflation rate	2.70%	7.50%	2.70%	7.50%
Discount rate	13.12%	14.41%	13.12%	14.41%

### 26 REVENUE FROM CONTRACTS WITH CUSTOMERS

#### (a) Disaggregation of revenue from contracts with customers

The Company and the Group derive revenue from the transfer of goods and services over time and at a point in time through following business lines.

Business lines	2018	
	Group	Company
Mobile operation	86,460,239	84,512,660
Fixed telephony and broadband operation	15,206,870	-
Television operation	7,489,576	-
	<b>109,156,685</b>	<b>84,512,660</b>

Timing of revenue recognition	2018	
	Group	Company
At a point in time	3,440,873	646,464
Over time	105,715,812	83,866,196
	<b>109,156,685</b>	<b>84,512,660</b>

#### (b) Assets and liabilities related to contracts with customers

##### (i) Contract costs

The Company and the Group recognised an asset in relation to costs that are directly related to the acquisition and fulfilment of customer contracts. This is presented within intangible assets in the statement of financial position.

	2018	
	Group	Company
Opening adjustment as at 1 January 2018	3,933,978	1,458,562
Addition	4,128,854	1,409,821
Amortisation	(3,261,793)	(1,197,753)
<b>Balance as at 31 December 2018</b>	<b>4,801,039</b>	<b>1,670,630</b>

**(ii) Contract liabilities**

The following table shows unsatisfied performance obligations resulting from customer contracts.

	2018	
	Group	Company
Opening adjustment as at 1 January 2018	2,071,698	509,042
Addition	2,262,869	1,298,069
Realisation	(2,349,164)	(1,264,974)
Transferred from deferred revenue	4,682,010	4,176,438
<b>Balance as at 31 December 2018</b>	<b>6,667,413</b>	<b>4,718,575</b>
Contract liabilities - current	5,847,592	4,625,337
Contract liabilities - non-current	819,821	93,238
<b>Balance as at 31 December 2018</b>	<b>6,667,413</b>	<b>4,718,575</b>

**(iii) Revenue recognised in relation to contract liabilities**

During the current year the Company and the Group recognised Rs. 169Mn and Rs. 1,047Mn respectively as revenue that was included in the contract liability balance at the beginning of the year.

**(iv) Unsatisfied long-term contracts**

Management expects that 90.64% (Rs. 85Mn) and 81% (Rs. 667Mn) of the transaction price allocated to the unsatisfied long-term contracts as of 31 December 2018 will be recognised as revenue by the Company and the Group respectively during the 2020 financial year. The remaining 9.36% (Rs. 9Mn) and 19% (Rs. 153Mn) will be recognised during the 2021 financial year by the Company and the Group respectively.

## Notes to the Financial Statements

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

### 27 EXPENSES BY NATURE

	Group		Company	
	2018	2017	2018	2017
Directors' fees	122,662	88,055	98,155	78,788
Independent Auditor's remuneration				
- audit fees	18,867	15,840	8,453	7,251
- other permitted services	18,724	18,788	17,742	13,299
Fees for other professional services	297,605	145,946	237,797	83,821
Depreciation, impairment and amortisation	27,028,557	19,109,074	17,445,719	13,190,305
Domestic interconnection and international origination cost	10,301,114	6,665,394	7,770,308	6,605,482
Telecommunication development charge	2,587,565	2,850,335	2,587,565	2,850,335
Provision for impairment of trade receivables	1,283,932	761,017	428,865	254,726
Marketing, advertising and promotion	12,314,871	13,216,935	10,668,637	11,660,409
Rental for site and office premises	4,588,903	4,302,644	5,611,633	5,341,852
Electricity for site and office premises	3,507,753	3,226,741	2,799,604	2,483,128
Annual maintenance services	3,919,521	3,253,429	3,268,056	2,711,206
Staff costs (Note 28)	11,230,507	7,254,108	8,880,824	5,850,538
Telecommunication regulatory charges	2,156,509	2,193,647	1,818,072	1,836,400
Revenue share expenses	2,094,838	2,516,732	2,094,838	2,516,732
International network cost	1,593,524	1,491,403	1,692,266	1,618,330
Outbound roaming cost	1,011,917	960,989	1,011,917	960,989
Call centre services charges	65,435	145,525	403,541	359,593
Device and accessories consumption cost	3,814,515	2,106,188	933,878	2,106,188
Other operating costs	8,299,240	9,116,059	3,922,140	3,255,580
<b>Total direct costs, administrative costs and distribution costs</b>	<b>96,256,559</b>	<b>79,438,849</b>	<b>71,700,010</b>	<b>63,784,952</b>

## 28 EMPLOYEE BENEFIT EXPENSES

	Note	Group		Company	
		2018	2017	2018	2017
Wages, salaries and others	(a)	7,098,068	3,766,737	5,643,611	3,015,179
Social security costs		3,100,718	2,537,004	2,431,348	2,078,690
Defined contribution plans		829,875	725,708	644,370	574,947
Defined benefit obligation	24	201,846	224,659	161,495	181,722
		<b>11,230,507</b>	<b>7,254,108</b>	<b>8,880,824</b>	<b>5,850,538</b>
Number of persons employed as at 31 December					
- full time		4,121	3,987	2,893	2,747

- (a) The Group embarked on an organisation transformation journey in 2017 to accelerate simplification and digitisation of business activities, processes and competencies to fully leverage on capabilities of digital platforms and technologies. One-off costs related to settling of obligations of this program is estimated to be Rs. 2.5Bn which has been provided for in the financial statements during 2018 and classified under wages and salaries.

## 29 OTHER INCOME

Other income of the Company and the Group consist of gain on remeasurement of previously held equity interest and other sundry income.

## 30 FINANCE INCOME AND COSTS

	Group		Company	
	2018	2017	2018	2017
Interest income on deposits (Note 33)	274,350	244,612	311,725	286,046
<b>Finance income</b>	<b>274,350</b>	<b>244,612</b>	<b>311,725</b>	<b>286,046</b>
Interest expenses on:				
- bank overdrafts	(20,022)	(18,406)	(388)	(783)
- term loans	(2,209,634)	(1,639,597)	(2,182,462)	(1,358,018)
- finance cost on asset retirement obligations (Note 25)	4,760	(202,568)	2,995	(172,250)
Net foreign exchange losses on foreign currency transactions / translations	(5,223,704)	(738,646)	(4,678,473)	(516,391)
<b>Finance costs</b>	<b>(7,448,600)</b>	<b>(2,599,217)</b>	<b>(6,858,328)</b>	<b>(2,047,442)</b>
<b>Finance costs - net</b>	<b>(7,174,250)</b>	<b>(2,354,605)</b>	<b>(6,546,603)</b>	<b>(1,761,396)</b>

## Notes to the Financial Statements

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

### 31 INCOME TAX EXPENSE

	Group		Company	
	2018	2017	2018	2017
Current tax	2,008,852	1,674,610	1,997,918	1,629,875
Economic service charge	108,630	(1,894)	-	-
Deferred income tax charged to comprehensive income	-	1,775	-	-
Deferred income tax credited to comprehensive income	(16,737)	-	-	-
	<b>2,100,745</b>	<b>1,674,491</b>	<b>1,997,918</b>	<b>1,629,875</b>

- (a) 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').
- (b) Upon expiry of the tax exemption period granted under the agreement entered into between Dialog Broadband Networks (Private) Limited ('DBN') and the BOI, the business profit of DBN is subjected to a corporate tax of 15% with effect from the year 2011.
- (c) Upon expiry of the tax exemption period granted under the agreement entered into between Dialog Television (Private) Limited ('DTV') and the BOI, the business profit of DTV was 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.
- (d) The business profit of Dialog Device Trading (Private) Limited, Digital Holdings Lanka (Private) Limited, Digital Health (Private) Limited, Digital Commerce Lanka (Private) Limited, Dialog Business Services (Private) Limited, Dialog Finance PLC and Headstart (Private) Limited are subjected to a corporate tax of 28%.
- (e) 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.

(f) The tax on profit before tax differs from the theoretical amount that would arise using the applicable tax rate to profit is as follows:

	Group		Company	
	2018	2017	2018	2017
Profit before tax	9,550,212	12,434,246	6,357,255	12,131,146
Tax at the standard tax rate of 28%	2,674,059	3,481,589	1,780,031	3,396,721
Tax effects on:				
- Income not subject to tax	-	(12,388)	-	(12,388)
- Associates results reported net of tax	401	3,759	-	-
- Expenses not deductible for tax purposes	109,928	243,780	-	-
- Unrecognised deferred income tax	91,808	(103,293)	-	-
- Utilisation of previously unrecognised tax losses	(486,271)	(930)	-	-
- Adjustment for revenue based tax (Note b)	77,344	(1,754,458)	77,344	(1,754,458)
- Rate differentials (Note c and d)	(598,960)	(222,760)	-	-
Under provision for previous years	140,543	39,311	140,543	-
Net (reversal) / charge of deferred income tax	(16,737)	1,775	-	-
ESC expense / write off	108,630	(1,894)	-	-
	<b>2,100,745</b>	<b>1,674,491</b>	<b>1,997,918</b>	<b>1,629,875</b>

## 32 EARNINGS PER SHARE

(a) 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	
	2018	2017	2018	2017
Profit for the year attributable to ordinary shareholders	7,501,334	10,785,424	4,359,337	10,501,271
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>0.92</b>	<b>1.32</b>	<b>0.54</b>	<b>1.29</b>

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

### (b) Dividend per share

The Company has declared and paid final dividend of Rs. 0.46 per share amounting to Rs. 3,746,138,066 for the financial year 2017 (2016 - Rs. 0.39 per share amounting to Rs. 3,176,073,578).

# 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	
	2018	2017	2018	2017
Profit before tax	9,550,212	12,434,246	6,357,255	12,131,146
<b>Adjustments for:</b>				
Exchange losses	4,810,469	597,641	4,693,091	573,989
Provision for impairment of trade receivables	1,283,932	761,017	428,865	254,726
Bad debts written back	(131,021)	(106,086)	(124,255)	(509,559)
(Profit) / loss on sale of property, plant and equipment	(60,647)	14,201	(60,589)	(24,862)
Interest expense	2,229,656	1,658,003	2,182,850	1,358,801
Finance cost on asset retirement obligation (Note 30)	(4,760)	202,568	(2,995)	172,250
Interest income (Note 30)	(274,350)	(244,612)	(311,725)	(286,046)
Amortisation charge (Note 7)	5,840,729	2,227,572	3,292,211	1,683,928
Depreciation charge (Note 8)	20,142,248	16,827,822	13,406,363	11,438,934
Impairment and write off of non-current assets	1,045,580	53,680	747,145	67,443
Release of TDC disbursement (Note 22)	(200,597)	(231,790)	(200,192)	(210,584)
Site abandonment costs	(10,636)	(15,089)	(5,652)	(7,423)
Defined benefit obligation (Note 24)	201,846	224,659	161,495	181,722
Impairment of slow moving inventory	307,393	63,594	(42,949)	54,194
Remeasurement gain of previously held equity	(16,841)	-	-	-
Share of (profit) / loss from associates (Note 10)	(1,432)	13,426	-	-
Net loss of financial instruments at fair value through comprehensive income	515	90	-	-
Changes in working capital				
- Trade and other receivables	(5,054,000)	2,278,274	(11,768,307)	1,206,673
- Other financial assets	(238,296)	110,493	-	-
- Inventories	551,081	(262,960)	140,026	133,888
- Trade payables	(6,639,945)	1,961,109	1,312,787	2,416,542
- Other financial liabilities	(230,790)	(236,470)	-	-
<b>Cash generated from operations</b>	<b>33,100,346</b>	<b>38,331,388</b>	<b>20,205,423</b>	<b>30,635,762</b>

**(b) Reconciliation of liabilities arising from financing activities**

	Group		Company	
	2018	2017	2018	2017
<b>Bank Borrowings</b>				
At 1 January	33,268,014	32,550,959	33,084,190	32,355,371
Proceeds from borrowings	14,635,337	7,095,635	13,963,439	6,164,055
Repayments of borrowings	(7,102,234)	(7,107,399)	(6,439,176)	(6,164,055)
Foreign exchange adjustments	5,142,067	508,961	5,142,067	508,961
Other non-cash movements	(7,887)	219,858	(7,887)	219,858
<b>At 31 December</b>	<b>45,935,297</b>	<b>33,268,014</b>	<b>45,742,633</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 below:

**(i) Inquiry by Sri Lanka Customs**

In August 2008, Sri Lanka Customs ('SLC') detained a shipment of CDMA Customers' Premises Equipment ('CPE') belonging to Dialog Broadband Networks (Private) Limited ('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 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. 1.6Bn. DBN has instituted legal action challenging the order made by SLC in the Court of Appeal under Case No: CA (Writ) 166/2018. The matter was supported on 28 November 2018.

SLC was directed to file objections on or before 15 February 2019, DBN to file counter objections on or before 12 April 2019, parties to file written submissions on 30 May 2019. The case is listed for Argument on 19 and 20 June 2019. The Directors are of the opinion that no material liability would result from the inquiry.

**(ii) Guarantee given by the Company against pending litigations**

On 3 March 2014 DBN, through its parent company Dialog Axiata PLC, provided to Electroteks Network Services (Private) Limited ('Electroteks') a bank guarantee of Rs. 1Bn and a corporate guarantee of Rs. 3.2Bn to terminate proceedings in the Execution of Writ Pending Appeal application instituted by Electroteks in HC (Civil) 282/2001 to execute the judgment delivered by the Commercial High Court in Electrotek's favour on 9 March 2012 in the said action, pending the appeal (S.C. [CHC] Appeal No. 53/2012) preferred by DBN to the Supreme Court seeking to set aside the said judgment of 9 March 2012.

The Supreme Court by its unanimous judgment dated 14 December 2018 allowed DBN's appeal and set aside the judgment of the Commercial High Court dated 9 March 2012 in Case No. 282/2001(1). Therefore, the contingent liabilities relating to the aforesaid guarantees are now extinguished.

## Notes to the Financial Statements

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

### 34 CONTINGENCIES (CONTD.)

#### (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	
	2018	2017	2018	2017
Corporate guarantees	8,842	8,842	8,842	8,842
Bank guarantees	351,280	388,812	317,278	212,391
	<b>360,122</b>	<b>397,654</b>	<b>326,120</b>	<b>221,233</b>

### 35 COMMITMENTS

#### (a) Capital commitments

	Group		Company	
	2018	2017	2018	2017
Purchase of telecommunication equipment	13,247,486	11,939,945	7,518,901	6,573,148

#### (b) Financial commitments

At the end of the financial reporting period, the Group has the following annual commitments:

	2018	2017
Annual fees to the Board of Investment of Sri Lanka	3,428	2,095
Rental for site and office premises	3,931,897	3,676,979
Annual maintenance contracts	3,888,256	3,402,157

### 36 INCORPORATIONS AND ACQUISITIONS

(i) 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 year ended 31 December 2018. The resultant goodwill on acquisition was Rs. 76Mn.

Following table summarises the consideration paid, the fair value of the assets acquired and liabilities assumed at the acquisition date.

	Rs.'000
Purchase consideration	106,431
Fair value of assets acquired and liabilities assumed are as follows:	
Intangible assets	22,581
Property, plant and equipment	8,772
Receivables and prepayments	42,351
Cash and cash equivalents	19
Defined benefit obligation	(2,278)
Deferred tax liability	(854)
Trade and other payables	(10,712)
Total net assets of acquiree	59,879
Less: Non-controlling interests	(29,585)
Add: Goodwill on acquisition	76,137
	<b>106,431</b>

#### **Acquisition of subsidiary, net of cash acquired**

Purchase consideration	106,431
Conversion of convertible bonds to shares	(26,816)
Fair value of previously held equity interest	(79,615)
Cash acquired	19
<b>Net cash inflow - investing activities</b>	<b>19</b>

(ii) 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. 131Mn and SAPD holds the remaining 65% stake with an investment of Rs. 488Mn.

(iii) Digital Commerce Lanka (Private) Limited ('DCL'), a subsidiary of the Company, issued and allotted 62,578,036 new ordinary shares in DCL to Digital Holdings Lanka (Private) Limited ('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.

(iv) Digital Holdings Lanka (Private) Limited ('DHL'), a wholly owned subsidiary of the Company issued and allotted 119,330,693 new ordinary shares in DHL to the Company. Subsequent to the above, the Company holds 119,330,694 shares in DHL. This share issue has not changed the composition of the Group.

## Notes to the Financial Statements

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

### 36 INCORPORATIONS AND ACQUISITIONS (CONTD.)

- (iv) 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%.
- (vi) Dialog Finance PLC ('DFP'), formerly known as Colombo Trust Finance PLC, 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. 599Mn 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.
- (vii) Dialog Television (Private) Limited, 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. 205Mn 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.
- (viii) Firstsource-Dialog Solutions (Private) Limited ('FDSL'), 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 FDSL, 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 FDSL, representing 26% of the total shareholding. This share buyback has not changed the composition of the Group.

### 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.

All related party transactions were entered into in the normal course of business and at prices available at negotiated terms. The names of these related parties, nature of these transactions and their total value have been set out in accordance with the provisions of LKAS 24: "Related Party Disclosure".

The Group provides telecommunication services as part of its ordinary operations. These telecommunication services are carried out on commercial terms that are negotiated and agreed upon between the parties.

- (b) **The related parties with whom the Company had transactions in the ordinary course of business are set out below:**

Rendering of services:	Relationship	Company	
		2018	2017
(i) Axiata Group Berhad - Other revenue	Ultimate parent	10,459	-

Rendering of services:	Relationship	Company	
		2018	2017
(ii) Dialog Broadband Networks (Private) Limited	Subsidiary		
- Site sharing revenue		305,471	314,476
- International private lease circuits and satellite bandwidth revenue		546,430	441,442
- Voice revenue		59,463	75,585
- Local interconnection voice and SMS revenue		107,394	105,427
- International interconnection		137,825	-
(iii) Dialog Television (Private) Limited	Subsidiary		
- Satellite bandwidth service		5,623	5,623
(iv) Digital Commerce Lanka (Private) Limited	Subsidiary		
- Other revenue		6,695	4,508
- Voice revenue		1,541	-
(v) Dialog Business Services (Private) Limited	Subsidiary		
- Voice revenue		2,025	1,416
(vi) Headstart (Private) Limited	Subsidiary		
- E-learning services		1,124	-
(vii) Axiata Lanka (Private) Limited	Affiliate		
- Rendering of management services		18,724	5,217
(viii) Telekom Malaysia Berhad	Affiliate		
- International private lease circuits revenue		22,137	22,489
- Interconnection revenue		34,078	29,055
(ix) Multinet Pakistan (Private) Limited	Affiliate		
- Interconnection revenue		5,093	10,680
(x) M1 Limited (Singapore)	Affiliate		
- Interconnection revenue		288,872	227,544
(xi) PT XL Axiata Tbk	Affiliate		
- Inbound roaming		5	13
- Interconnection revenue		29	105

## 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.):

Rendering of services:	Relationship	Company	
		2018	2017
(xii) Celcom Axiata Berhad	Affiliate		
- Interconnection revenue		514,836	224,642
- Inbound roaming		527	435
- Other revenue		519	6,220
(xiii) Smart Axiata Company Limited	Affiliate		
- Interconnection revenue		3,240	128,594
- Inbound roaming		55	8
- Corporate solutions		1,852	-
- Other revenue		13,433	29,016
(xiv) Axiata Digital Services Sdn Berhad	Affiliate		
- Other revenue		136,116	234,551
(xv) Ncell (Private) Limited	Affiliate		
- Inbound roaming		296	307
- Corporate solutions		9,761	86,909
- Interconnection revenue		48,771	4,594
(xvi) Robi Axiata Limited	Affiliate		
- Inbound roaming		15	26
- Corporate solutions		9,670	9,254
- Other revenue		1,475	-
(xvii) Apigate Sdn Berhad	Affiliate		
- Other revenue		8,884	-
(xviii) PT Axiata Digital Services Indonesia	Affiliate		
- Other revenue		91,989	-
(xix) Axiata Digital Advertising Sdn Berhad	Affiliate		
- Other revenue		8,722	-
(xx) Idea Cellular Limited	Affiliate		
- Interconnection revenue		42,413	16,845
		<b>2,445,562</b>	<b>1,984,981</b>

Purchase of services:	Relationship	Company	
		2018	2017
(i) Axiata Group Berhad	Ultimate parent		
- Head office support charges		418,234	332,308
(ii) Dialog Broadband Networks (Private) Limited	Subsidiary		
- Infrastructure sharing cost		69,271	69,271
- Data lease line cost		102,943	101,333
- Transmission sharing cost		5,416	9,460
- Telephone charges		172,105	136,452
- Incoming local access charges, outgoing local access charges		83,843	110,505
- Interconnection charges		55,209	56,947
- Fibre sharing costs		1,435,555	1,401,672
- Site sharing rent		1,800	1,496
- Office rent		5,940	5,940
(iii) Dialog Television (Private) Limited	Subsidiary		
- Initial connection fees for DAP staff		2,270	2,593
- Subscription fees for DAP staff		1,238	1,237
- Advertising		8,574	1,533
(iv) Dialog Device Trading (Private) Limited	Subsidiary		
- Commission charges		434,602	155,699
(v) Headstart (Private) Limited	Subsidiary		
- Annual maintenance		1,031	-
(vi) Dialog Business Services (Private) Limited	Subsidiary		
- Call centre charges		257,612	163,109
(vii) Firstsource Dialog Solutions (Private) Limited	Associate		
- Call centre charges		-	60,494
(viii) Axiata Lanka (Private) Limited	Affiliate		
- Rental charges		21,262	20,837
(ix) Telekom Malaysia Berhad	Affiliate		
- Origination costs		76,011	3,751
- Other network costs		32,694	30,896
- Foreign wet for costs		1,404	14,448

## 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	
		2018	2017
(x) M1 Limited (Singapore)	Affiliate		
- Origination cost		18,349	5,785
(xi) PT XL Axiata Tbk	Affiliate		
- Outbound roaming		558	576
- Interconnection charges		1,594	888
- Foreign wet cost		-	330
(xii) Smart Axiata Company Limited	Affiliate		
- Origination cost		44	81
- Outbound roaming		261	254
(xiii) Celcom Axiata Berhad	Affiliate		
- Origination cost		1,985	4,608
- Outbound roaming		1,305	1,327
(xiv) edotco Services Lanka (Private) Limited	Affiliate		
- Tower related services		154,872	203,177
(xv) Robi Axiata Limited	Affiliate		
- Outbound roaming cost		470	482
(xvi) Ncell (Private) Limited	Affiliate		
- Origination cost		468,585	1,165,554
- Outbound roaming cost		1,098	1,523
(xvii) Idea Cellular Limited	Affiliate		
- Origination cost		-	7,774
(xviii) Axiata Digital Services Sdn Berhad	Affiliate		
- Revenue share		388	156
(xix) WSO2. Telco (Private) Limited	Affiliate		
- Salary reimbursement - secondment staff		20,261	17,678
		<b>3,856,784</b>	<b>4,090,174</b>
<b>Other transactions:</b>			
<b>(i) Funds made available to related parties:</b>			
Dialog Broadband Networks (Private) Limited	Subsidiary	-	981,000
Digital Holdings Lanka (Private) Limited [Note 36(iv)]	Subsidiary	157,275	25,000
Digital Commerce Lanka (Private) Limited	Subsidiary	-	60,000
		<b>157,275</b>	<b>1,066,000</b>

Purchase of services:	Relationship	Company	
		2018	2017
<b>(ii) Deposits in financial institutions:</b>			
Dialog Finance PLC	Subsidiary	180,496	231,560
		<b>180,496</b>	<b>231,560</b>

**(c) Key management personnel include members of the Senior Management of Dialog Axiata PLC:**

	Company	
	2018	2017
Short-term employee benefits	448,581	356,474
Defined benefit plans	150,665	131,787
	<b>599,246</b>	<b>488,261</b>

**(d) Outstanding receivable balances arising from related company transactions:**

	Group		Company	
	2018	2017	2018	2017
<b>Non-current receivables (Note 14)</b>				
- Digital Holdings Lanka (Private) Limited	-	-	-	405,175
	-	-	-	<b>405,175</b>
<b>Current receivables (Note 14)</b>				
- Multinet Pakistan (Private) Limited	2,855	5,183	2,855	5,183
- M1 Limited (Singapore)	42,750	40,768	42,750	40,768
- Celcom Axiata Berhad	31,199	93	31,199	93
- Smart Axiata Company Limited	23,890	38,162	23,890	38,162
- PT XL Axiata Tbk	284	2,003	283	2,003
- PT Axiata Digital Services Indonesia	15,323	-	15,324	-
- Telekom Malaysia Berhad	22,774	4,537	22,774	4,537
- Robi Axiata Limited	86,567	81,641	86,560	75,550
- Idea Cellular Limited	5,263	2,270	5,263	2,270
- Digital Commerce Lanka (Private) Limited	-	-	1,130	210,911
- edotco Group Berhad	572	10,102	572	10,102
- edotco Services Lanka (Private) Limited	120,874	-	120,874	-
- Axiata Digital Service Sdn Berhad	65,613	163,619	65,613	163,619
- Axiata Management Services Sdn Berhad	2,603	688	2,603	688
- Axiata Business Services Sdn Berhad	48	868	48	868
- Axiata Digital Advertising Sdn Berhad	14,530	-	14,530	-
- Axiata Digital Labs (Private) Limited	1,964	-	1,964	-
- Apigate Sdn Berhad	8,884	-	8,884	-
- WSO2.Telco (Private) Limited	38,952	-	38,952	-
- WSO2 Lanka (Private) Limited	5,633	-	5,633	-
- WSO2.Telco Inc	160	-	160	-
- Digital Health (Private) Limited	-	-	103,677	51,687
- Digital Holdings Lanka (Private) Limited	-	-	-	4,492
- Dialog Axiata Digital Innovation Fund (Private) Limited	-	-	-	7,500

## Notes to the Financial Statements

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

### 37 RELATED PARTY TRANSACTIONS (CONTD.)

#### (d) Outstanding receivable balances arising from related company transactions (Contd.):

	Group		Company	
	2018	2017	2018	2017
- Firstsource Dialog Solutions (Private) Limited	-	44	-	44
- Dialog Finance PLC	-	-	42,290	914
- Dialog Business Services (Private) Limited	-	-	295	-
- Dialog Television (Private) Limited	-	-	1,333,360	143,598
- Dialog Device Trading (Private) Limited	-	-	3,298,544	405,804
- Dialog Broadband Networks (Private) Limited	-	-	8,684,222	2,607,670
	<b>490,738</b>	<b>349,978</b>	<b>13,954,249</b>	<b>3,776,463</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	
	2018	2017	2018	2017
<b>Amount due to ultimate parent company (Note 18)</b>				
- Axiata Group Berhad	1,361,268	799,663	1,361,268	799,663
<b>Amounts due to related companies (Note 18)</b>				
- Axiata Investment (Labuan) Limited	-	2,646,249	-	2,646,249
- Axiata Lanka (Private) Limited	62,856	63,915	62,856	63,915
- Telekom Malaysia Berhad	205,352	176,768	205,352	176,768
- Celcom Axiata Berhad	-	99,636	-	99,636
- Axiata Management Services Sdn Berhad	4,298	4,298	4,298	4,298
- Smart Axiata Company Limited	78	84	78	84
- PT XL Axiata Tbk	116	712	116	712
- Axiata Digital Services Sdn Berhad	491	120	491	120
- Robi Axiata Limited	69,233	69,233	69,233	69,233
- Ncell (Private) Limited	7,189	212,185	7,189	212,185
- Idea Cellular Limited	504	-	504	-
- edotco Services Lanka (Private) Limited	218,972	95,197	168,105	90,027
- Digital Commerce Lanka (Private) Limited	-	-	10,391	16,335
- Dialog Business Services (Private) Limited	-	-	18,482	69,180
- Dialog Television (Private) Limited	-	-	3,590	1,361
- Dialog Finance PLC	-	-	8,514	-
- Headstart (Private) Limited	-	-	2,903	-
- M1 Limited	20,425	173	20,425	173
- Dialog Broadband Networks (Private) Limited	-	-	7,669	-
	<b>589,514</b>	<b>3,668,570</b>	<b>590,196</b>	<b>3,450,276</b>

The above balances are settled in the ordinary course of business.

(f) Investment in short term deposits

	Group		Company	
	2018	2017	2018	2017
- Dialog Finance PLC	-	-	412,056	231,560
	-	-	<b>412,056</b>	<b>231,560</b>

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 CHANGES IN ACCOUNTING POLICIES

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

Adjustments to the statement of financial position as at 1 January 2018 from first time adoption of SLFRS 9, 'Financial Instruments', and SLFRS 15, 'Revenue from Contracts with Customers', are as below:

Group	Note	Balance as at 31 Dec 2017	Impact from SLFRS 9	Impact from SLFRS 15	Balance as at 1 Jan 2018
<b>Non-current assets</b>					
Intangible assets	(a)	19,118,899	-	3,758,854	22,877,753
<b>Current assets</b>					
Other financial assets	(c)	775,059	(44,934)	-	730,125
<b>Equity and reserves</b>					
Reserves		33,583,241	(44,934)	1,687,156	35,225,463
<b>Non-current liabilities</b>					
Deferred revenue	(b)	1,394,415	-	(260,574)	1,133,841
Contract liabilities	(b)	-	-	1,033,678	1,033,678
<b>Current liabilities</b>					
Trade and other payables	(b)	41,098,872	-	(4,160,744)	36,938,128
Contract liabilities	(b)	-	-	5,459,338	5,459,338

## Notes to the Financial Statements

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

### 38 CHANGES IN ACCOUNTING POLICIES (CONTD.)

Company	Note	Balance as at 31 Dec 2017	Impact from SLFRS 9	Impact from SLFRS 15	Balance as at 1 Jan 2018
<b>Non-current assets</b>					
Intangible assets	(a)	6,403,659	-	1,458,562	7,862,221
<b>Equity and reserves</b>					
Reserves		46,178,818	-	949,520	47,128,338
<b>Non-current liabilities</b>					
Contract liabilities	(b)	-	-	121,810	121,810
<b>Current liabilities</b>					
Trade and other payables	(b)	28,873,036	-	(3,517,770)	25,355,266
Contract liabilities	(b)	-	-	3,905,002	3,905,002

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	31 Dec 2018 (reported)
<b>Non-current assets</b>					
Intangible assets	(a)	18,472,781	-	4,345,677	22,818,458
<b>Current assets</b>					
Other financial assets	(c)	885,031	(50,013)	-	835,018
<b>Equity and reserves</b>					
Reserves		36,853,659	(50,013)	2,360,275	39,163,921
<b>Non-current liabilities</b>					
Deferred revenue	(b)	1,062,707	-	(124,670)	938,037
Contract liabilities	(b)	-	-	819,821	819,821
<b>Current liabilities</b>					
Trade and other payables	(b)	41,014,039	-	(4,557,340)	36,456,699
Contract liabilities	(b)	-	-	5,847,592	5,847,592

<b>Company</b>	<b>Note</b>	<b>Before SLFRS 9 and SLFRS 15 adjustments</b>	<b>Impact from SLFRS 9</b>	<b>Impact from SLFRS 15</b>	<b>31 Dec 2018 (reported)</b>
<b>Non-current assets</b>					
Intangible assets	(a)	6,295,416	-	1,670,630	7,966,046
<b>Equity and reserves</b>					
Reserves		46,774,078	-	1,128,493	47,902,571
<b>Non-current liabilities</b>					
Contract liabilities	(b)	-	-	93,238	93,238
<b>Current liabilities</b>					
Trade and other payables	(b)	32,172,528	-	(4,176,438)	27,996,090
Contract liabilities	(b)	-	-	4,625,337	4,625,337

#### Statement of comprehensive income

<b>Group</b>	<b>Before SLFRS 9 and SLFRS 15 adjustments</b>	<b>Impact from SLFRS 9</b>	<b>Impact from SLFRS 15</b>	<b>For the year ended 31 Dec 2018 (reported)</b>
Revenue	108,497,397	-	659,288	109,156,685
Direct costs	(57,731,195)	-	(1,139,833)	(58,871,028)
Distribution costs	(15,333,395)	-	952,024	(14,381,371)
Administration costs	(23,200,658)	(5,139)	201,637	(23,004,160)
Profit before tax	8,882,235	(5,139)	673,116	9,550,212

<b>Company</b>	<b>Before SLFRS 9 and SLFRS 15 adjustments</b>	<b>Impact from SLFRS 9</b>	<b>Impact from SLFRS 15</b>	<b>For the year ended 31 Dec 2018 (reported)</b>
Revenue	84,912,659	-	(399,999)	84,512,660
Direct costs	(42,640,638)	-	(131,643)	(42,772,281)
Distribution costs	(12,843,650)	-	710,613	(12,133,037)
Profit before tax	6,178,284	-	178,971	6,357,255

## Notes to the Financial Statements

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

### 38 CHANGES IN ACCOUNTING POLICIES (CONTD.)

#### (a) Intangible assets

In accordance with provisions of SLFRS 15, 'Revenue from Contracts with Customers', 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 comprehensive income. 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 comprehensive income prior to 1 January 2018.

#### (b) Contract liabilities

According to the provisions of SLFRS 15, 'Revenue from Contracts with Customers', 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.

#### (c) Other financial assets

The Company's and the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate categories as described in SLFRS 9, 'Financial Instruments'. The main effects resulting from this reclassification are as follows:

Group	FVTPL	FVOCI	Held to maturity	Available for sale	Amortised cost
Closing balance as at 31 December 2017 as per LKAS 39	1,762	-	60,126	25,346	975,094
Reclassify investment from available-for sale to amortised cost	-	-	-	(25,000)	25,000
Reclassify investment from held to maturity to amortised cost	-	-	(60,126)	-	60,126
Reclassify non-trading equities from available-for-sale to Fair Value through Other Comprehensive Income ('FVOCI') (ii)	-	346	-	(346)	-
<b>Opening balance as at 1 January 2018 as per SLFRS 9</b>	<b>1,762</b>	<b>346</b>	<b>-</b>	<b>-</b>	<b>1,060,220</b>

(i) Carrying amount of the financials assets as at 1 January 2018 has not changed with above reclassification.

(ii) Investment in unlisted equity shares in Credit Information Bureau by Dialog Finance PLC were classified from available for sale to FVOCI with the implementation of SLFRS 9.

Group	FVTPL	FVOCI	Held to maturity	Available for sale	Amortised cost
Closing balance as at 31 December 2018 as per LKAS 39	1,024	-	66,334	119,815	1,013,873
Reclassify investment from available-for-sale to FVTPL	119,469	-	-	(119,469)	-
Reclassify investment from held to maturity to amortised cost	-	-	(66,334)	-	66,334
Reclassify non-trading equities from available for-sale to FVOCI	-	346	-	(346)	-
<b>Closing balance as at 31 December 2018 as per SLFRS 9</b>	<b>120,493</b>	<b>346</b>	<b>-</b>	<b>-</b>	<b>1,080,207</b>

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

#### (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, 'Financial Instruments' and SLFRS 15, 'Revenue from Contracts with Customers' as at 1 January 2018.

	Group	Company
Retained earnings as at 31 December 2017	33,583,241	46,178,818
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)	-
Adjustments to retained earnings from changes in accounting policies	1,642,222	949,520
<b>Retained earnings as at 1 January 2018</b>	<b>35,225,463</b>	<b>47,902,571</b>

### 39 EVENTS AFTER THE REPORTING PERIOD

The Board of Directors has recommended a final dividend of Rs 0.37 per share amounting to Rs. 3,013,198,010 for the financial year 2018, subject to the approval of the shareholders at the Annual General Meeting.

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 2018	2017	31 December 2018	2017
	USD '000	USD '000	USD '000	USD '000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	124,890	124,773	43,600	41,791
Property, plant and equipment	608,930	652,733	385,063	427,212
Deferred tax assets	106	23	-	-
Investment in subsidiaries	-	-	268,939	310,262
Investment in associates	723	693	-	181
Trade and other receivables	1,024	1,216	1,024	3,861
Other financial assets	2,003	1,875	-	3,045
	<b>737,676</b>	<b>781,313</b>	<b>698,626</b>	<b>786,352</b>
<b>Current assets</b>				
Inventories	6,146	5,633	351	700
Trade and other receivables	97,191	101,386	134,541	92,731
Other financial assets	4,570	5,058	-	-
Derivative financial instruments	-	93	-	93
Cash and cash equivalents	55,266	54,891	42,905	51,467
	163,173	167,061	177,797	144,991
<b>Total assets</b>	<b>900,848</b>	<b>948,374</b>	<b>876,423</b>	<b>931,343</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to equity holders</b>				
Stated capital	268,540	268,540	268,540	268,540
Reserves	284,843	250,646	327,451	317,243
Non-controlling interest	77	(34)	-	-
Currency translation difference	(185,241)	(116,615)	(179,993)	(101,004)
<b>Total equity</b>	<b>368,219</b>	<b>402,537</b>	<b>415,998</b>	<b>484,779</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Borrowings	223,121	167,260	223,121	167,260
Other financial liabilities	45	1,940	-	-
Derivative financial instruments	-	-	-	-
Deferred revenue	5,134	9,100	5,134	7,400
Contract liabilities	4,487	-	510	-
Employee benefit payables	7,085	8,836	6,040	7,641
Provision for other liabilities	8,692	11,345	7,250	9,556
	<b>248,564</b>	<b>198,481</b>	<b>242,055</b>	<b>191,857</b>
<b>Current liabilities</b>				
Trade and other payables	195,066	268,217	148,761	188,428
Borrowings	49,328	71,567	39,338	60,821
Other financial liabilities	2,519	1,849	-	-
Contract liabilities	32,005	-	25,315	-
Current income tax liabilities	5,147	5,723	4,957	5,458
	284,065	347,356	218,371	254,707
<b>Total liabilities</b>	<b>532,629</b>	<b>545,837</b>	<b>460,426</b>	<b>446,564</b>
<b>Total equity and liabilities</b>	<b>900,848</b>	<b>948,374</b>	<b>876,423</b>	<b>931,343</b>
Exchange rate	182.708	153.230	182.708	153.230

# US Dollar Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME

For Information purpose only

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
	USD '000	USD '000	USD '000	USD '000
Revenue	671,567	617,850	519,949	508,966
Direct costs	(362,193)	(322,993)	(263,149)	(266,010)
Gross profit	309,374	294,857	256,800	242,956
Distribution costs	(88,479)	(92,727)	(74,646)	(74,813)
Administrative costs	(141,529)	(105,335)	(103,326)	(77,555)
Provision write back	22,753	-	-	-
Other income	767	297	561	537
Operating profit	102,886	97,092	79,389	91,125
Finance income	1,688	1,604	1,918	1,876
Finance costs	(45,826)	(17,049)	(42,195)	(13,430)
Finance costs - net	(44,138)	(15,445)	(40,277)	(11,554)
Share of loss from associates - net of tax	9	(88)	-	-
Profit before income tax	58,757	81,559	39,112	79,571
Income tax	(12,924)	(10,983)	(12,292)	(10,691)
<b>Profit for the year</b>	<b>45,833</b>	<b>70,576</b>	<b>26,820</b>	<b>68,880</b>
<b>Other comprehensive income:</b>				
<b>Items that will not be reclassified to profit or loss</b>				
- remeasurements of defined benefit obligation	534	1,188	412	967
<b>Items that may be subsequently reclassified to profit or loss</b>				
- net change in cash flow hedge	(138)	247	(138)	247
<b>Other comprehensive income for the year</b>	<b>396</b>	<b>1,435</b>	<b>274</b>	<b>1,214</b>
<b>Total comprehensive income for the year</b>	<b>46,229</b>	<b>72,011</b>	<b>27,094</b>	<b>70,094</b>
Profit / (loss) for the year attributable to:				
- owners of the Company	46,152	70,744	26,820	68,880
- non-controlling interest	(319)	(168)	-	-
Total comprehensive income for the year attributable to:				
- owners of the Company	46,548	72,179	27,094	70,094
- non-controlling interest	(319)	(168)	-	-
Annual average exchange rates	162.540	152.458	162.540	152.458

# Group Value Added Statement

For the year ended 31 December

	2018 Rs.'000	2017 Rs.'000
<b>Value added</b>		
Revenue	109,156,685	94,195,890
Provision write back	3,698,280	-
Other operating income	124,624	45,236
Interest income	274,350	244,612
	<b>113,253,939</b>	<b>94,485,738</b>
Cost of materials and services bought in	(51,532,872)	(45,304,479)
<b>Value creation</b>	<b>61,721,067</b>	<b>49,181,259</b>
<b>Distribution of value added</b>		
<b>To employees</b>		
Salaries and other benefits	11,230,507	7,254,108
<b>To government</b>		
Taxes, fees and levies (Note 1)	8,510,655	9,017,746
<b>To lenders of capital</b>		
Interest on borrowings	2,229,656	1,658,003
	<b>2,229,656</b>	<b>1,658,003</b>
<b>To shareholders as dividends</b>		
Dividend to shareholders	3,746,138	3,176,074
	<b>3,746,138</b>	<b>3,176,074</b>
<b>Retained in the business</b>		
Profit retained	10,021,134	9,019,935
Depreciation and amortisation	25,982,977	19,055,394
	<b>36,004,111</b>	<b>28,075,329</b>
	<b>61,721,067</b>	<b>49,181,259</b>
<b>Distribution of value added</b>		
To employees	18.20%	14.75%
To government	13.79%	18.34%
To lenders of capital	3.61%	3.37%
To shareholders as dividends	6.07%	6.46%
Retained in the business	58.33%	57.09%

Note 1: Includes direct taxes, fees and levies

# Five Year Summary

31 December	GROUP				
	2018 Rs.'000	2017 Rs.'000	2016 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>OPERATING RESULTS</b>					
Turnover	109,156,685	94,195,890	86,745,233	73,929,855	67,285,594
Operating Profit	16,723,030	14,802,277	12,915,206	9,496,779	8,053,788
Finance costs	(7,174,250)	(2,354,605)	(2,363,340)	(2,759,010)	(615,961)
Share of loss from associate	1,432	(13,426)	(8,119)	(32,906)	(107,639)
Profit before tax	9,550,212	12,434,246	10,543,747	6,704,863	7,330,188
Profit after tax	7,449,467	10,759,755	9,026,395	5,187,326	6,097,750
Total comprehensive income	7,513,925	10,978,455	9,279,934	5,340,145	5,872,250
<b>CAPITAL EMPLOYED</b>					
Stated capital	28,103,913	28,103,913	28,103,913	28,103,913	28,103,913
Hedging reserve	-	22,391	(15,262)	(6,663)	(39,337)
Share payment reserve	132,784	16,341	-	-	-
Retained earnings	39,031,137	33,544,509	25,917,809	19,220,402	16,767,714
Shareholders fund	67,267,834	61,687,154	54,006,460	47,317,652	44,832,290
Non-controlling interest	9,120	(6,158)	14,420	(697)	-
Total debt	49,778,716	36,595,480	34,185,577	25,407,241	29,911,528
	<b>117,055,670</b>	<b>98,276,476</b>	<b>88,206,457</b>	<b>72,724,196</b>	<b>74,743,818</b>
<b>ASSETS EMPLOYED</b>					
Property, plant & equipment	111,256,617	100,018,295	89,943,822	79,060,275	71,264,570
Other non-current assets	23,523,227	19,702,336	16,546,284	17,461,762	16,633,699
Current assets	29,813,163	25,598,921	26,687,929	22,068,127	24,280,875
Liabilities, net of debt	(47,537,337)	(47,043,076)	(44,971,578)	(45,865,968)	(37,435,326)
	<b>117,055,670</b>	<b>98,276,476</b>	<b>88,206,457</b>	<b>72,724,196</b>	<b>74,743,818</b>
<b>CASH FLOW</b>					
Net cash generated from operating activities	29,325,473	35,153,771	23,005,415	21,478,374	24,614,465
Net cash used in investing activities	(31,926,719)	(31,352,878)	(28,110,150)	(16,614,148)	(17,004,152)
Net cash generated from / (used in) financing activities	3,826,886	(3,435,205)	6,108,731	(8,654,251)	(345,790)
Net increase/(decrease) in cash and cash equivalents	1,225,640	365,688	1,003,996	(3,790,025)	7,264,523
<b>KEY INDICATORS</b>					
Basic Earnings Per Share (Rs.)	0.92	1.32	1.11	0.64	0.76
Interest Cover (Times)	8.55	10.47	12.03	28.12	15.48
Net Asset Per Share (Rs.)	8.26	7.57	6.63	5.81	5.50
Current Ratio (Times)	0.57	0.48	0.55	0.43	0.65
Price Earnings Ratio (Times)	10.97	9.82	9.46	16.72	17.50
Dividend Per share	0.37	0.46	0.39	0.32	0.13
Dividend Yield (%)	3.7	3.5	3.7	3.0	1.0
Market Price Per Share (Rs.)	10.1	13.0	10.5	10.7	13.3

# Group Real Estate Portfolio

Owning company and location	Buildings in sq feet	Land in acres freehold	Net book value	
			2018 Rs. '000	2017 Rs. '000
<b>Properties in Colombo</b>				
<b>Dialog Axiata PLC</b>				
No.475, Union Place, Colombo 02	74,255		310,096	323,047
No.25, Samarakoon Mawatha, Thumbowila, Piliyandala	22,506		34,573	36,013
Foster Lane Car Park and Training Centre No 475, Union Place Colombo 02,	61,266		310,658	319,243
New office Building	147,600		1,373,319	1,411,208
<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	567,654	567,286
No.55/2C, Old Avissawella Road, Kotikawatta	12,360	0.48	33,466	34,234
DBN Site, De Soysa Road, Mount Lavinia		0.17	44,428	44,428
Kaluandura, Puwakkptiya, 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, Imbaulakannya, Gamunu Road, Homagama		0.09	779	779
DBN Site, Homagama		0.07	1,646	1,646
<b>Properties outside Colombo</b>				
<b>Dialog Broadband Networks (Private) Limited</b>				
Saliya Mawatha ,Anuradhapura		1.92	7,778	7,778
Punachchiminal 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
Hanthana,Kandy		0.25	2,133	2,133
Kurana,Negombo		0.12	1,380	1,380
Ketakelelahawatta,Panadura		0.17	1,960	1,960
Katugasthota,Kandy		0.08	1,413	1,413
<b>Dialog Finance PLC</b>				
No.21, Kumara Veediya, Kandy	3,040	0.02	18,364	33,371
<b>Furnishing and fixtures on</b>				
<b>leaseholding building</b>				
			619,908	527,059
<b>Total land and building</b>			<b>3,497,520</b>	<b>3,480,943</b>

# Notice of Annual General Meeting

## DIALOG AXIATA PLC (PQ 38)

NOTICE IS HEREBY GIVEN THAT THE TWENTY SECOND ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON WEDNESDAY, 12 JUNE 2019 AT 4:00 PM AT THE BISHOPS COLLEGE AUDITORIUM, NO. 11, PERAHERA MAWATHA, COLOMBO 3.

### 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 2018 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, Mr. James Maclaurin 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. Dominic Paul Arena, 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, Dato' Mohd Izzaddin Idris, 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, Mr. Vivek Sood, who was appointed to the Board since the last Annual General Meeting pursuant to Article 109 of the Articles of Association of the Company.

### 7. ORDINARY RESOLUTION 7

To re-elect as a Director, Datuk Azzat Kamaludin, who attained the age of 73 years on 8 September 2018 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.

### 8. ORDINARY RESOLUTION 8

To re-elect as a Director, Mr. Mohamed Muhsin, who attained the age of 75 years on 16 October 2018 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.

### 9. ORDINARY RESOLUTION 9

To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants, as Auditors to the Company and to authorise the Directors to determine their remuneration.

### 10. ORDINARY RESOLUTION 10

To authorise the Directors to determine and make donations.

By Order of the Board



**Ms. Viranthi Attygalle**

*Group Company Secretary*

30 April 2019

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 22nd Annual General Meeting

**DATE** : Wednesday, 12 June 2019  
**TIME** : 4:00 PM  
**VENUE** : The Bishop's College Auditorium,  
No. 11, Perahera Mawatha,  
Colombo 3

## REGISTRATION

1. Registration will be from 3:00 PM to 4:00 PM.
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.

## FOOD AND BEVERAGE

6. Please proceed to collect your refreshment from the refreshment counter upon producing your refreshment token.
7. Please note that food and beverages will not be permitted inside the meeting hall as per the Auditorium Management policy.

## HELP DESK

8. Please proceed to the Help Desk for any clarification or queries.
9. The Help Desk will also handle revocation of proxy's appointment.

## ENTITLEMENT TO ATTEND AND VOTE

10. 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

11. 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.
12. 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.
13. 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.
14. 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 4:00 PM on 10 June 2019.

## ENQUIRIES

15. 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.





# 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 Second Annual General Meeting of the Company to be held on 12 June 2019 at 4:00 PM and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

Resolutions	For	Against
<b>Ordinary Business:</b>		
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		
Ordinary Resolution 10		

(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.

## 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 4:00 PM on 10 June 2019.
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. Dominic Paul Arena  
Tan Sri Jamaludin Ibrahim - *Alternate Director to Mr. Dominic Paul Arena*  
Mr. Willem Lucas Timmermans  
Dato' Mohd Izzaddin Idris  
Mr. Vivek Sood

## 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: +94 777 088 412  
E-mail: corporate.communications@dialog.lk

## SUBSIDIARY COMPANIES

- Dialog Broadband Networks (Pvt) Ltd - 100%
  - ▶ Teletcard (Pvt) Ltd - 100%
  - ▶ Digital Reality (Pvt) Ltd - 35%
- Dialog Television (Pvt) Ltd - 100%
  - ▶ Communiq Broadband Network (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 - 53.20%
  - ▶ Headstart (Pvt) Ltd - 50.59%
  - ▶ Dialog Axiata Digital Innovation Fund (Pvt) Ltd
    - 25% (Ordinary Shares)
    - 95.16% (Preference Shares)
- Dialog Device Trading (Pvt) Ltd - 100%
- Dialog Business Services (Pvt) Ltd - 100%
- Dialog Finance PLC - 98.88%

## ASSOCIATE COMPANIES

- Firstsource-Dialog Solutions (Pvt) Ltd - 26%

[www.dialog.lk](http://www.dialog.lk)