

Business and Financial Review

BUSINESS AND FINANCIAL REVIEW

2015 proved to be a formidable year due to the prevalent intense competition and enforcement of new legislation succeeding the National Budget 2015 which impacted the corporate community in its entirety and the telecommunication industry specifically. Despite such challenging circumstances Dialog Group consolidated its position as Sri Lanka's premier connectivity provider, by achieving strong top line growth while maintaining robust operational momentum.

The consolidated financial performance of Dialog Group comprises Dialog Axiata PLC ("the Company") and of the Dialog Axiata Group ("the Group") post-consolidation with subsidiaries Dialog Broadband Networks (Pvt) Ltd ("DBN"), Dialog Television (Pvt) Ltd ("DTV") and Digital Holdings Lanka (Pvt) Ltd. During 2015, Dialog, through Digital Holdings Lanka increased its stake in Digital Commerce Lanka ("DCL") the operator of WoW.lk, to 100%.

Continuing its positive performance trajectory, the Group delivered consolidated revenue of Rs. 73.9Bn for the FY2015, a significant double digit growth of 10% YoY ("Year on Year"), underpinned by strong

growth across its Mobile, Digital Pay Television, Tele-Infrastructure and Fixed Line businesses.

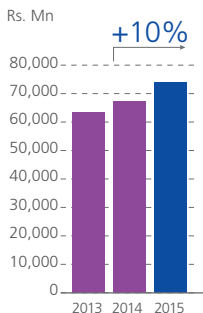
Despite the impact of 25% Pre-paid bonus pursuant to the National Budget 2015, voice revenue registered a 3% increase YoY as a result of aggressive regional campaigns carried out throughout the year, positive market response to new products launched and the 14% YoY growth in subscribers.

Data revenue continued to grow exponentially to record a YoY revenue growth of 64%, led by the significant growth in small screen revenue achieved through increased Smartphone take up supported by data related infrastructure coverage expansion and upgrades.

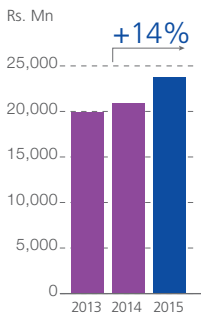
DBN delivered a robust revenue increase of 19% YoY, mainly driven by the significant growth in fixed 4G-LTE revenue on the back of its substantial increase in subscribers YoY.

Further DTV recorded strong revenue growth of 23% YoY led by aggressive sales drive executed during the year as well as the introduction of new affordable pre-paid packages.

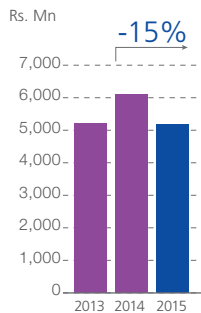
Group Revenue



Group EBITDA



Group PAT





Group total operating cost grew by 8% YoY, as a result of the increases in revenue driven cost in line with growth in revenue, increase in advertising & marketing cost and internet port & bandwidth charges.

Advertising & marketing recorded a significant YoY growth due to increased aggression with respect to promotions executed during the year, targeting higher subscriber additions across business lines.

Higher internet and bandwidth charges compared to previous year led by the additional bandwidth acquired to cater to the growing data usage.

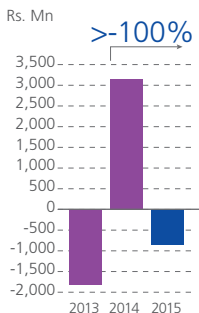
Further FY 2015 cost is inclusive of Mobile Licence levy amounting to Rs. 250Mn.

On the back of substantial revenue growth as well as operational efficiencies derived through cost management initiatives, Group EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) for FY 2015 delivered a strong growth of 14% YoY to reach Rs. 23.8Bn. The Group EBITDA margin for FY 2015 was accordingly recorded at 32.2%.

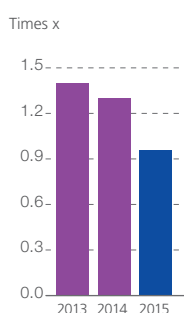
However, notwithstanding robust growth in all operational performance metrics, the Group was significantly impacted by non-cash, translational foreign exchange losses to the value of Rs. 2.2Bn during the year, resulting from the depreciation of the LKR relative to the USD by 9.2% YoY. Group NPAT ("Net Profit After Tax") was posted at Rs. 5.2Bn for FY 2015, a contraction of 15% YoY. Group NPAT post normalisation for the non-cash translational foreign exchange losses was recorded at Rs. 7.4Bn for FY 2015, representing an increase of 18% YoY relative to the FY 2014 on similarly normalized basis.

Group capital expenditure for FY 2015 was recorded at Rs.19.6Bn and was in line with the Group's relentless strategic pursuit to deliver a consistent, high-speed broadband service to cater the profound increase in demand for data consumption, which has been accelerated by the growing popularity and affordability of Smartphones and tablets. Accordingly, capital expenditure was directed in the main towards expanding and upgrading the broadband network footprint to enhance customer experience alongside the extension of the Group's Optical Fibre Network to support robust seamless connectivity, and investments

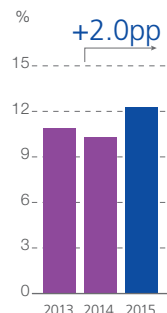
Group Free Cash Flow



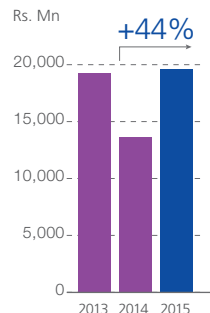
Group Gross Debt to EBITDA



ROIC



Capex



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associated with the final phase of the Bay of Bengal Gateway (BBG) Sub-Marine Cable project to strengthen end-to-end connectivity across the world.

As a result of the significant increase in YoY capex, Operating Free Cash Flow for FY 2015 was marginally negative at Rs. 864Mn. However notwithstanding the expansion of capital investments, the Group continued to exhibit a structurally robust balance sheet with the Net Debt to EBITDA ratio being maintained at a healthy 0.78x as at end December 2015.

The Group remitted a total of Rs. 27.6Bn to the Government of Sri Lanka (GoSL) in the form of taxes and levies during the financial year ended 31st December 2015. Total remittances included direct taxes and levies as well as consumption taxes collected on behalf of the GoSL. Direct taxes, fees and levies contributed by the Group totalled Rs. 12.7Bn inclusive of income tax. The Group additionally collected consumption taxes, totalling Rs. 14.9Bn on behalf of the GoSL for FY 2015, comprising in the main of Telecom Levy collections amounting to Rs. 11.7Bn.

GROUP FINANCIAL INDICATORS

| Rs. Mn | 2015 | 2014 | YOY |
|---|--------|--------|---------|
| Revenue | 73,930 | 67,286 | 10% |
| EBITDA ¹ | 23,824 | 20,895 | 14% |
| NPAT | 5,188 | 6,098 | -15% |
| Capex ² | 19,577 | 13,630 | 44% |
| Operating Free Cash Flows (OFCF) ³ | -864 | 3,146 | > -100% |

GROUP FINANCIAL RATIOS

| | 2015 | 2014 | YOY |
|-------------------|-------|-------|--------|
| EBITDA margin | 32.2% | 31.1% | 1.1pp |
| NPAT margin | 7.0% | 9.1% | -2.1pp |
| Capex to revenue | 26.5% | 20.3% | 6.2pp |
| OFCF to revenue | -1.2% | 4.7% | -5.9pp |
| ROIC ⁴ | 12.3% | 10.3% | 2pp |
| Debt/Equity ratio | 0.48 | 0.62 | (0.14) |

1 EBITDA : Earnings before interest, taxation, depreciation and amortisation

2 Capex : Capex excluding Customer Premises Equipment investments and intangibles

3 OFCF : EBITDA - Capex including CPE & intangibles - Tax excluding deferred taxation

4 ROIC : EBIT after tax divided by average invested capital

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DIALOG AXIATA PLC – BUSINESS OVERVIEW

The operations of Dialog Axiata PLC include Mobile, International, Tele-Infrastructure and Digital Service businesses. Despite the competitive environment, the Company remained the most preferred telecom service provider and Internet service provider of the year in 2015.

Industry Outlook

Sri Lanka witnessed a rapid transition in the telecommunication industry during the year. The country's mobile communication sector displays sophistication parallel to any advanced nations and propelled in terms of scale, rapid technology migration and adoption of Smart and other connected devices. The mobile industry in Sri Lanka exhibited an accelerating growth in mobile subscribers due to technological advancement, wider coverage of network and affordability of services. At the end of 2015, Sri Lanka's mobile subscriber base surpassed 22Mn, which results in a penetration of more than 100%. However, one-fifth of the population is estimated to have more than one mobile subscription, offer significant room for further growth.

Dialog's Performance

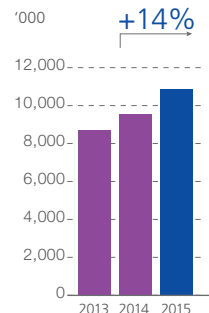
Dialog continues to be the premier mobile communication provider by offering competitive and

futuristic services. The subscriber base of the Company reached 10.9Mn at the end of the year against 9.5Mn in the previous year. Despite multifaceted challenges, the Company continued to remain the most preferred mobile operator and undisputed leader while further strengthening of subscriber market share by 1.9pp.

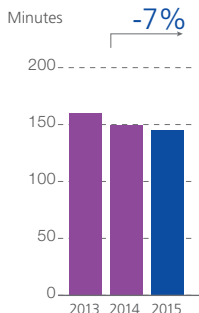
Usage Drive

Whilst growing subscriber base influx revenue, the Company also focused to drive usage with prudently executed marketing promotions. Based on the insights and experience gained from a previous promotional campaign 'Lord of the Reload', Dialog re-launched "Lord of the Reload - Mega Wasana" promotion during the year with a new appearance. It has cemented its position as Sri Lanka's largest and most rewarding lucky draw programme designed to reward and recognise the customer base of over 10Mn. The promotion enabled customers to win cash prizes when the draw numbers received for every prepaid top-up or post-paid bill payment match the winning numbers. Winning draw numbers are made available at the end of each week. This transparent process makes the lucky draw programme unique to its precedent as well as other promotions in the market driving the acquisitions and recharges during the FY2015.

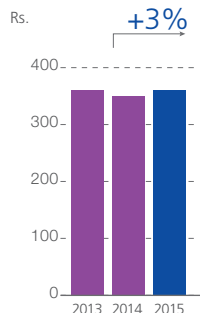
Mobile Subscribers



Blended MOUs



Blended ARPUs





The Company successfully introduced over 20 value-added services and a range of specialised product offerings to suit the needs of various customer segments in order to drive usage. 'MyPlan', a revolutionary new package was launched during the year. This was initiated with the premise that individual preferences are different and flexibility is needed to create their own post-paid plan with combinations of Dialog to Dialog minutes, Dialog to Non-Dialog minutes, Dialog to Dialog SMS, Dialog to Non-Dialog SMS and Data. The novel concept received tremendous reception in the market. 'Prepaid services for post-paid customers', which was launched in 2014 to give post-paid customer the flexibility to choose selected services with prepaid mode, has gained its growth momentum during the year where the active user base grew by 144% YoY.

Another example of Dialog's novelty is "Suraksha", an easy-to-use mobile safety device especially for kids and their parents. Incoming and outgoing calls on the device are restricted to four individual contacts specified by the parents or the child's guardians, whilst it is also armed with a one-touch SOS dial button that can be used at a time of emergency. The unit serves as a tracking device allowing parents to view the location of their child. This innovative service is considered as timely solution for the growing needs of the society.

Broadband Demand will Fuel Future Growth

Despite the current dominance in voice connectivity service, the industry growth acceleration is driven by mobile broadband service. During the course of 2015, Sri Lanka's mobile broadband penetration increased to 16.3% from 13.5% in 2014. The adoption is driven by wider and deeper network coverage, attractive tariffs, and mounting Smartphone penetration. Dialog's Mobile Broadband subscriber base showed a noteworthy 64% growth during the year, signalling the competitive advantage the Company holds in the broadband sphere.

The growing number of Smartphones and other advanced devices are increasing the use of data-intensive applications, such as gaming and video

streaming on mobile networks. Dialog also witnessed a similar trend with the firm growth in mobile gaming subscriber base in 2015. The Company extended its gaming portfolio with the launch of "Kitmania", which is a subscription based service to download or play online games from a range of categories such as Arcade, Action, Puzzle, Sports and Adventure. Aiming to provide the best gaming experience, the Company set up local gaming servers on Dialog's Data Centre and delivered low latency multiplayer gaming for the Sri Lankan gamers. To drive the high level of engagement, the Company launched 'Sri Lanka Gamers Leaderboard', which brought a new dimension to competitive gaming in Sri Lanka. In addition, the Company continued to power 'online gaming tournaments' as well as 'Sri Lanka Cyber Games' in partnership with Gamer.lk, the prominent gaming community in Sri Lanka.

Dialog's video streaming service 'MyTV' experienced twofold increase in monthly average revenue registered and significant growth in active subscriber base which grew to over 200,000 during 2015. Further, the Company also introduced many attractive mobile data usage drive promotions such as 'Facebook pack', 'Pre-paid reload based data packages', 'Night time data package for Rs. 95' and 'Internet card-Bonus Data offer'.

Accelerating Rate of Smartphone Adoption

The increasing proportion of mobile data connections largely reflects the accelerating rate of Smartphone adoption. According to the GSMA, Smartphone adoption rate of Sri Lanka has reached over 30% of the connection base, which is primarily driven by digitisation, advancement of lifestyles and increasing affordability and availability of devices. Correspondingly, Smartphone adoption within the Dialog network grew by 11 percentage points (pp) to 30% in 2015 from 19% in 2014. The Company was able to achieve substantial growth in adoption rate due to competitive and market relevant offerings.

In the view of empowering the bottom end of the pyramid to enjoy the latest technology and services, the Company launched Sri Lanka's lowest priced android Smartphone for Rs. 6,990 during 2015. In addition, Dialog launched the revolutionary new

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consumer financing service “Lesi Pay” in April 2015, to create affordability to all Sri Lankans through attractive easy payment schemes to purchase Smartphones, tabs and other group services for a monthly or daily installment starting as low as Rs. 200 per month. In addition to meeting the needs of low end users, the Company also launched flagship devices such as Samsung Galaxy S6, Samsung Galaxy Note 5 and Apple iPhone 6S in partnership with leading brands to bring the latest technologies to all Sri Lankans.

Network Expansion

In commitment to provide high quality customer experience, the Company expanded its network coverage in 2015. At the end of 2015, Dialog has over 4,300 2G base stations spread across the country. The Company continues to upgrade 2G sites catering to basic mobile users. While 2G remains the principal network technology, Dialog fast-tracked the expansion of 3G, Mobile 4G-LTE and Fixed 4G-LTE base stations, by 25%, 165% and 80% respectively during the year to cater to the exponential growth in data traffic.

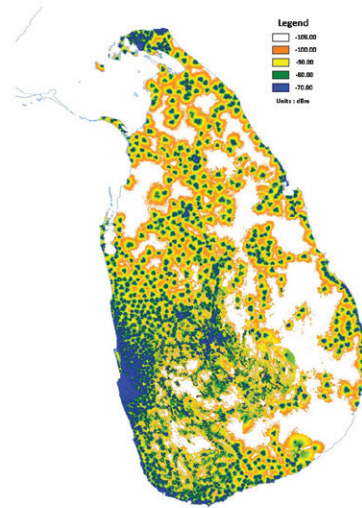


Figure 2: 3G Coverage

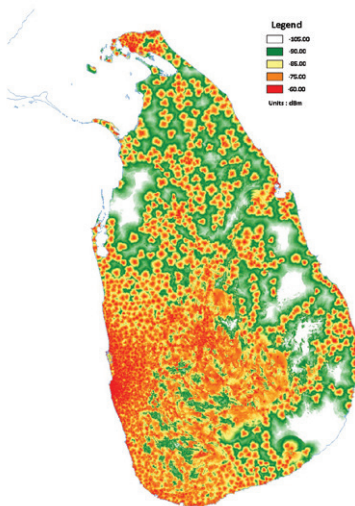


Figure 1: 2G Coverage

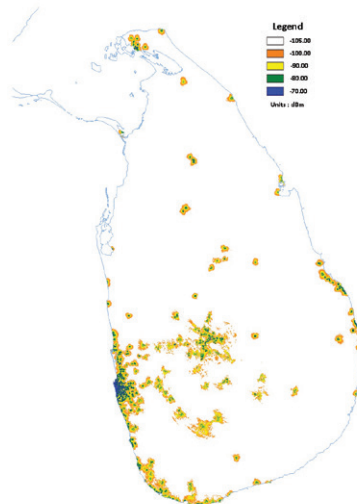


Figure 3: Fastest Expanding Mobile 4G-LTE Network



Roaming and IDD Services

All roaming services were moved to real time charging in 2015, eliminating bill surprises for customers. As a benefit of online charging, most of the services could be charged, billed, notified and controlled in real time. The Company launched “Budget setter” service during the year, which allows post-paid customers to adjust the spending limit by themselves. This was a vital feature for roaming customers as it permits them to control their spending according to usage requirement. In addition, this plan will allow customers to increase their credit limit up to three times of normal credit limit on a call. The Budget Setter service is expected to bring peace-of-mind to the roaming customers by allowing them to control their roaming expenses conveniently.

In response to growing foreign travel and tourism, Dialog reinforced its presence beyond borders by successfully expanding its international roaming network. Dialog’s overall voice roaming collaboration reached 641 operators and 229 countries around the globe. The Company signed roaming agreements with 26 GSM operators and added 4 countries to its roaming footprint during the year. The Company also expanded its roaming footprint on GPRS, 3G, and CAMEL to 201, 166, and 182 destinations respectively, with the effort to meet the needs of the customers to be connected at all times. During the course of the year, the Company also expanded its LTE roaming footprint and coverage to 101 operators and 55 destinations.

Company’s Infrastructure Arm- DTI

DTI, the Company’s infrastructure arm, continues to be the forerunner in provision of active and passive telecommunication infrastructure services in Sri Lanka. DTI serves all licensed operators and broadcasters with their passive infrastructure and transmission requirements. In view of providing high capacity and reliable backhaul transmission services, Dialog expanded its optical fibre network distance by about 40%, connecting cities across the island.

Digital Service

During the year 2015, Dialog continued to invest aggressively to expand its digital infrastructure and digital services eco-system investing in new technologies and further strengthening existing products and services. In keeping with its brand promise of delivering the future today, the disruptive technology “Ideamart” was awarded ‘Best Technology Enabler’ at the 20th Mobile World Congress (MWC) held in Barcelona, Spain. Ideamart is an open application programming interface (API) platform that enables businesses locally and internationally to utilise existing telco inventory and build its own portfolio of services. ‘Sunlight Lights Up My Nation’ campaign is a great example of Ideamart’s technological agility, which allowed people to participate in a Pahan Pooja by simply dialing a mobile number. This initiative won the Bronze Award under the Brand Awareness category at the recently concluded Smarties Awards in New York.

Dialog’s Mobile Money Service ‘eZ Cash’ exhibited 34% YoY growth in subscribers with a served customer base in excess of 2.2Mn with total transaction volume reaching Rs.11.9Bn during 2015. The first interoperable mobile money platform in the world was further strengthened with Hutch joining the platform. Growth was underpinned by focus on rural retail consumer activation programmes, strategic tie-ups with the addition of large strategic merchants from both the private and government sectors increasing consumer choice to transact using eZ Cash. The inward remittance product where consumers can receive money direct to the mobile saw rapid ecosystem expansion with leading international remittance players such as HomeSend, Mozido and Express Money joining our network.

To further strengthen its leadership position in the e-commerce space, Dialog, through Digital Holdings Lanka, increased its stake in Digital Commerce Lanka (DCL), which operates WoW.lk, to 100% during the year. DCL is a new company, it took over the business and brand only of anything.lk, successfully transitioned from a daily deals site to a fully-fledged online retail

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store. WoW.lk offers an expansive catalogue of over 15,000 products from over 1,000 recognised merchants whilst offering consumers the convenience of multiple payment options including the option to pay in cash at the point of delivery which has been well received by consumers. Wow.lk was ranked No.1 in the list of top startups ranked by startupranking.com and is also one of three Sri Lankan entities to be listed within the top 1,000 startups in the world.

Dialog has made significant strides in uplifting digital education in Sri Lanka by diversifying the product offering in its education portal, Guru.lk. The solution delivered through both small and large screen access mediums now serve over 150,000 customers across 4 market segments namely secondary, professional, lifestyle and corporate learning. During the year Dialog acquired 26% stake in HeadStart (Pvt) Ltd., a leading e-learning content development company. HeadStart enables Guru to diversify its corporate training portfolio thus facilitating the delivery of a complete 360 degree digital education offering to its consumers.

Dialog's mobile insurance service has received remarkable reception in 2015, as it achieved the feat of crossing the 1Mn subscriber mark through its accident and hospitalisation support packages. With insurance penetration in Sri Lanka remaining moderate, Dialog's mobile insurance products are considered to be the most convenient and affordable option for vast majority of consumers.

During the year Digital services expanded its product offering to the health sector by incorporating 'Digital Health (Private) Limited', a joint venture between Digital Holdings Lanka, the Company's fully owned subsidiary, and Asiri Hospital Holdings PLC. Digital Health offers state-of-the-art integrated e-commerce infrastructure, through the provision of digitally enabled medical appointment management to several other innovative new elements for Sri Lanka's digital health care value chain.

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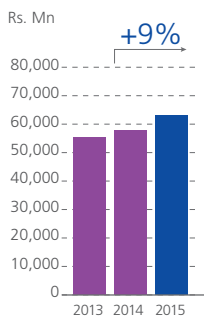
Continuing to leverage on its position as the market leader the Company, representing the key mobile operations of the Group, delivered revenue of Rs. 62.9Bn for FY 2015 on the strength of its 10.9Mn subscriber base. The resulting strong YoY revenue growth of 9% was driven by the increase in voice revenue as well as the significant growth in Data revenues. VAS and SMS revenues also increased steadily YoY.

Underpinned by strong revenue growth and positive outcomes driven by the strong cost management discipline adopted throughout the year, the Company EBITDA recorded a growth of 10% YoY to reach Rs. 20.3Bn for FY 2015, translating to an EBITDA margin of 32.3%.

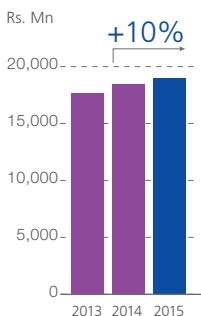
Notwithstanding healthy performance in Revenue and EBITDA, Company NPAT was impacted by non-cash translational foreign exchange losses amounting to Rs. 2.0Bn.

Accordingly Company NPAT contracted by 17% YoY to be recorded at Rs. 5.7Bn for FY 2015. On normalising for the exceptional non cash translation foreign exchange losses, Company NPAT was recorded at Rs. 7.8Bn for FY 2015, representing an increase of 9% YoY.

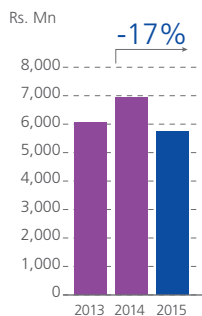
Revenue



EBITDA



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DIALOG BROADBAND NETWORKS – BUSINESS OVERVIEW

Dialog Broadband Networks (DBN) serves over 500,000 individuals and corporates providing multiple services including fixed telephony, hosted PABX offerings, broadband, internet leased lines, data communication, Internet Data Centre (iDC), converged ICT solutions, telecommunication infrastructure, transmission and backbone services.

DBN continued its robust growth in the Fixed Telecommunications sector driven by strong Home Broadband and Enterprise Solution sales. The Home Broadband has started its fruition with over two fold growth in active subscriber base. DBN continued to invest in its fixed 4G-LTE network, focusing on coverage, speed and quality enhancements to ensure best in class broadband services is available to a larger base of customers.

Dialog Broadband Network's Internet Data Centre (iDC) received ISO 27001 certification (ISO 27001:2013) during the course of the year, becoming the first and only Sri Lankan service provider to receive this prestigious accreditation for meeting the highest standards of information security. The year also saw the launch of 'Cumulus', a cloud service portfolio. The portfolio encompasses Virtual IT Infrastructure, Enterprise Storage and Data Backup, Messaging Solutions, Development Platforms, Device Management, Business Applications, Productivity Solutions, and Managed Security solutions. Cumulus brings together the knowledge and strengths of Dialog's best-in-class communications technology, delivering unmatched broadband connectivity options, and state-of-the-art cloud infrastructure of global

technology partners, to provide Sri Lankan businesses with a truly local cloud experience, built to global standards with the unmatched Dialog service promise. Cumulus is hosted at leading Dialog Internet Data Centers (iDC) whilst partnering with world's leading technology companies and cloud thought leaders including Ericsson, EMC, Fortinet, Hewlett Packard, Kingslake, and Microsoft.

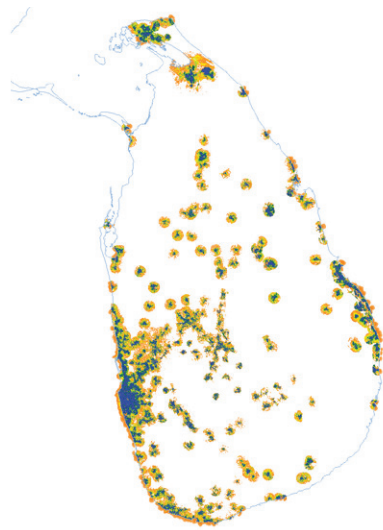


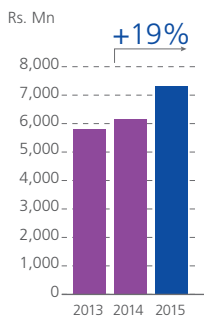
Figure 4: Expanding Fixed 4G-LTE Network

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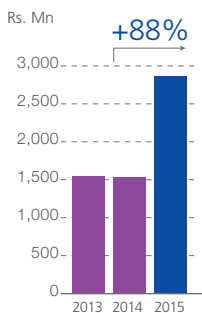
DBN consolidated its position by delivering a revenue growth of 19% YoY to record revenue of Rs. 7.3Bn for FY 2015, which contributed 8% of Group revenue. Robust revenue growth was achieved mainly via the significant growth in fixed 4G-LTE base as a result of the aggressive acquisition drive carried during the year backed by development of new channels as well as optimum monetisation of existing channels.

Further strong revenue growth and operating cost efficiencies combined to record DBN EBITDA at Rs. 2.9Bn for FY 2015, which translates to an increase of 88% YoY. Accordingly, the Net Loss for FY 2015 recorded at Rs.133Mn signaled a significant improvement in bottom line profitability relative to the Net Loss of Rs. 941Mn recorded in FY 2014.

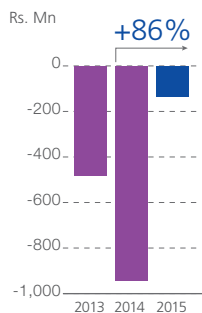
Revenue



EBITDA

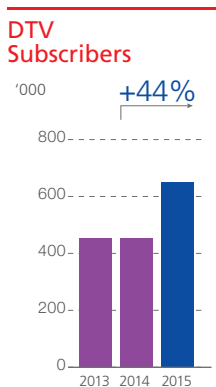


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DIALOG TELEVISION – BUSINESS OVERVIEW



Dialog Television (DTV), the Group's Pay Television business continues to be in the forefront of the pay television industry of Sri Lanka. The Company serves as the window to the world by bringing the widest range of knowledge, information and entertainment from across Sri Lanka and the globe via latest digital satellite technology. DTV caters to the diverse infotainment needs of 650,000 Sri Lankan homes by connecting the world to their families.

Despite the entry of new operator and fierce competition, the Company was able to add over 250,000 customers during the year and sustain the subscriber market share at over 70%. During the course of 2015, DTV continued to embark on penetrative forays, where the subscriber base showed a noteworthy 44% growth. Low Pay TV market penetration in the country, which is estimated to be less than 20%, signals promising prospect for future growth.

The Company launched its revolutionary pre-paid product 'Power Play' with 'Budget Plus' and 'Arambam' packages to cater to middle income earners who are willing to spend Rs. 300-500 per month for a lower entry barrier. This created a significant boost to the Company's sales in 2015.

In addition, DTV upgraded its transponders from MPEG 2 technology to MPEG 4 technology with the view of adding more channels and enhancing visual quality. DTV introduced over twenty five new channels during 2015, where the Company had an extensive assortment of more than 110 standard Definition (SD) and High Definition (HD) channels at the end of 2015 including CNN, Star, HBO, Cinemax, AXN, Ten Sports, Discovery HD, AXN HD, Nat Geo HD and a bouquet of local content.

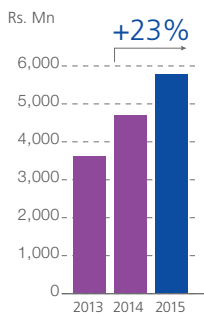
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Consolidating its strong revenue growth momentum DTV, recorded revenue of Rs. 5.8Bn for FY 2015, which accounted for 8% of Group revenue. The solid YoY revenue growth of 23% was achieved on the back of increases in both subscription and connection revenues as a result of the expansion in subscriber base.

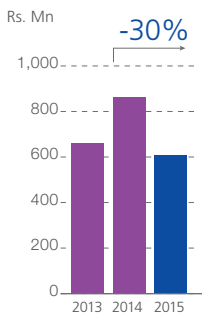
During the fourth quarter, number of DTV subscribers surpassed the 600,000 milestone to reach a base of 650,000 subscribers as at end of FY 2015.

DTV engaged in an aggressive service and product enhancement programme during 2015 to facilitate the expansion of channel genres and the launch of new prepaid product offerings. Cost expansion arising from aggressive customer acquisition alongside aforementioned service and product expansion activities, resulted in a medium term contraction in DTV's EBITDA by 30% on a YoY basis. DTV EBITDA for FY 2015 was recorded at Rs. 609Mn. Accordingly the contraction of EBITDA translated to an equivalent negative impact on NPAT leading to a Net Loss of Rs. 314Mn for FY 2015 compared to a Net Profit of Rs. 243Mn posted in FY 2014.

Revenue



EBITDA



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