

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

**CONSOLIDATED INTERIM FINANCIAL
STATEMENTS FOR THE THIRD QUARTER ENDED
30 SEPTEMBER 2012**



**Independent auditor's review report
To the Directors of Dialog Axiata PLC**

1 We have reviewed the accompanying statements of financial position of Dialog Axiata PLC and its subsidiaries at 30 September 2012, and the related statements of comprehensive income and cash flows for the period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

2 We conducted our review in accordance with the Sri Lanka Standard on Review Engagements 2400 applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

3 Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material respects in accordance with Sri Lanka Accounting Standard LKAS 34, Interim Financial Reporting.

31 October 2012
COLOMBO

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Statements of financial position

(all amounts in Sri Lankan Rupees thousands)

	As at 30 September 2012		As at 31 December 2011	
	Group	Company	Group	Company
ASSETS				
Non-current assets				
Property, plant and equipment	56,844,084	42,896,874	51,131,257	41,212,795
Intangible assets	9,093,608	1,484,518	3,869,456	1,619,582
Investments in subsidiaries	Nil	17,826,010	Nil	10,326,010
Investment in associate	46,219	27,742	45,108	27,742
Available-for-sale financial asset	30,596	30,596	30,596	30,596
Amount due from related companies	6,945	9,137,856	11,545	14,007,435
	66,021,452	71,403,596	55,087,962	67,224,160
Current assets				
Inventories	244,686	202,606	405,439	395,515
Trade and other receivables	10,899,614	8,539,979	10,281,499	9,023,403
Cash and cash equivalents	5,842,333	4,926,108	10,452,379	6,900,163
	16,986,633	13,668,693	21,139,317	16,319,081
Total assets	83,008,085	85,072,289	76,227,279	83,543,241
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
Stated capital	28,103,913	28,103,913	28,103,913	28,103,913
Shares in ESOS trust	(1,990,921)	(1,990,921)	(1,990,921)	(1,990,921)
Dividend reserve - ESOS	331,425	331,425	291,781	291,781
Revaluation reserve	166,218	131,712	128,469	93,798
Retained earnings	9,642,229	18,786,782	6,619,841	15,660,087
Total equity	36,252,864	45,362,911	33,153,083	42,158,658
LIABILITIES				
Non - current liabilities				
Borrowings	15,610,658	15,610,658	17,017,956	17,017,956
Deferred income tax liabilities	Nil	Nil	2,013,771	2,013,771
Retirement benefit obligations	565,818	464,697	443,731	403,482
Provision for other liabilities	596,176	468,929	586,660	574,054
Deferred revenue	1,041,760	911,043	1,056,654	1,055,174
	17,814,412	17,455,327	21,118,772	21,064,437
Current liabilities				
Trade and other payables	23,217,857	16,729,111	15,836,925	14,280,082
Current income tax liabilities	91,566	80,517	63,825	60,667
Borrowings	5,631,386	5,444,423	6,054,674	5,979,397
	28,940,809	22,254,051	21,955,424	20,320,146
Total liabilities	46,755,221	39,709,378	43,074,196	41,384,583
Total equity and liabilities	83,008,085	85,072,289	76,227,279	83,543,241
Net asset per share (Rs.)	4.45	5.57	4.07	5.18

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

Signed

.....
Group Chief Financial Officer

Date : 31 October 2012

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:

Signed

.....
Director

Date : 31 October 2012

Signed

.....
Director

Date : 31 October 2012

The notes on pages 8 to 18 form an integral part of these financial statements.

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Statements of comprehensive income

(all amounts in Sri Lankan Rupees thousands)

	Nine months ended 30 September 2012		Nine months ended 30 September 2011	
	Group	Company	Group	Company
Revenue	41,525,853	36,656,191	33,569,446	30,782,552
Direct costs	(23,774,150)	(20,427,857)	(18,579,109)	(16,693,108)
Gross margin	17,751,703	16,228,334	14,990,337	14,089,444
Other operating income	51,666	37,486	63,983	53,414
Administrative costs	(6,501,909)	(5,403,500)	(6,087,298)	(4,811,804)
Distribution costs	(5,220,445)	(4,728,664)	(4,777,045)	(4,432,732)
Operating profit	6,081,015	6,133,656	4,189,977	4,898,322
Net finance costs	(2,955,621)	(2,946,873)	(238,189)	(239,466)
Share of profit from associate (net of tax)	1,110	Nil	6,638	Nil
Profit before tax	3,126,504	3,186,783	3,958,426	4,658,856
Tax	1,966,240	1,972,933	(408,803)	(403,334)
Profit for the period	5,092,744	5,159,716	3,549,623	4,255,522
Total comprehensive income for the period	5,092,744	5,159,716	3,549,623	4,255,522
Attributable to:				
Equity holders of the Company	5,092,744	5,159,716	3,549,623	4,255,522
Earnings per share attributable to the ordinary shareholders of the Company (expressed in Rs per share)				
- Basic	0.638	0.646	0.445	0.533
- Diluted	0.638	0.646	0.445	0.533

The notes on pages 8 to 18 form an integral part of these financial statements.

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Statements of comprehensive income

(all amounts in Sri Lankan Rupees thousands)

	Three months ended 30 September 2012		Three months ended 30 September 2011	
	Group	Company	Group	Company
Revenue	14,510,160	12,619,219	11,596,935	10,636,927
Direct costs	(8,430,878)	(7,119,921)	(6,051,322)	(5,511,966)
Gross margin	6,079,282	5,499,298	5,545,613	5,124,961
Other operating income	13,176	7,339	2,657	2,295
Administrative costs	(2,112,950)	(1,743,049)	(2,135,584)	(1,580,940)
Distribution costs	(1,805,052)	(1,614,105)	(1,679,286)	(1,540,489)
Operating profit	2,174,456	2,149,483	1,733,400	2,005,827
Net finance income /(costs)	293,785	282,435	(209,017)	(209,979)
Share of (Loss)/profit from associate (net of tax)	(558)	Nil	4,329	Nil
Profit before tax	2,467,683	2,431,918	1,528,712	1,795,848
Tax	2,276,514	2,277,017	(259,701)	(256,678)
Profit for the period	4,744,197	4,708,935	1,269,011	1,539,170
Total comprehensive income for the period	4,744,197	4,708,935	1,269,011	1,539,170
Attributable to:				
Equity holders of the Company	4,744,197	4,708,935	1,269,011	1,539,170
Earnings per share attributable to the ordinary shareholders of the Company (expressed in Rs per share)				
- Basic	0.594	0.590	0.158	0.193
- Diluted	0.594	0.590	0.158	0.193

Statement of changes in equity

(all amounts in Sri Lanka Rupees Thousands)

Group

	Stated capital	Shares in ESOS trust	Dividend reserve - ESOS	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2011	28,103,913	(1,990,921)	260,067	131,713	3,356,042	29,860,814
Total comprehensive income for the period	Nil	Nil	Nil	Nil	3,549,623	3,549,623
Dividend received by ESOS	Nil	Nil	31,714	Nil	Nil	31,714
Deferred tax attributable to revaluation surplus	Nil	Nil	Nil	547	Nil	547
Depreciation transfer	Nil	Nil	Nil	(3,035)	3,035	Nil
Dividend to ordinary shareholders	Nil	Nil	Nil	Nil	(1,628,756)	(1,628,756)
Balance as at 30 September 2011	28,103,913	(1,990,921)	291,781	129,225	5,279,944	31,813,942
Balance at 1 October 2011	28,103,913	(1,990,921)	291,781	129,225	5,279,944	31,813,942
Total comprehensive income for the period	Nil	Nil	Nil	Nil	1,338,866	1,338,866
Depreciation transfer	Nil	Nil	Nil	(1,031)	1,031	Nil
Deferred tax attributable to revaluation surplus	Nil	Nil	Nil	275	Nil	275
Balance at 31 December 2011	28,103,913	(1,990,921)	291,781	128,469	6,619,841	33,153,083
Balance at 1 January 2012	28,103,913	(1,990,921)	291,781	128,469	6,619,841	33,153,083
Total comprehensive income for the period	Nil	Nil	Nil	Nil	5,092,744	5,092,744
Dividend received by ESOS	Nil	Nil	39,644	Nil	Nil	39,644
Direct cost on share issue	Nil	Nil	Nil	Nil	(37,500)	(37,500)
Deferred tax attributable to revaluation surplus	Nil	Nil	Nil	40,838	Nil	40,838
Dividend to ordinary shareholders	Nil	Nil	Nil	Nil	(2,035,945)	(2,035,945)
Depreciation transfer	Nil	Nil	Nil	(3,089)	3,089	Nil
Balance at 30 September 2012	28,103,913	(1,990,921)	331,425	166,218	9,642,229	36,252,864

The notes on pages 8 to 18 form an integral part of these financial statements.

Statement of changes in equity (Contd)

(all amounts in Sri Lanka Rupees Thousands)

Company

	Stated capital	Shares in ESOS trust	Dividend reserve - ESOS	Revaluation reserve	Retained earnings	Total
Balance at 1 January 2011	28,103,913	(1,990,921)	260,067	96,820	11,444,193	37,914,072
Total comprehensive income for the period	Nil	Nil	Nil	Nil	4,255,522	4,255,522
Dividend received by ESOS	Nil	Nil	31,714	Nil	Nil	31,714
Deferred tax attributable to revaluation surplus	Nil	Nil	Nil	547	Nil	547
Depreciation transfer	Nil	Nil	Nil	(2,864)	2,864	Nil
Dividend to ordinary shareholders	Nil	Nil	Nil	Nil	(1,628,756)	(1,628,756)
Balance as at 30 September 2011	28,103,913	(1,990,921)	291,781	94,503	14,073,823	40,573,099
Balance at 1 October 2011	28,103,913	(1,990,921)	291,781	94,503	14,073,823	40,573,099
Total comprehensive income for the period	Nil	Nil	Nil	Nil	1,585,284	1,585,284
Depreciation transfer	Nil	Nil	Nil	(980)	980	Nil
Deferred tax attributable to revaluation surplus	Nil	Nil	Nil	275	Nil	275
Balance at 31 December 2011	28,103,913	(1,990,921)	291,781	93,798	15,660,087	42,158,658
Balance at 1 January 2012	28,103,913	(1,990,921)	291,781	93,798	15,660,087	42,158,658
Total comprehensive income for the period	Nil	Nil	Nil	Nil	5,159,716	5,159,716
Dividend received by ESOS	Nil	Nil	39,644	Nil	Nil	39,644
Deferred tax attributable to revaluation surplus	Nil	Nil	Nil	40,838	Nil	40,838
Dividend to ordinary shareholders	Nil	Nil	Nil	Nil	(2,035,945)	(2,035,945)
Depreciation transfer	Nil	Nil	Nil	(2,924)	2,924	Nil
Balance at 30 September 2012	28,103,913	(1,990,921)	331,425	131,712	18,786,782	45,362,911

The notes on pages 8 to 18 form an integral part of these financial statements.

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Cash flow statements

(all amounts in Sri Lankan Rupees thousands)

	Nine months ended 30 September 2012		Nine months ended 30 September 2011	
	Group	Company	Group	Company
Cash flows from operating activities				
Cash generated from operations	15,590,339	15,344,933	14,030,582	13,379,919
Interest received	285,373	249,413	152,454	146,198
TDC refund received	Nil	Nil	1,646,941	1,646,941
Interest paid	(217,389)	(216,075)	(166,199)	(166,135)
Tax paid	(96,731)	(86,755)	(86,693)	(82,112)
Retirement benefit obligations paid	(68,612)	(15,061)	(10,180)	(9,998)
Net cash generated from operating activities	15,492,980	15,276,455	15,566,905	14,914,813
Cash flows from investing activities				
Purchases of property, plant and equipment	(10,365,003)	(7,671,185)	(6,283,690)	(4,906,289)
Purchases of intangible assets	(7,502)	(7,502)	(384,614)	(384,614)
Investment in subsidiary (net of cash acquired)	(3,364,760)	Nil	Nil	Nil
Investment in associate	Nil	Nil	(11,440)	(11,440)
Proceeds from sale of investment	Nil	Nil	69,190	69,190
Amounts given to subsidiaries	Nil	(3,133,848)	Nil	(847,456)
Proceeds from sale of property, plant and equipment	37,699	24,602	2,781	2,363
Net cash used in investing activities	(13,699,566)	(10,787,933)	(6,607,773)	(6,078,246)
Cash flows from financing activities				
Repayment of borrowings	(2,854,575)	(2,854,575)	(2,262,616)	(2,262,616)
Repayment of finance leases	(7,492)	Nil	(5,755)	Nil
Proceeds from borrowings	Nil	Nil	1,096,000	1,096,000
Redemption of rated cumulative redeemable preference shares	(1,250,000)	(1,250,000)	(1,250,000)	(1,250,000)
Dividend paid to rated cumulative redeemable preference shareholders	(82,637)	(82,637)	(124,023)	(124,023)
Dividend paid to ordinary shareholders	(2,035,945)	(2,035,945)	(1,628,756)	(1,628,756)
Dividend Received - ESOS	39,643	39,643	31,715	31,715
Expenses on share issue	(37,500)	Nil	Nil	Nil
Net cash used in financing activities	(6,228,506)	(6,183,514)	(4,143,435)	(4,137,680)
Net (decrease) / increase in cash and cash equivalents	(4,435,092)	(1,694,992)	4,815,697	4,698,887
Movement in cash and cash equivalents				
At the start of period	9,406,074	5,929,135	4,475,861	4,314,219
(Decrease) / increase	(4,435,092)	(1,694,992)	4,815,697	4,698,887
Exchange losses on cash and cash equivalents	(198,635)	(198,635)	(4,585)	(4,585)
At the end of period	4,772,347	4,035,508	9,286,973	9,008,521

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Notes to the interim financial statements

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

1 General information

Dialog Axiata PLC (the 'Company') and its subsidiaries (together 'the Group') provide Communication (Mobile, Internet, International, Data and Backbone, Fixed wireless and Transmission infrastructure) and Media related services.

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

The issued ordinary shares of the Company have been listed on the Colombo Stock Exchange since 28 July 2005.

2 Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with Sri Lanka Accounting Standard - LKAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011 and the changes to accounting policies as a result of convergence to Sri Lanka Financial Reporting Standards ('SLFRSs') are set out in the below section, 'Accounting policies'.

These condensed consolidated interim financial statements are prepared in accordance with Sri Lanka Accounting Standard - SLFRS 1 *First-time Adoption of Sri Lanka Accounting Standards*. The effect of the transition to SLFRSs on previously reported financial position, financial performance and cash flows of the Group is provided in Note 4 to the financial statements.

3 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as described below;

3.1 Business combinations

Sri Lanka Accounting Standard - SLFRS 3 *Business Combinations*, requires the Group to apply the said standard to transactions and other events that meet the new definition of a business which is an integrated set of assets (inputs) and activities (processes) which are capable of being conducted and managed to provide a return, as opposed to a mere asset acquisition.

Accordance with SLFRSs, the business acquisition related costs which previously were capitalised as a part of investment, are expensed to the statement of comprehensive income.

3.2 Financial instruments

In accordance with the Sri Lanka Accounting Standard - LKAS 39 *Financial Instruments; Recognition and Measurements*, trade receivables, trade payables, bank borrowings, intercompany loans and redeemable preference shares are recognized as financial instruments. The initial and the subsequent measurement basis of the said financial instruments shall be the fair value and the amortized cost respectively. Provision for doubtful debtors is replaced with the impairment testing for trade receivables.

3.3 Revenue Recognition

Sri Lanka Accounting Standard - LKAS 18 *Revenue*, requires the Group to measure revenue at fair value of the consideration received or receivable. It also specifies recognition criteria for revenue, and the Group applies such recognition criteria to separately identifiable components of a single transaction in order to reflect the substance of the transaction.

If the Group acts as the Principal on transaction arrangements, revenue is recognised on the gross basis. If the Group acts as the Agent revenue is recognized on the net basis. The Group shall be treated as the Principal if it;

- a) establishes the price and other terms of the service transaction,
- b) determines the nature of the content and specifications of the service and
- c) bears credit risk of the transaction.

The Group operates a customer loyalty programme known as 'Star points', which is accounted in accordance with International Financial Reporting Interpretation Committee ('IFRIC') - IFRIC 13 *Customer Loyalty Programmes*.

Notes to the interim financial statements (Contd)

4 Reconciliations of SLAS to SLFRS

4.1 Reconciliation of shareholders equity

a) Group

	Note	Under SLAS 30 September 2011	Adjustments	Under SLFRS 30 September 2011
ASSETS				
Non-current assets				
Property, plant and equipment		51,584,001	Nil	51,584,001
Intangible assets		3,993,255	Nil	3,993,255
Investments in subsidiaries		Nil	Nil	Nil
Investment in associate	a	34,057	8,008	42,065
Available-for-sale financial asset	d	30,596	Nil	30,596
Amount due from related companies	c	14,286	(1,189)	13,097
		55,656,195	6,819	55,663,014
Current assets				
Inventories		389,904	Nil	389,904
Trade and other receivables	c	10,067,738	(587)	10,067,151
Cash and cash equivalents		10,010,208	Nil	10,010,208
		20,467,850	(587)	20,467,263
Total assets		76,124,045	6,232	76,130,277
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
Stated capital	f	28,056,113	47,800	28,103,913
Shares in ESOS trust		(1,990,921)	Nil	(1,990,921)
Dividend reserve - ESOS		291,781	Nil	291,781
Revaluation reserve		129,225	Nil	129,225
Retained earnings	e	4,834,680	445,264	5,279,944
		31,320,878	493,064	31,813,942
Total equity		31,320,878	493,064	31,813,942
LIABILITIES				
Non - current liabilities				
Borrowings	b	17,932,680	(505,607)	17,427,073
Deferred income tax liabilities		1,923,985	Nil	1,923,985
Retirement benefit obligations		450,229	Nil	450,229
Provision for other liabilities		642,520	Nil	642,520
Deferred revenue		1,103,522	Nil	1,103,522
		22,052,936	(505,607)	21,547,329
Current liabilities				
Trade and other payables		17,129,220	Nil	17,129,220
Current income tax liabilities		54,440	Nil	54,440
Borrowings	b	5,566,571	18,775	5,585,346
		22,750,231	18,775	22,769,006
Total liabilities		44,803,167	(486,832)	44,316,335
Total equity and liabilities		76,124,045	6,232	76,130,277

Notes to the interim financial statements (Contd)

4.1 Reconciliation of shareholders equity

b) Company

	Note	Under SLAS 30 September 2011	Adjustments	Under SLFRS 30 September 2011
ASSETS				
Non-current assets				
Property, plant and equipment		43,131,481	Nil	43,131,481
Intangible assets		1,719,631	Nil	1,719,631
Investments in subsidiaries		10,326,010	Nil	10,326,010
Investment in associate		27,742	Nil	27,742
Available-for-sale financial asset	d	30,596	Nil	30,596
Amount due from related companies	c	9,269,108	(1,189)	9,267,919
		64,504,568	(1,189)	64,503,379
Current assets				
Inventories		385,202	Nil	385,202
Trade and other receivables	c	8,728,741	(587)	8,728,154
Cash and cash equivalents		9,494,357	Nil	9,494,357
		18,608,300	(587)	18,607,713
Total assets		83,112,868	(1,776)	83,111,092
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
Stated capital	f	28,056,113	47,800	28,103,913
Shares in ESOS trust		(1,990,921)	Nil	(1,990,921)
Dividend reserve - ESOS		291,781	Nil	291,781
Revaluation reserve		94,503	Nil	94,503
Retained earnings	e	13,636,567	437,256	14,073,823
		40,088,043	485,056	40,573,099
Total equity		40,088,043	485,056	40,573,099
LIABILITIES				
Non - current liabilities				
Borrowings	b	17,932,680	(505,607)	17,427,073
Deferred income tax liabilities		1,923,985	Nil	1,923,985
Retirement benefit obligations		411,134	Nil	411,134
Provision for other liabilities		629,710	Nil	629,710
Deferred revenue		1,103,522	Nil	1,103,522
		22,001,031	(505,607)	21,495,424
Current liabilities				
Trade and other payables		15,643,804	Nil	15,643,804
Current income tax liabilities		50,820	Nil	50,820
Borrowings	b	5,329,170	18,775	5,347,945
		21,023,794	18,775	21,042,569
Total liabilities		43,024,825	(486,832)	42,537,993
Total equity and liabilities		83,112,868	(1,776)	83,111,092

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Notes to the interim financial statements (Contd)

4 Reconciliation of comprehensive income

a) Group	Nine months ended 30 September 2011			Three months ended 30 September 2011		
	Under SLAS	Adjustments	Under SLFRS	Under SLAS	Adjustments	Under SLFRS
Revenue	33,569,446	Nil	33,569,446	11,596,935	Nil	11,596,935
Direct costs	(18,579,109)	Nil	(18,579,109)	(6,051,322)	Nil	(6,051,322)
Gross margin	14,990,337	Nil	14,990,337	5,545,613	Nil	5,545,613
Other operating income	55,975	8,008	63,983	2,657	Nil	2,657
Administrative costs	(6,087,298)	Nil	(6,087,298)	(2,135,584)	Nil	(2,135,584)
Distribution costs	(4,777,045)	Nil	(4,777,045)	(1,679,286)	Nil	(1,679,286)
Operating profit	4,181,969	8,008	4,189,977	1,733,400	Nil	1,733,400
Net finance income / (costs)	24,279	(262,468)	(238,189)	(112,304)	(96,713)	(209,017)
Share of profit from associate (net of tax)	6,638	Nil	6,638	4,329	Nil	4,329
Profit before tax	4,212,886	(254,460)	3,958,426	1,625,425	(96,713)	1,528,712
Tax	(408,803)	Nil	(408,803)	(259,701)	Nil	(259,701)
Profit for the period	3,804,083	(254,460)	3,549,623	1,365,724	(96,713)	1,269,011
Total comprehensive income for the period	3,804,083	(254,460)	3,549,623	1,365,724	(96,713)	1,269,011

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Notes to the interim financial statements (Contd)

4 Reconciliation of comprehensive income

b) Company	Nine months ended 30 September 2011			Three months ended 30 September 2011		
	Under SLAS	Adjustments	Under SLFRS	Under SLAS	Adjustments	Under SLFRS
Revenue	30,782,552	Nil	30,782,552	10,636,927	Nil	10,636,927
Direct costs	(16,693,108)	Nil	(16,693,108)	(5,511,966)	Nil	(5,511,966)
Gross margin	14,089,444	Nil	14,089,444	5,124,961	Nil	5,124,961
Other operating income	53,414	Nil	53,414	2,295	Nil	2,295
Administrative costs	(4,811,804)	Nil	(4,811,804)	(1,580,940)	Nil	(1,580,940)
Distribution costs	(4,432,732)	Nil	(4,432,732)	(1,540,489)	Nil	(1,540,489)
Operating profit	4,898,322	Nil	4,898,322	2,005,827	Nil	2,005,827
Net finance income / (costs)	23,002	(262,468)	(239,466)	(113,266)	(96,713)	(209,979)
Profit before tax	4,921,324	(262,468)	4,658,856	1,892,561	(96,713)	1,795,848
Tax	(403,334)	Nil	(403,334)	(256,678)	Nil	(256,678)
Profit for the period	4,517,990	(262,468)	4,255,522	1,635,883	(96,713)	1,539,170
Total comprehensive income for the period	4,517,990	(262,468)	4,255,522	1,635,883	(96,713)	1,539,170

DIALOG AXIATA PLC AND ITS SUBSIDIARIES**Notes to the interim financial statements (Contd)**

4 Reconciliation of cash flow statement

There are no material differences between the Group statement of cash flows presented under SLFRSs and the Group statement of cash flows presented under SLASs.

4 Notes to the reconciliation of SLAS to SLFRS

(a) Investment in associate

The adjustment to the investment in associate of Rs. 8,008,000 recognises the impact for accounting for fair value on the disposal of 74% interest in the subsidiary, Dialog Business Services (Private) Limited (DBS) as a deemed disposal. The gain on disposal of subsidiary is classified under other income in the financial statements.

(b) Borrowings

Under the requirements of LKAS 39, borrowings are initially recognised at fair value whereas under SLASs it was recognised at cost. The financial statements were adjusted to incorporate relevant changes. The impact on borrowings and finance costs is as follows.

	As at 30 September 2011	
Borrowings	Group	Company
Carrying value - non current and current	22,249,251	22,011,850
Reclassification of rated cumulative redeemable preference shares	1,250,000	1,250,000
Impact from initial fair value recognition and subsequent recognition at amortised cost	(486,832)	(486,832)
	23,012,419	22,775,018

Net finance costs	Nine months ended 30 September 2011	
	Group	Company
Finance income	260,662	253,939
Finance costs	(105,039)	(99,593)
Reclassification of dividend paid on rated cumulative redeemable preference shares	(131,344)	(131,344)
Impact from subsequent recognition at amortised cost	(262,468)	(262,468)
	(238,189)	(239,466)

The fair values of non-current and current borrowing are based on cash flows discounted using interest rates ranging from 2.1% to 11.56% (2011: 2.22% to 12.58%).

(c) Receivables

Under the requirements of LKAS 39 receivables classified as financial assets are initially recognised at fair value whereas under SLASs it was recognised at cost. The financial statements were adjusted to incorporate relevant changes with regard to loan given to Axiata Lanka (Private) Limited. The impact of initial fair valuation amounting to Rs 2,579,987 was debited to income statement under finance costs and credited to the respective loan on 1 January 2011. The impact on the receivable balances is as follows.

	As at	
	30 September 2011	
	Group	Company
Trade and other receivables		
Carrying value	10,067,738	8,728,741
Impact from initial fair value recognition and subsequent recognition at amortised cost	(587)	(587)
	10,067,151	8,728,154
Amount due from related companies		
Carrying value	14,286	9,269,108
Impact from initial fair value recognition and subsequent recognition at amortised cost	(1,189)	(1,189)
	13,097	9,267,919

The fair value of the loan given to Axiata Lanka (Private) Limited was discounted using a rate based on the 4.05% fixed rate prevailing in market as at 1 January 2011.

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Notes to the interim financial statements (Contd)

(d) Available-for-sale financial asset

Investment in Sri Lanka Institute of Nanotechnology (Private) Limited [Formerly known as Nanco (Private) Limited], which was previously presented as other investment is now recognised as a financial asset and classified as available-for-sale financial asset.

(e) Retained earnings

The following is a summary of transition adjustments to the Group's retained earnings from SLASs to SLFRSs.

	As at 30 September 2011	
	Group	Company
Retained earnings as reported under SLASs	4,834,680	13,636,567
Investment in associate	8,008	Nil
Borrowings	486,832	486,832
Receivables	(1,776)	(1,776)
Transaction cost - preference shares	(47,800)	(47,800)
Retained earnings as reported under SLFRSs	5,279,944	14,073,823

(f) Stated capital

	As at 30 September 2011	
	Group	Company
Stated capital as reported under SLASs	29,306,113	29,306,113
Reclassification of rated cumulative redeemable preference shares	(1,250,000)	(1,250,000)
	28,056,113	28,056,113
Transaction cost related to preference shares transferred from share premium to retained earnings	47,800	47,800
	28,103,913	28,103,913

5 Segment information

The segmental reporting presentation is revised to represent more appropriate business segments of the Group.

Notes to the interim financial statements (Contd)

5 Segment information

- o The segment results for the nine months ended 30 September 2012 are as follows:

	Mobile operations	Fixed broadband operations	Television operations	Elimination /adjustment	Group
Total segmental revenue	36,656,191	3,749,000	2,191,589	Nil	42,596,780
Inter-segment revenue	(500,619)	(557,557)	(12,751)	Nil	(1,070,927)
Revenue from external customers	36,155,572	3,191,443	2,178,838	Nil	41,525,853
Operating profit/(loss) segment results	6,133,656	(162,282)	147,611	(37,970)	6,081,015
Net finance costs					(2,955,621)
Share of profit from associate (net of tax)					1,110
Profit before income tax					3,126,504
Taxation					1,966,240
Profit for the period					5,092,744

- o Other segment items included in the statement of comprehensive income are as follows:

	Mobile operations	Fixed broadband operations	Television operations	Elimination /adjustment	Group
Depreciation ,amortisation and impairment	6,082,391	1,320,575	358,575	37,715	7,799,255

- o The segment assets and liabilities at 30 September 2012 and capital expenditure for the nine months ended are as follows:

	Mobile operations	Fixed broadband operations	Television operations	Elimination /adjustment	Group
Assets	85,072,289	15,136,924	3,602,484	(11,671,918)	92,139,779
Inter -segment assets	(9,112,870)	(19,542)	718	Nil	(9,131,694)
Total assets					83,008,085
Liabilities	39,709,378	13,875,321	2,730,252	Nil	56,314,951
Inter- segment liabilities	(388,171)	(7,352,447)	(1,819,112)	Nil	(9,559,730)
Total liability					46,755,221
Capital expenditure	7,678,687	2,025,537	668,281		10,372,505

Notes to the interim financial statements (Contd)

5 Segment information (Contd)

- o The segment results for the nine months ended 30 September 2011 are as follows:

	Mobile operations	Fixed broadband operations	Television operations	Elimination /adjustment	Group
Total segmental revenue	30,782,552	1,771,983	1,699,064	39,784	34,293,383
Inter-segment revenue	(333,915)	(338,372)	(12,263)	(39,387)	(723,937)
Revenue from external customers	30,448,637	1,433,611	1,686,801	397	33,569,446
Operating profit/(loss) segment results	4,898,322	(657,175)	(19,563)	(31,607)	4,189,977
Net finance costs					(238,189)
Share of profit from associate					6,638
Profit before tax					3,958,426
Taxation					(408,803)
Profit for the period					3,549,623

- o Other segment items included in the statement of comprehensive income are as follows:

	Mobile operations	Fixed broadband operations	Television operations	Elimination /adjustment	Group
Depreciation ,amortisation and impairment	6,037,107	1,115,199	396,549	37,715	7,586,570

- o The segment assets and liabilities at 31 December 2011 and capital expenditure for the year then ended are as follows:

	Mobile operations	Fixed broadband operations	Television operations	Elimination /adjustment	Group
Assets	83,543,241	12,730,168	3,271,278	(9,314,880)	90,229,807
Inter -segment assets	(13,986,531)	(16,008)	11	Nil	(14,002,528)
Total assets					76,227,279
Liabilities	41,384,583	13,616,694	2,494,624	Nil	57,495,901
Inter- segment liabilities	(134,326)	(12,708,505)	(1,578,874)	Nil	(14,421,705)
Total liability					43,074,196
Capital expenditure	6,762,427	1,458,870	498,023	Nil	8,719,320

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Notes to the interim financial statements (Contd)

6 Stated capital

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

7 Comparatives

The comparatives for the following items in the statement of comprehensive income are restated to ensure comparability with the current period.

Income statement		As reported previously		Current presentation	
		30 September 2011		30 September 2011	
		Group	Company	Group	Company
Revenue	a,c	33,663,914	30,853,735	33,569,446	30,782,552
Direct costs	c	(18,592,777)	(16,693,108)	(18,579,109)	(16,693,108)
Other operating income		55,975	53,414	55,975	53,414
Administrative costs		(6,087,298)	(4,811,804)	(6,087,298)	(4,811,804)
Distribution costs	a	(4,857,845)	(4,503,915)	(4,777,045)	(4,432,732)
Net finance costs	b	155,623	154,346	24,279	23,002

- (a) Star point expenses previously classified under distribution costs are reclassified under revenue, based on requirements of IFRIC 13 Customer loyalty programmes.
- (b) Dividend on rated cumulative redeemable preference shares previously classified in the statement of changes in equity is now presented under finance costs, based on the requirements of LKAS 32 Financial instruments; Presentation.
- (c) Revenue share on agent fee related to Dialog Television (Private) Limited previously classified under direct costs is reclassified under revenue, based on requirements of LKAS 18 Revenue, on principal agent relationship.

8 Market price per share

For the three months ended 30 September		2012	2011
		Rs.	Rs.
-	Highest	9.40	11.00
-	Lowest	5.90	7.80
-	Last traded	9.00	8.40

9 20 largest shareholders of the Company

Name of Shareholder	No. of Shares	% Holding
1 Axiata Investments (Labuan) Limited	6,785,252,765	83.32%
2 HSBC-BBH Genesis Smaller Companies	191,221,640	2.35%
3 Employees Provident Fund	177,463,109	2.18%
4 Dialog Axiata Employees ESOS Trust	158,572,462	1.95%
5 Sri Lanka Insurance Corporation Ltd-Life Fund	74,585,920	0.92%
6 CB NY S/A -International Finance Corporation	64,086,800	0.79%
7 HSBC-BBH-Genesis Emerging Markets Opportunities Fund	55,345,900	0.68%
8 Browns Investments (Pvt) Ltd	44,991,400	0.55%
9 BNY-CF Ruffer Investment Funds : Cf Ruffer Pacific Fund	44,314,300	0.54%
10 Pemberton Asian Opportunities Fund	40,000,000	0.49%
11 HSBC-JPMCB-Scottish ORL SML TR GTI 6018	32,207,500	0.40%
12 HSBC-SSBT- National Westminster Bank AS DEP of FS India Sub Cont	26,370,100	0.32%
13 JB Cocoshell (Pvt) Ltd.	24,725,637	0.30%
14 Associated Electrical Corporation Ltd	24,450,600	0.30%
15 Sri Lanka Insurance Corporation Ltd-General Fund	22,320,360	0.27%
16 HSBC-SSBT-Morgan Stanley and Co International	19,076,691	0.23%
17 Seylan Bank PLC. - A/C No. 3	17,459,100	0.21%
18 Mellon Bank N.A.- UPS Group Trust	16,355,467	0.20%
19 Mellon Bank N.A.- Florida Retirement System	14,472,600	0.18%
20 Mercantile Investments Limited	11,000,000	0.14%

DIALOG AXIATA PLC AND ITS SUBSIDIARIES

Notes to the interim financial statements (Contd)

10 Public shareholding

The percentage of public shareholding as at 30 September 2012 was 14.73% (14.73% as at 31 December 2011), calculated as per the listing rules of the Colombo Stock Exchange.

11 Acquisition of Suntel Limited and legal amalgamation

The Company's wholly owned subsidiary, Dialog Broadband Networks (Private) Limited (DBN), entered into a Share Purchase Agreement on 14 December 2011 with the shareholders of Suntel Limited (Suntel) to purchase 100 percent equity shares of Suntel. Suntel became a wholly owned subsidiary of DBN with effect from 21 March 2012 and accordingly the assets and liabilities of Suntel Limited were consolidated into the Group. The total consideration for the acquisition of Suntel was Rs 4,057,918,107 which was fully settled in cash in accordance with Share Purchase Agreement as at 30 September 2012. The resultant goodwill to the Group on the acquisition was Rs 5,188,684,822.

Suntel was amalgamated with DBN, in accordance with provisions of the Companies Act, No. 07 of 2007 (Act) with effect from 15 May 2012. Accordingly, Suntel ceased to exist and was removed from the Register by the Registrar-General of Companies and all the assets, rights, liabilities and obligations of Suntel were succeeded by Dialog Broadband Networks (Private) Limited in accordance with the Act.

12 Trade and other payables

This includes a provision, as a matter of prudence, for a possible claim amounting to a sum of Rs. 4,221,040,185 on account of a judgment delivered against Suntel Limited on 9 March 2012 in HC (Civil) 282/2001(1) in the Commercial High Court of the Western Province in favour of Electroteks Network Services (Private) Limited. Suntel Limited, on the basis of legal advice received, has appealed against this judgment to the Supreme Court of Sri Lanka, and is now awaiting the determination of its appeal.

13 Taxation

The Company opted for 2% revenue based tax with effect from the year 2013 at the expiration of 15 year tax holiday period, which is an option given in the investment agreement entered into between the Company and the Board of Investment of Sri Lanka (BOI). Subsequent to the approval of the BOI on 20 March 2012, selection of revenue based tax option has been notified to and acknowledged by the Department of Inland Revenue on 7 August 2012. Accordingly, the deferred tax liability of Rs 2,277,016,844 has been reversed to the statement of comprehensive income.

14 Directors' shareholdings

The details of shares held by the Directors and their spouses as at 30 September 2012 are as follows:

	<u>Number of shares</u>
Dr. Hansa Wijayasuriya	42,570
Mr. Moksevi Prelis	18,480
Mr. Mohamed Muhsin	18,040

None of the Directors other than those disclosed above held any shares in the Company.

15 Contingent liabilities

Value Added Tax (VAT) assessments issued by Department of Inland Revenue (DIR) in respect of year of assessment 2006/2007 have been determined by the Commissioner General of Inland Revenue (CGIR) on 28th January 2011. Subsequent to the determination of CGIR, on 31 January 2011, it was concluded that VAT refund of Rs 928,127,301 is due to Dialog Axiata PLC, of which Rs 304,606,824 was refunded on 28 August 2012.

Except disclosed above there has not been a significant change in the nature of the contingent liabilities, which were disclosed in the Annual Report for the year ended 31 December 2011.

16 Related party transactions

The shareholder advances of Rs 7,500,000,000, given by the Company to DBN, were converted to ordinary shares of Rs 10 each on 15 May 2012.

17 Events after the reporting period

Subsequent to 30 September 2012, no circumstances have arisen which would require adjustments to or disclosure in the financial statements.