

# Corporate Governance Report

## INTRODUCTION

The Board continued its efforts to enhance its role in improving governance practices effectively to safeguard the best interests of shareholders and other stakeholders. The Company's internally developed Code of Corporate Governance (Code), which illustrates the Board's commitment to upholding high standards of corporate governance, contains international corporate governance principles and best practices, in addition to the requirements outlined in the Listing Rules of the Colombo Stock Exchange (CSE) and other relevant regulations, and is applicable to the Group and governs the activities of the Board, how the Group conducts its business operations, its relationships with all 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 2015.

## 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 Group;
- 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 Board of Directors as at 31st December 2015, was as follows:-

Name of Director	Date of Appointment to the Board	Position
Datuk Azzat Kamaludin	21st July 2008	Chairman
Dr. Hans Wijayasuriya	19th January 2001	Group Chief Executive Officer/Director
Mr. Moksevi Prelis	15th September 2004	Independent, Non-Executive Director
Mr. Mohamed Muhsin	14th June 2006	Independent, Non-Executive Director
Mr. James Maclaurin	10th May 2011	Non-Executive Director
Mr. Darke Mohamed Sani	08th February 2014	Non-Executive Director
Deshamanya Mahesh Amalean	15th May 2014	Independent, Non-Executive Director
Mr. Thandalam Veeravalli Thirumala Chari	19th September 2014	Non-Executive Director

Table 1 – Composition of the Board as at 31st December 2015

The profiles of the Directors are found on pages 17 to 20 of this Report.



- **Composition and Balance of the Board**

The Board comprises of 08 directors, of whom 07 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 considerable depth of knowledge collectively gained from experiences, whilst serving in a variety of public and private companies in various industries. The Board includes three 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 is considered independent. Furthermore, the Board considers both Mr. Moksevi Prelis and Mr. Mohamed Muhsin as 'independent', given their objective and unbiased approach to matters of the Board notwithstanding that they have completed more than 09 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 04 non-executive directors, namely Datuk Azzat Kamaludin, Mr. James Maclaurin, Mr. Darke Mohamed Sani and Mr. Thandalam Veeravalli Thirumala Chari 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, Dr. Hans Wijayasuriya, 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

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with specific matters. A total of 10 meetings were held in 2015, which included 07 special meetings. The attendance of directors at these meetings is set out in the table below:

Name of Director	Attendance
Datuk Azzat Kamaludin	10/10
Dr. Hans Wijayasuriya	10/10
Mr. Moksevi Prelis	10/10
Mr. Mohamed Muhsin	10/10
Mr. James Maclaurin	09/10
Deshamanya Mahesh Amalean	07/10
Mr. Darke Mohamed Sani	10/10
Mr. Thandalam Veeravalli Thirumala Chari	09/10

Table 2 – Board Meeting Attendance

## • 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 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 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 sets 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. Group Executive Committee
4. Related Party Transactions Review Committee

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 Company Secretary acts as secretary to all Board Committees.

A brief description of each Board Committee is provided below:

#### **a) Board Audit Committee**

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 45 to 47.

#### **b) Nominating and Remuneration Committee**

The role of the NRC is to identify, consider and propose suitable candidates for appointment as directors 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 03 meetings during the financial year ended 31st December 2015 and the attendance at these meetings is set out below:

Name of Director	Attendance
Datuk Azzat Kamaludin (Chairman)	3/3
Mr. Mohamed Muhsin	3/3
Deshamanya Mahesh Amalean	3/3

Table 3 – NRC Meeting Attendance

#### **c) Group Executive Committee**

The role of the Group Executive Committee (EXCOM) 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 EXCOM comprises 05 representatives of the Board, namely Mr. James Maclaurin (Chairman), Mr. Mohamed Muhsin, Mr. Darke Mohamed Sani, Mr. Thandalam Veeravalli Thirumala Chari and Dr. Hans Wijayasuriya and 02 ex-officio members who are drawn from the membership of the senior management of Dialog.

#### **d) Related Party Transactions Review Committee**

In compliance with the requirements of the Listing Rules (Rules) of the CSE, the Related Party Transactions Review Committee (RPTRC) was established with effect from 1st January 2016.

The primary function of the RPTRC is to review related party transactions as prescribed by Section 09 of the Rules. As per the Rules, the RPTRC shall meet at least once a financial quarter and accordingly the RPTRC of the Group had its inaugural meeting on 16 February 2016.

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The RPTRC comprises 03 non-executive directors, namely Mr. Mohamed Muhsin (Chairman), Mr. Moksevi Prelis and Mr. Thandalam Veeravalli Thirumala Chari.

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 director retiring by rotation and eligible for re-election this year is mentioned in the Notice of the AGM on page 133.

## 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 of a monthly fixed allowance and meeting allowances paid in accordance with the number of meetings attended during the year 2015.

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. 65.0Mn was paid to the directors as emoluments for the financial year 2015.

## 3. Accountability and Audit

- **Financial Reporting**

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

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

The GCEO and the Group Chief Financial Officer ("GCFO") declare in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and that operational results are stated in accordance with relevant accounting standards.



#### 4. Recognise and Manage Risk

- **Internal Control**

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

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 organization, 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 45 to 47.

#### 5. Responsible Decision-Making

The Group's Code of Business Ethics and Employee Code of Conduct actively promotes ethical and responsible decision-making and endeavours 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.

#### 6. Respect for the Rights of Shareholders

The Company is committed to having regular, proactive and effective communication with the 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.

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- **Communication with Shareholders**

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

1. **Annual General Meeting**

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 and 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, e-mails, 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 2015, the Company actively participated in three overseas investor conferences held in New York, Hong Kong and London. The Company also took part in two local forums for clients of reputed global financial services institutions. In addition, the Company conducted one-on-one meetings and conference calls with key local and foreign investors on a regular basis.

The Company held earnings calls via teleconference every quarter to brief local and foreign analysts and investors on the results achieved in that quarter.

These sessions not only provide analysts and investors with a comprehensive review of the Group's financial performance, but also gave them the opportunity to clarify related queries they may have. The contents of these briefings are posted on the Company's website at <http://www.dialog.lk/quarterly-reports>.

- **Major Transactions**

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

# Report of the Board Audit Committee

## ROLE OF THE COMMITTEE

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

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

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

## COMPOSITION

The BAC comprises 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 Board Secretary functions as the Secretary to the BAC.

The members of the BAC as at 31 December 2015 were:

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

## MEETINGS

The BAC had seven meetings during the year 2015, which includes four special meetings. The meeting attendance of the members is set out in the table below:

Name of Member	Attendance
Mr. Mohamed Muhsin – Chairman	7/7
Mr. Moksevi Prelis	7/7
Mr. Thandalam Veeravalli Thirumala Chari	7/7

The Group Chief Executive Officer, the Group Chief Financial Officer and the Group Chief Internal Auditor, attended these meetings by invitation. The external auditors also attended meetings, by invitation, to brief the BAC on specific issues. In addition to these formal meetings, the BAC Chairman had private discussions with the external auditors.

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, besides complying with the ToR, the BAC reviewed risks, control issues and legal risks of emerging businesses and also gave special attention to the progress of the implementation of the Information Security Governance Framework which covers areas such as Information Security, Data Privacy, Cyber Security and Data Loss/Leakage Prevention across all functions of the Dialog Group.

The following include other key routine activities carried out by the BAC during 2015:



# Report of the Board Audit Committee

## 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 Group 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.

The BAC further reviewed new policy updates, revisions or enhancements of the internal policies and procedures as recommended by the management to ascertain that the improvements made are aligned to best business practices and effective internal control processes.

## External Audit

The BAC reviewed the External Audit Plan including the scope and the fee for the annual audit and also 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.

The BAC reviewed the results of the external audit and the recommendations contained in the Management Letters 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 financial year 2016.

## Internal Audit

The BAC is supported by the Group Internal Audit Division, which is headed by Mr. Munesh David (FCMA, FCPA, MBA), the Group Chief Internal Auditor (GCIA). Mr. David was appointed GCIA during the year under review and reports directly to the BAC. The Internal Audit team has a mix of expertise in the disciplines of Finance, Information Technology, Network Engineering, Digital Services and Sales & Marketing. The Division leverages global best practices and has an on going 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 24 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

15 April 2016