

DIALOG AXIATA PLC

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED
31 MARCH 2014**





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 31 March 2014 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.

09 May 2014

COLOMBO

CHARTERED ACCOUNTANTS

PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka
T: +94 (11) 771 9838, 471 9838, F: +94 (11) 230 3197, www.pwc.com/lk

Partners Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, N.R. Gunasekera FCA,
 S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA, T.U. Jayasinghe ACA

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DIALOG AXIATA PLC

Statements of financial position

(all amounts in Sri Lanka Rupees thousands)

| | Group | | Company | |
|--|--------------------|--------------------|--------------------|--------------------|
| | 31 Mar 2014 | 31 Dec 2013 | 31 Mar 2014 | 31 Dec 2013 |
| ASSETS | | | | |
| Non - current assets | | | | |
| Property, plant and equipment | 68,232,415 | 68,468,112 | 49,671,698 | 50,768,641 |
| Intangible assets | 17,110,072 | 17,318,737 | 6,187,817 | 6,318,363 |
| Investment in subsidiaries | - | - | 18,826,010 | 18,826,010 |
| Investment in associates | 248,822 | 257,979 | 278,694 | 278,694 |
| Amount due from related companies | - | 1,273 | 15,518,960 | 13,864,601 |
| | 85,591,309 | 86,046,101 | 90,483,179 | 90,056,309 |
| Current assets | | | | |
| Inventories | 983,172 | 652,603 | 835,048 | 551,256 |
| Trade and other receivables | 13,898,516 | 13,924,290 | 10,956,455 | 11,317,192 |
| Cash and cash equivalents | 3,516,720 | 3,217,502 | 2,232,659 | 2,063,250 |
| | 18,398,408 | 17,794,395 | 14,024,162 | 13,931,698 |
| Total assets | 103,989,717 | 103,840,496 | 104,507,341 | 103,988,007 |
| EQUITY | | | | |
| Capital and reserves 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 Trust | 383,754 | 383,754 | 383,754 | 383,754 |
| Hedging reserve | (18,144) | - | (18,144) | - |
| Retained earnings | 14,507,906 | 13,238,824 | 24,789,235 | 23,319,079 |
| Total equity | 40,986,508 | 39,735,570 | 51,267,837 | 49,815,825 |
| LIABILITIES | | | | |
| Non - current liabilities | | | | |
| Borrowings | 17,447,960 | 17,451,422 | 17,447,960 | 17,451,422 |
| Derivative financial instrument | 42,964 | - | 42,964 | - |
| Defined benefit obligation | 755,806 | 717,869 | 619,212 | 588,035 |
| Provision for other liabilities | 1,207,043 | 1,564,353 | 985,205 | 1,310,468 |
| Deferred tax liability | 800 | 800 | - | - |
| Deferred revenue | 1,535,083 | 1,690,733 | 1,394,334 | 1,552,055 |
| | 20,989,656 | 21,425,177 | 20,489,675 | 20,901,980 |
| Current liabilities | | | | |
| Trade and other payables | 28,539,366 | 29,655,953 | 20,311,857 | 20,764,171 |
| Current income tax liabilities | 1,406,071 | 1,117,865 | 1,401,392 | 1,113,356 |
| Borrowings | 12,068,116 | 11,905,931 | 11,036,580 | 11,392,675 |
| | 42,013,553 | 42,679,749 | 32,749,829 | 33,270,202 |
| Total liabilities | 63,003,209 | 64,104,926 | 53,239,504 | 54,172,182 |
| Total equity and liabilities | 103,989,717 | 103,840,496 | 104,507,341 | 103,988,007 |
| Net assets per share (Rs.) | 5.03 | 4.88 | 6.30 | 6.12 |

The notes on pages 7 to12 form an integral part of these financial statements.

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

Signed

.....
Group Chief Financial Officer

Date: 09 May 2014

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: 09 May 2014

Signed

.....
Director

Date: 09 May 2014

DIALOG AXIATA PLC**Statements of comprehensive income****(all amounts in Sri Lanka Rupees thousands)**

| | Group | | Company | |
|--|------------------------------------|------------------|------------------------------------|------------------|
| | Three months ended 31 March | | Three months ended 31 March | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | 16,331,216 | 15,242,134 | 14,188,254 | 13,338,004 |
| Direct costs | (9,820,890) | (8,392,919) | (8,254,078) | (7,200,321) |
| Gross profit | 6,510,326 | 6,849,215 | 5,934,176 | 6,137,683 |
| Distribution costs | (2,259,343) | (2,182,347) | (1,976,789) | (1,902,496) |
| Administrative costs | (2,803,312) | (2,694,400) | (2,344,889) | (2,192,018) |
| Other income | 41,803 | 34,385 | 39,924 | 25,316 |
| Operating profit | 1,489,474 | 2,006,853 | 1,652,422 | 2,068,485 |
| Finance income | 297,037 | 86,993 | 296,042 | 85,552 |
| Finance costs | (218,040) | (210,443) | (190,272) | (183,347) |
| Finance income / (costs) - net | 78,997 | (123,450) | 105,770 | (97,795) |
| Share of loss from associates - net of tax | (9,157) | (11,868) | - | - |
| Profit before income tax | 1,559,314 | 1,871,535 | 1,758,192 | 1,970,690 |
| Taxation | (290,232) | (277,015) | (288,036) | (276,757) |
| Profit for the period | 1,269,082 | 1,594,520 | 1,470,156 | 1,693,933 |
| Other comprehensive expense for the period - net change in cash flow hedge | (18,144) | - | (18,144) | - |
| Total comprehensive income for the period | 1,250,938 | 1,594,520 | 1,452,012 | 1,693,933 |
| Attributable to: | | | | |
| Equity holders of the Company | 1,250,938 | 1,594,520 | 1,452,012 | 1,693,933 |
| Basic earnings per share for profit attributable to the ordinary shareholders of the Company (Rs.) | 0.159 | 0.200 | 0.184 | 0.212 |

The notes on pages 7 to12 form an integral part of these financial statements.

DIALOG AXIATA PLC

Consolidated statement of changes in equity

(all amounts in Sri Lanka Rupees thousands)

| | Attributable to equity holders of the Company | | | | | |
|--|---|----------------------|-----------------------------|-----------------|-------------------|-------------------|
| | Stated Capital | Shares in ESOS Trust | Dividend reserve ESOS Trust | Hedging reserve | Retained earnings | Total |
| Balance at 1 January 2014 | 28,103,913 | (1,990,921) | 383,754 | - | 13,238,824 | 39,735,570 |
| Profit for the period | - | - | - | - | 1,269,082 | 1,269,082 |
| Other comprehensive expense | - | - | - | (18,144) | - | (18,144) |
| Total comprehensive income for the period | - | - | - | (18,144) | 1,269,082 | 1,250,938 |
| Balance at 31 March 2014 | 28,103,913 | (1,990,921) | 383,754 | (18,144) | 14,507,906 | 40,986,508 |
| Balance at 1 January 2013 | 28,103,913 | (1,990,921) | 331,425 | - | 10,737,128 | 37,181,545 |
| Profit for the period | - | - | - | - | 1,594,520 | 1,594,520 |
| Other comprehensive expense | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | - | 1,594,520 | 1,594,520 |
| Balance at 31 March 2013 | 28,103,913 | (1,990,921) | 331,425 | - | 12,331,648 | 38,776,065 |
| Balance at 1 April 2013 | 28,103,913 | (1,990,921) | 331,425 | - | 12,331,648 | 38,776,065 |
| Profit for the period | - | - | - | - | 3,606,510 | 3,606,510 |
| Other comprehensive expense | - | - | - | - | (6,888) | (6,888) |
| Total comprehensive income for the period | - | - | - | - | 3,599,622 | 3,599,622 |
| Dividend received by ESOS Trust | - | - | 52,329 | - | - | 52,329 |
| Dividend to equity shareholders | - | - | - | - | (2,687,446) | (2,687,446) |
| Direct cost on share issue | - | - | - | - | (5,000) | (5,000) |
| Balance at 31 December 2013 | 28,103,913 | (1,990,921) | 383,754 | - | 13,238,824 | 39,735,570 |

The notes on pages 7 to 12 form an integral part of these financial statements.

DIALOG AXIATA PLC**Company statement of changes in equity****(all amounts in Sri Lanka Rupees thousands)**

| | Attributable to equity holders of the Company | | | | | |
|--|---|----------------------|-----------------------------|-----------------|-------------------|-------------------|
| | Stated Capital | Shares in ESOS Trust | Dividend reserve ESOS Trust | Hedging reserve | Retained earnings | Total |
| Balance at 1 January 2014 | 28,103,913 | (1,990,921) | 383,754 | - | 23,319,079 | 49,815,825 |
| Profit for the period | - | - | - | - | 1,470,156 | 1,470,156 |
| Other comprehensive expense | - | - | - | (18,144) | - | (18,144) |
| Total comprehensive income for the period | - | - | - | (18,144) | 1,470,156 | 1,452,012 |
| Balance at 31 March 2014 | 28,103,913 | (1,990,921) | 383,754 | (18,144) | 24,789,235 | 51,267,837 |
| Balance at 1 January 2013 | 28,103,913 | (1,990,921) | 331,425 | - | 19,948,823 | 46,393,240 |
| Profit for the period | - | - | - | - | 1,693,933 | 1,693,933 |
| Other comprehensive expense | - | - | - | - | - | - |
| Total comprehensive income for the period | - | - | - | - | 1,693,933 | 1,693,933 |
| Balance at 31 March 2013 | 28,103,913 | (1,990,921) | 331,425 | - | 21,642,756 | 48,087,173 |
| Balance at 1 April 2013 | 28,103,913 | (1,990,921) | 331,425 | - | 21,642,756 | 48,087,173 |
| Profit for the period | - | - | - | - | 4,367,557 | 4,367,557 |
| Other comprehensive expense | - | - | - | - | (3,788) | (3,788) |
| Total comprehensive income for the period | - | - | - | - | 4,363,769 | 4,363,769 |
| Dividend received by ESOS Trust | - | - | 52,329 | - | - | 52,329 |
| Dividend to equity shareholders | - | - | - | - | (2,687,446) | (2,687,446) |
| Balance at 31 December 2013 | 28,103,913 | (1,990,921) | 383,754 | - | 23,319,079 | 49,815,825 |

The notes on pages 7 to12 form an integral part of these financial statements.

DIALOG AXIATA PLC**Cash flow statements**

(all amounts in Sri Lanka Rupees thousands)

| | Group | | Company | |
|--|------------------------------------|--------------------|------------------------------------|--------------------|
| | Three months ended 31 March | | Three months ended 31 March | |
| | 2014 | 2013 | 2014 | 2013 |
| Cash flows from operating activities | | | | |
| Cash generated from operations | 3,321,130 | 3,695,249 | 3,759,453 | 3,704,075 |
| Interest received | 7,827 | 82,422 | 6,839 | 80,990 |
| Telecommunication development charge refund received | - | 1,248,397 | - | 1,223,734 |
| Interest paid | (77,830) | (66,179) | (77,830) | (65,797) |
| Tax paid | (33,847) | (33,857) | (30,000) | (30,000) |
| Defined benefit obligation paid | (6,929) | (6,182) | (5,801) | (5,697) |
| Net cash generated from operating activities | 3,210,351 | 4,919,850 | 3,652,661 | 4,907,305 |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | (3,132,563) | (3,291,088) | (1,644,904) | (2,348,764) |
| Purchase of intangible assets | (27,854) | (16,489) | (17,422) | (14,389) |
| Advances to subsidiaries | - | - | (2,068,500) | (970,172) |
| Proceed from sale of property, plant and equipment | 1,710 | 30,862 | - | 21,594 |
| Net cash used in investing activities | (3,158,707) | (3,276,715) | (3,730,826) | (3,311,731) |
| Cash flows from financing activities | | | | |
| Repayment of borrowings | - | (1,674,668) | - | (1,674,668) |
| Repayment of finance leases | - | (3,176) | - | - |
| Net cash used in financing activities | - | (1,677,844) | - | (1,674,668) |
| Net increase / (decrease) cash and cash equivalents | 51,644 | (34,709) | (78,165) | (79,094) |
| Movement in cash and cash equivalents | | | | |
| At start of the year | 3,217,502 | 8,647,069 | 2,063,250 | 7,767,439 |
| Increase / (decrease) | 51,644 | (34,709) | (78,165) | (79,094) |
| Effect of exchange rate changes | 247,574 | (10,359) | 247,574 | (10,730) |
| At end of the period | 3,516,720 | 8,602,001 | 2,232,659 | 7,677,615 |

The notes on pages 7 to12 form an integral part of these financial statements.

DIALOG AXIATA PLC

Notes to the condensed interim financial statements

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

1 General information

Dialog Axiata PLC (the 'Company') and its subsidiaries (together 'the Group') provide communication services (mobile, fixed, broadband, international gateway services), telecommunication infrastructure services (tower infrastructure and transmission services), media (digital television services based on multiple media – satellite, cable, terrestrial) and digital services [including but not limited to digital commerce (mobile and ecommerce), electronic payments (including mobile payment), digital health, education, navigation and enterprise services].

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

2 Basis of preparation

The condensed interim financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standard - LKAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2013.

With effect from the financial year 2014, the Group has applied the following new Sri Lanka Accounting Standards for the first time, that are relevant for the preparation of the Group's condensed consolidation interim financial statements.

- (i) SLFRS 10, 'Consolidated Financial Statements'.
- (ii) SLFRS 11, 'Joint Arrangements'.
- (iii) SLFRS 12, 'Disclosures of Interests in Other Entities'.
- (iv) SLFRS 13, 'Fair Value Measurement'.

The adoption of the new Sri Lanka Accounting Standards did not have any significant impact to the Group during the current quarter.

3 Segment information

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

- The segment results for the period ended 31 March 2014 are as follows:

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|--|---------------------|---|-------------------------|----------------------------|-------------------|
| Revenue from external customers | 14,005,546 | 1,266,581 | 1,059,089 | - | 16,331,216 |
| Inter - segment revenue | 182,708 | 201,296 | 13,917 | - | 397,921 |
| Total segmental revenue | 14,188,254 | 1,467,877 | 1,073,006 | - | 16,729,137 |
| Segment operating profit / (loss) for the period | 1,652,422 | (293,433) | 143,202 | (12,717) | 1,489,474 |
| Finance income – net | | | | | 78,997 |
| Share of loss from associates - net of tax | | | | | (9,157) |
| Profit before income tax | | | | | 1,559,314 |
| Taxation | | | | | (290,232) |
| Profit for the period | | | | | 1,269,082 |

DIALOG AXIATA PLC

Notes to the condensed interim financial statements (Continued)

3 Segment information (Continued)

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

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|---|------------------|---|----------------------|-------------------------|-----------|
| Depreciation, amortisation and impairment | 2,567,796 | 551,905 | 118,988 | 12,572 | 3,251,261 |

- The segment assets and liabilities at 31 March 2014 and capital expenditure for the period then ended are as follows:

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|-----------------------------|-------------------|---|----------------------|-------------------------|--------------------|
| Assets | 104,507,341 | 22,819,584 | 4,817,245 | (11,200,775) | 120,943,395 |
| Inter - segment assets | (15,548,831) | (1,407,697) | 2,850 | - | (16,953,678) |
| Total assets | 88,958,510 | 21,411,887 | 4,820,095 | (11,200,775) | 103,989,717 |
| Liabilities | 53,239,504 | 22,897,848 | 4,199,580 | - | 80,336,932 |
| Inter - segment liabilities | (201,233) | (14,555,867) | (2,576,623) | - | (17,333,723) |
| Total liabilities | 53,038,271 | 8,341,981 | 1,622,957 | - | 63,003,209 |
| Capital expenditure | 1,662,326 | 1,238,317 | 259,774 | - | 3,160,417 |

- The segment results for the period ended 31 March 2013 are as follows:

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|---|-------------------|---|----------------------|-------------------------|-------------------|
| Revenue from external customers | 13,168,798 | 1,230,900 | 842,436 | - | 15,242,134 |
| Inter - segment revenue | 169,206 | 231,478 | 5,710 | - | 406,394 |
| Total segmental revenue | 13,338,004 | 1,462,378 | 848,146 | - | 15,648,528 |
| Segment operating profit /(loss) for the period | 2,068,485 | (42,890) | (7,865) | (10,877) | 2,006,853 |
| Finance costs - net | | | | | (123,450) |
| Share of loss from associates - net of tax | | | | | (11,868) |
| Profit before income tax | | | | | 1,871,535 |
| Taxation | | | | | (277,015) |
| Profit for the period | | | | | 1,594,520 |

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

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|---|------------------|---|----------------------|-------------------------|-----------|
| Depreciation, amortisation and impairment | 2,380,055 | 491,834 | 127,392 | 12,572 | 3,011,853 |

DIALOG AXIATA PLC

Notes to the condensed interim financial statements (Continued)

3 Segment information (Continued)

- The segment assets and liabilities at 31 December 2013 and capital expenditure for the year then ended are as follows:

| | Mobile operation | Fixed telephony and broadband operation | Television operation | Elimination /adjustment | Group |
|-----------------------------|-------------------|---|----------------------|-------------------------|--------------------|
| Assets | 103,988,007 | 22,155,162 | 4,016,576 | (11,188,203) | 118,971,542 |
| Inter - segment assets | (13,884,042) | (1,249,854) | 2,850 | - | (15,131,046) |
| Total assets | 90,103,965 | 20,905,308 | 4,019,426 | (11,188,203) | 103,840,496 |
| Liabilities | 54,172,182 | 21,922,004 | 3,531,132 | - | 79,625,318 |
| Inter - segment liabilities | (175,772) | (12,911,277) | (2,433,343) | - | (15,520,392) |
| Total liabilities | 53,996,410 | 9,010,727 | 1,097,789 | - | 64,104,926 |
| Capital expenditure | 19,812,918 | 7,137,781 | 964,591 | - | 27,915,290 |

4 Seasonal or cyclical factors

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

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

There were no unusual items affecting assets, liabilities, equity, net income or cash flows due to their nature, size or incidence for the period ended 31 March 2014.

6 Estimates

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

There were no changes in estimates and assumptions used in prior financial periods that may have a material effect in the current quarter and estimates and assumptions used in the current quarter are consistent with the audited financial statements for the year ended 2013.

7 Issues, repurchases and repayments of debt and equity securities

There were no significant and unusual issues, repurchases and repayments of debt and equity securities during the period ended 31 March 2014.

8 Stated capital

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

9 Earnings per share

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

10 Market price per share

For the three months ended 31 March

| | 2014 Rs. | 2013 Rs. |
|---------------|-------------|-------------|
| - Highest | 9.60 | 9.50 |
| - Lowest | 8.90 | 8.10 |
| - Last traded | 9.00 | 9.00 |

DIALOG AXIATA PLC

Notes to the condensed interim financial statements (Continued)

11 Twenty largest shareholders of the Company

| Name of Shareholders | No. of shares | % Holding |
|---|---------------|-----------|
| 1 Axiata Investments (Labuan) Limited | 6,785,252,765 | 83.32% |
| 2 Employees Provident Fund | 275,620,697 | 3.38% |
| 3 HSBC INTL NOM LIMITED -BBH Genesis Smaller Companies | 181,660,558 | 2.23% |
| 4 Dialog Axiata Employees ESOS Trust | 158,572,462 | 1.95% |
| 5 CB NY S/A International Finance Corporation | 64,086,800 | 0.79% |
| 6 HSBC INTL Nominees Limited - JPMCB Scottish ORL SML TR GTI 6018 | 62,823,900 | 0.77% |
| 7 HSBC International Nominees Limited - BBH - Genesis Emerging Markets Opportunities Fund Limited | 55,345,900 | 0.68% |
| 8 HSBC INTL Nom Limited - SSBT-National Westminster Bank PLC as depositary of first state Indian subcontinent fund a sub fund of first state investments ICVC | 51,154,800 | 0.63% |
| 9 BNY-CF Ruffer Investment Funds : CF Ruffer Pacific Fund | 44,314,300 | 0.54% |
| 10 HSBC INTL Nom Limited - SSBT-National Westminster Bank PLC as depositary of first state Asia Pacific fund a sub fund of first state investments ICVC | 43,473,700 | 0.53% |
| 11 The Ceylon Investment PLC A/C No. 2 | 28,629,514 | 0.35% |
| 12 The Ceylon Guardian Investment Trust PLC A/C No.2 | 28,181,303 | 0.35% |
| 13 Associated Electrical Corporation Limited | 24,950,600 | 0.31% |
| 14 Northern Trust Co S/A EDGBASTON Asian Equity Trust | 22,363,893 | 0.27% |
| 15 Northern Trust Co S/A Prince Street Opportunities Limited | 22,000,000 | 0.27% |
| 16 Mellon Bank N.A.- UPS Group Trust | 18,880,000 | 0.23% |
| 17 Seylan Bank PLC. - A/C No. 3 | 12,459,100 | 0.15% |
| 18 Mercantile Investments and Finance PLC | 11,000,000 | 0.14% |
| 19 MAS Capital (Private) Limited | 8,450,977 | 0.10% |
| 20 BNYM SA / NV – Railways pension trustee Company Limited | 7,973,670 | 0.09% |

12 Public shareholding

The percentage of public shareholding as at 31 March 2014 was 14.73% (14.73% as at 31 December 2013), calculated in accordance with the listing rules of the Colombo Stock Exchange.

13 Hedging reserve

The hedging reserve represents the fair value relating to derivative financial instrument used to hedge the exposure of variability in cash flow attributable to interest rate risk associated with future interest payment of the floating rated syndicated term loan.

The movement of the hedging reserve is as follow:

| | Group / Company (Rs. 000) |
|--|------------------------------|
| Fair value at inception | (43,254) |
| Difference of fixed and floating interest rates charged to finance costs | 31,830 |
| Cash settlement during the period | (6,720) |
| Balance at 31 March 2014 | (18,144) |

Movements of the hedging reserve are recorded through other comprehensive income throughout the period of the hedging contract. The balance of the hedging reserve at each statement of financial position date is recorded under equity and it will be zero at the maturity of the hedging contract.

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

DIALOG AXIATA PLC

Notes to the condensed interim financial statements (Continued)

14 Derivative financial instrument

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

The carrying amount of the derivative financial instrument represents the fair value of the interest rate swap with notional amount of USD 120,666,667 (31.12.2013 - Rs. Nil) which has a fixed interest payment of 2.6075% per annum and floating interest receipt of USD 3 months LIBOR plus a spread on the amortising outstanding principal amount maturing on 29 July 2018.

The fair value is determined based on the discounted future cash flows using the applicable yield curve over the duration of the interest rate swap. The fair value of the interest rate swap falls under level 2 of the fair value hierarchy and is provided by counterparty financial institution which is determined based on forward interest rates from observable yield curves and contracted interest rates discounted at a rate that reflects the credit risk of the counterparty.

15 Trade and other payables

Other payables of the Group include a provision made 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 favor of Electroteks Network Services (Private) Limited. Suntel Limited [now amalgamated with Dialog Broadband Networks (Private) Limited], on the basis of legal advice received, has appealed against this judgment to the Supreme Court of Sri Lanka. The matter is now fixed for hearing on 3 June 2014.

Pending such appeal, Electroteks Network Services (Private) Limited filed a writ pending appeal application in the Commercial High Court of the Western Province seeking to execute the judgment given in their favour. On 3 March 2014 proceedings in relation to the this application was terminated upon Dialog Broadband Network (Private) Limited keeping a guarantee to cover the judgment in the appeal made to the Supreme Court of Sri Lanka, through its parent company Dialog Axiata PLC, in the form of a Bank Guarantee for the value of Rs.1Bn and a Corporate Guarantee for the value of Rs. 3.2Bn. The contingent liability arises from such guarantee is disclosed in note 32 (a) (ii) to the audited financial statements for the year ended 31 December 2013.

16 Effects of changes in the composition of the Group

There has not been a change in the composition of the Group which was disclosed in the audited financial statements for the year ended 31 December 2013.

17 Directors' shareholdings

The details of shares held by the Directors and their spouses as at 31 March 2014 are as follows:

| | Number of shares |
|------------------------|-------------------------|
| Dr. Hansa Wijayasuriya | 43,010 |
| Mr. Moksevi Prelis | 18,480 |
| Mr. Mohamed Muhsin | 18,040 |

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

18 Cash and cash equivalents

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

| | 31 Mar 2014 Rs. | 31 Dec 2013 Rs. |
|--|----------------------------|----------------------------|
| Standard Chartered Bank, amount deposited in escrow account for the purpose of acquisition of Suntel Limited. | 522,760,000 | 522,760,000 |
| Deutsche Bank AG, amount deposited in escrow account for the purpose of acquisition of Sky Television and Radio Network (Private) Limited. | 40,000,000 | 40,000,000 |
| Hatton National Bank PLC, amount deposited in custodian accounts to facilitate Ez cash operation. | 140,000,000 | 140,000,000 |
| | 702,760,000 | 702,760,000 |

DIALOG AXIATA PLC**Notes to the condensed interim financial statements (Continued)****19 Dividends paid**

No dividends were declared or paid during the quarter ended 31 March 2014 by the Company.

20 Valuation of property, plant and equipment

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

21 Contingent liabilities

There has not been a significant change in the nature of the contingent liabilities, which were disclosed in the audited financial statements for the year ended 31 December 2013.

22 Capital commitments

Capital expenditure contracted for supply of telecommunication equipment at the statement of financial position date but not yet incurred consist of Rs. 6,505,813,365 (31.12.2013 – Rs. 7,244,581,330) and 9,466,466,670 (31.12.2013 – Rs. 11,174,519,125) of the Company and the Group respectively.

23 Events after the reporting period

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