Dialog Axiata PLC | Annual Report 2012

Contents

Financial information

Our Vision
To be the undisputed leader in the provision of multi-sensory connectivity resulting always, in the empowerment and enrichment of Sri Lankan lives and enterprises.

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

Corporate Values
Total commitment to our customers
Dynamic and human-centred leadership
Commitment to task & excellence
Uncompromising integrity
Professionalism and accountability
Teamwork
Foremost respect for concern & care

Introduction to the Company

Dialog Axiata PLC (“Dialog”/“Dialog Axiata”/ “Company”), a subsidiary of Axiata Group Berhad (Axiata), operates Sri Lanka’s largest and fastest growing mobile telecommunications network. The Company is also one of the largest listed companies on the Colombo Stock Exchange in terms of market capitalization and is Sri Lanka’s largest Foreign Direct Investor (FDI) with investments cumulating to over USD 1.41Bn.

Dialog has been at the forefront of innovation in the mobile industry in Sri Lanka since the late 90’s, propelling the nation’s mobile telephony infrastructure to a level of advancement on par with the developed world. The Company delivers advanced mobile telephony and high speed mobile broadband services to a subscriber base in excess of 7.7Mn Sri Lankans, via a 2.5G and 3G/3.5G networks. The Company holds the distinction of being the first service provider in South Asia to launch 3G and HSPA+ services, and most recently Mobile 4G services based on FD-LTE technology. Dialog also provides a comprehensive suite of International Roaming Services across a global footprint comprising of more than 200 countries, and operates a wide portfolio of international telecommunication services, including but not limited to retail and wholesale international voice and data services.

Dialog Axiata supplements its market leading position in the Mobile Telecommunications sector with a robust footprint and market presence in Sri Lanka’s Fixed Telecommunications and Digital Television markets through its fully owned subsidiaries Dialog Broadband Networks (Private) Limited (DBN) and Dialog Television (Private) Limited, (DTV).

DBN is Sri Lanka’s second largest Fixed Telecommunications provider. DBN serves residential and enterprise customers with voice, broadband, lease lines and customized telecommunication services. DBN has the distinction of being the first telecommunications operator in Sri Lanka to launch 4th Generation LTE High Speed Broadband Services. DBN is also a leading provider of Radio and Optical Fibre based transmission infrastructure facilities. DTV operates a Direct-to-Home (DTH) Digital Satellite TV service and is the market leader in Sri Lanka’s Pay TV sector. DTV supports a broad array of international and local content in both Standard Definition (SD) and High Definition (HD) formats alongside a wide portfolio of Sri Lankan television channels and delivers high quality infotainment to a viewer base in excess of 264,000 Sri Lankan households.

The Dialog Group has also been aggressive in its pursuit of a leadership position in the provision of Digital Services. Dialog Axiata has the distinction of being the first mobile operator in Sri Lanka to be awarded a Payment Systems Provider license by the Central Bank of Sri Lanka, based on which it operates eZ Cash, the country’s pioneering mobile money service. The Dialog Group also established a position of strength in Sri Lanka’s Digital Commerce space through a Joint Venture (Digital Commerce Lanka) encompassing Sri Lanka’s leading daily deals site Anything.lk and the incumbent e-commerce properties of the Dialog Group WoW.lk, ibuy.lk and tradenet.lk. The Dialog Group also participates in Sri Lanka’s burgeoning Business Process Outsourcing (BPO) sector through Firstsource-Dialog Solutions (FDS) its joint venture with Firstsource Solutions Limited – India’s largest publicly listed BPO.

Dialog is an ISO 9001 certified company and is indelibly positioned as Sri Lanka’s premier and most preferred connectivity provider. Sri Lankan consumers named Dialog, the Telecommunications Service Provider of the Year for the second year in succession, at the SLIM-Nielsen Peoples Choice Awards. Sri Lankan consumers also chose Dialog as the Internet Services Provider of the Year in its inaugural year of award. Dialog features consistently among Sri Lanka’s top 3 most valuable brands as rated by Brand Finance. Over the past years, the Company and has received numerous local and international awards including the National Quality Award, the Sri Lanka Business Excellence Award, and 3 successive GSM World Awards. The Company has also earned the distinction of retaining the No. 1 position on Sri Lanka’s Corporate Accountability Ratings over the past 4 years, and has been consistently placed among the top 5 Most Respected Corporate Entities in Sri Lanka.

Company website: www.dialog.lk

Message from the Chairman

My Dear Shareholders,

It is with distinct pleasure that I write to you at the close of the financial year 2012 and report that your Company and its subsidiaries have recorded yet another year of stellar performance. Our results for the year reflect sound execution of our business strategies which in turn have been centered on an aggressive but calculated expansion plan on the backdrop of meticulous diligence with respect to execution and prudent management of resources.

Despite a challenging, competitive and economic environment, your Company, as Sri Lanka's premier mobile services provider recorded strong revenue growth across Mobile, International, Digital Pay Television, Tele-Infrastructure and Fixed Line businesses to record consolidated revenue of Rs. 56.35Bn for the year ending 31st December 2012, demonstrating a significant growth of 24% YoY. Top line growth was equally reflected in terms of earnings with Group NPAT growing 23% YoY to be recorded at Rs. 6.02Bn in FY 2012.

The Board is happy to propose for your consideration, a full year dividend of 33 cents per share, up 32% of the previous year dividend of 25 cents per share. Prudent cash flow management coupled with robust business performance and optimisation of cost management has facilitated this excellent business performance which has been enumerated in more detail in the business review section of this annual report.

The Group continued to make aggressive investments in consolidating its leadership in terms of its nationwide ICT (Information Communication Technology) infrastructure footprint, and the application of cutting edge technology across its Mobile, Fixed and Broadband businesses. Sri Lanka's Telecommunications Sector entered the 4G era, with the launch of Commercial Fixed LTE Services in the city of Colombo by our fully owned subsidiary Dialog Broadband Networks (DBN).

We also built on our strong track record as a responsible corporate citizen, investing aggressively in multiple community empowerment projects including Nenasa – the distance education network we have gifted for the benefit of Sri Lanka's school children, the Dialog Scholar programme and a comprehensive portfolio of projects undertaken through the Dialog Foundation.

During the year we also completed the acquisition of Suntel Limited by DBN. The combined strengths of DBN and Suntel will be synergised towards establishing a best in class infrastructure platform to further consolidate Dialog's leadership position in Sri Lanka's fast expanding B2B and B2C sectors. During the course of 2012, your Company also made a very bold and determined entry to Sri Lanka's Digital Commerce space via an investment in a Joint Venture encompassing the e-commerce properties of Anything.lk and those of the Dialog Group. Your Company also earned the distinction of becoming the first mobile telecommunications operator to be awarded a Payment Systems Provider license under the aegis of the Central Bank of Sri Lanka. We believe that these initiatives will play a pivotal role in elevating electronic commerce and payments in Sri Lanka to the mainstream market and will succeed in extending their benefits to a wide and plural segment of Sri Lankan consumers.

The Dialog Group also continued as the nation's top foreign direct investor with infrastructure investments totaling USD 136.1Mn during the year and cumulating to over USD 1.41Bn since inception.

Board Changes

I welcome Mr. Mohd Khairil Abdullah who has been appointed as a Non Independent/Non-Executive Director on the Board of Dialog Axiata, as Axiata Group Berhad's nominee director, in replacement of Mr. Azwan Khan Osman Khan.

Acknowledgements

As always it gives me immense pleasure to extend my profound thanks to our stakeholders including shareholders, customers, suppliers and team Dialog led admirably as usual by Dr. Hans Wijayasuriya. I also wish to extend my sincere gratitude to the Telecommunications Regulatory Commission of Sri Lanka and other stakeholders from the regulatory sphere as well as my own fellow Board Directors for the advice, guidance and support that has made 2012 such a successful year for us.

Datuk Azzat Kamaludin
Chairman of the Board of Directors

30th March, 2013

Group Chief Executive's Review of Operations

In my review of operations last year, I ventured to conclude that your Company had successfully consolidated the transformation driven performance rebound of the past years, and had indelibly crystalised requisite capability, capacity and agility to form an aggressive and sustainable engine for growth. I am happy to report that in the Year 2012, the Dialog Group has richly harvested this inherent capacity. Riding the crest of the resultant wave of growth, our team has turned in a year of strong financial performance and a slate of multi-faceted accomplishments across the dimensions of business, market and innovation leadership.

I am happy to report that your Company registered a growth of 23% in Group earnings to record a Net Profit after Tax (NPAT) of Rs. 6.02Bn for the FY 2012. Robust growth at the bottom line was fuelled by 24% growth in Group revenues (recorded at Rs. 56.35Bn), paralleled by growth in Group Earnings before Interest Depreciation Taxes and Amortization (EBITDA) of 13% to reach Rs. 18.55Bn for FY2012. In addition to delivering robust financial outcomes, I am happy to report that during the course of 2012, Dialog made substantial market gains across the multiple ICT sectors in which we operate.

A clear leader in Sri Lanka's mobile telephony sector, Dialog continued to deliver market leading performance with respect to subscriber acquisition, network development and service excellence. Dialog also consolidated its leadership in the country's Digital Pay Television, International Telecommunications and Tele-Infrastructure sectors with segment growth rates in excess of 20%. The Group also consolidated and grew its presence in the Fixed Telecommunications sector making penetrative inroads in to Enterprise, and Small Business Markets.

Our success in the market place is consistently underpinned by our focus on the Sri Lankan consumer and our desire to deliver inclusive digital empowerment resulting in the enhancement of the lives and livelihoods of all Sri Lankan citizens and businesses. We are singularly cognizant of the fact, that our consumer underpins our success, and for their support and trust we remain deeply grateful. I am happy to report that for the 2nd Year in succession, consumers of telecommunications services through a nationwide preference survey conducted by AC Nielsen in association with the Sri Lanka Institute of Marketing, selected Dialog as the Telecom Services Provider of the Year. Significantly, Sri Lankan consumers also voted us the Internet Services Provider of the Year, a recognition of our efforts to build beyond our leadership in the Telecommunications sector, to lead our nation into the digital era.

Transformation to Lead the Digital Era

My review of operations last year also espoused the fact that we are singularly welcoming of the opportunity to reinvent ourselves year on year – setting new paradigms for others to follow as a leader should, whilst simultaneously creating value for our shareholders, and making a lasting contribution to our country and people. I venture to conclude that the Year 2012 was indeed pivotal in this respect – with the Dialog Group venturing to chart new futures through internal transformation and organic as well as inorganic expansion. While transformation challenges in the past ranged from Cost Rescaling to Organisation Re-engineering, FY 2012 placed before us the challenge to prepare the organisation and its infrastructure, service and people capacities to meet the challenges and opportunities of the emerging digital era. In this respect, we envisaged a future where Broadband would be positioned as a cornerstone of our service delivery landscape, and expectations of ICT consumers would be elevated to encompass a vastly expanded and converged portfolio of infotainment, commerce and digital life enablers. In line with this view of the digital era, we drove to fruition during FY 2012 a portfolio of strategic initiatives designed to grow our leadership in to the future.

Broadband Expansion – 1st 4G LTE & Wi-Fi Leadership

During the course of FY 2012, we completed the acquisition and merger of Suntel Limited. Whilst our Fixed Line, Enterprise and SME businesses had made penetrative progress over the past years, we deemed it a strategic imperative to strengthen the Group's position as a leading broadband provider, and to gain a stronger (2nd Player) foothold in Fixed Broadband and Enterprise/SME market segments on an accelerated basis. The acquisition of Suntel was followed by the amalgamation and merger of operations, with Dialog Broadband Networks (DBN). I am happy to report that the merger has delivered the expected outcomes with DBN's scale and efficiency of operations increasing manifold to register Revenue, EBITDA and Bottom Line performance improvements of 125%, 169% and 87% respectively. Furthermore and most significantly, DBN has succeeded in consolidating a robust platform for the execution of its Broadband Business strategy into the future. DBN delivered successive and early manifestations of this capability through the roll-out of Sri Lanka's largest Wi-Fi network spanning 2000 hot spots, and the launch of Sri Lanka's first 4th Generation Fixed LTE High Speed Broadband Network, heralding the entry of Sri Lanka's Telecommunications in to the 4G era.

Dialog's LTE network will expand rapidly to cover most towns and cities of Sri Lanka in the near future, and consistent with the revolution we delivered in the mobile telecommunications sector over the past decade, we remain committed to deliver the benefits of LTE technology in a form which will be available and affordable to a vast majority of Sri Lankan citizens and businesses.

Sri Lanka's First Mobile Money & Payment Service

The launch of Sri Lanka's first Mobile Money and Payment service stands out as the singularly transformational business creation initiative during the course of FY 2012. The launch of eZ Cash in second half of 2012, followed Dialog securing the distinction of becoming the first mobile operator to be awarded a Payment Systems Provider license by the Central Bank of Sri Lanka (CBSL). The regulatory environment encompassing mobile money and payments crafted by the CBSL stands among the most progressive in the world. We are indebted to the CBSL, the Telecommunications Regulatory Commission and the Custodian Bank to the Mobile Money Service, HNB for supporting and enabling us in delivering this quantum innovation to Sri Lanka's financial services and telecommunications services sectors. The eZ Cash service enables mobile subscribers to send and receive money, settle utility bills and make payments for goods and services through their mobile phone, bringing electronic money interchange and electronic payment within the reach of every Sri Lankan citizen. Dialog is confident that this pioneering initiative to deliver a nationwide mobile money service will usher an unprecedented level of financial inclusion through the empowerment of millions of Sri Lankans with electronic money transfer and payment facilities.

Beyond Payments - Digital Commerce

Carrying forward its strategic focus on building robust capabilities and growth engines for the provision of consumer centric digital services, Dialog made a decisive foray in to the space of Digital Commerce through the acquisition of a 26% stake in newly formed entity Digital Commerce Lanka (Private) Limited (DCL). The new joint venture brings together

"The launch of Sri Lanka's first Mobile Money and Payment service stands out as the singularly transformational business creation initiative during the course of FY 2012."

the operations of market leading daily deals site Anything.lk with the e-commerce properties of the Dialog Group encompassing ibuy.lk, tradenet.lk, mytrader.lk and WoW.lk. DCL has already made aggressive advancements towards consolidating its requisite e-commerce properties to deliver an aggregated and unified e-commerce platform WoW.lk. The investment in DCL signifies and demonstrates the strategic intent of the Dialog Group to expand its presence in Sri Lanka's Digital Commerce space, and is billed to herald the formation of an online business power house built on collective strengths of the constituent businesses and the consumer assurance ethos inherent to the Dialog Group.

The Economy and Industry

Sri Lankan economy delivered a moderate Real GDP growth of 6.4% during the year under review. The Government of Sri Lanka (GoSL) continued to be aggressive with respect to the implementation of major infrastructure projects alongside the targeted enablement of the Tourism sector and empowerment of SMEs and rural industry. Infrastructure projects continued to demonstrate impressive levels of execution efficacy eliciting confidence in the medium term growth potential of the Sri Lankan economy, and presenting a positive case for local and foreign direct investment. A calibrated fiscal management policy has been successful in maintaining inflation at a moderate level of 7.6% during FY 2012 while unemployment reached a record low of 4.5% and tourist arrivals surpassed the milestone figure of 1Mn visitors. Healthy micro-economic dynamics accruing from the afore-referenced levers have resulted in moderate growth of disposable income available for consumption across telecommunications and infotainment sectors.

The macro-economic environment during Year 2012 was however characterized by the significantly negative albeit one-time, impact of the devaluation of the Sri Lankan Rupee (SLR). The SLR depreciated by 11.8% relative to its value at the end of FY 2011 resulting in direct and indirect impacts to the operations and financial outcomes of Telecommunications Service Providers. Principal among the direct impacts are the recognition of foreign exchange translational losses accruing from the impact of currency devaluation on the carrying value of foreign currency denominated assets and liabilities. The Dialog Group recorded foreign exchange losses totaling to Rs. 2.18Bn during FY 2012. Albeit substantial in accounting terms, Dialog's foreign exchange losses primarily were translational (non-cash) in nature due to the stringent adherence to the prudent foreign exchange exposure and cash flow management policies practiced by the Group. The devaluation of the SLR was accompanied by indirect and downstream impacts in the form of inflation in Fuel and Energy prices as well cost expansion of several key capital and operational inputs to the telecommunications sector including but not limited to Network Infrastructure, International Bandwidth and Software Licensing Costs. The cumulative impact of operational cost expansion resulting from currency devaluation was recorded at Rs. 1,140Mn with a commensurate dilution of operating margins.

The Telecommunications Regulatory Commission of Sri Lanka (TRCSL) continued to espouse and facilitate the consolidation of a sustainable techno-economic industry framework, steering safely away from the value destructive market environments of 2007-9. The portfolio of strategies and policies introduced by the regulator in 2010, featuring in the main the floor price and interconnect regimes, continue to deliver consumer as well as sector benefits. As planned within the original formulation of the Floor Rate regime, the TRCSL effected a 25% relaxation in the Off-net floor rate in line with its objective of guiding the industry along a trajectory of rational competition modulated with the enhancement of value delivery to consumers. During the course of 2012, mobile subscriptions increased10.9% to 20.3Mn while Fixed telephone lines decreased by 4.4% to 3.4Mn. The Broadband sector demonstrated multi-faceted transformation during the course of FY 2012 with penetration levels increasing from 4.0% to 6.7% underpinned by the expansion of

Broadband service availability and quantum reductions in Broadband tariffs to levels recognized by the International Telecommunication Union (ITU) to be the lowest globally.

Our Operational Performance

Our determined and diligent focus over the past years on establishing a robust platform for profitable growth delivered superlative returns in FY 2012 with the Dialog Group recording consolidated revenue growth of 24% YoY. Revenue growth was paralleled by healthy operational returns with Group EBITDA being recorded at Rs. 18.55Bn, a significant increase of 13% YoY. While EBITDA demonstrated aggressive growth in absolute and relative terms, inflation led expansion of key cost drivers as described earlier in this report resulted in a contraction of the Group's EBITDA margin by 3 percentage points to 33%.

Underpinned by EBITDA performance, Group NPAT grew by 23% YoY to be recorded at Rs. 6.02Bn. Non-operational performance below EBITDA was however characterized by several material albeit non-cash exceptional items. Principal among these were non-cash translational foreign exchange losses amounting to Rs. 2.18Bn, a network modernization related impairment charge of Rs 931 Mn and a one-off write back of the Company's deferred tax provision of positive Rs. 2.28Bn. Non-cash foreign exchange losses accrued due to the devaluation of the SLR by 11.8% and the write back of deferred tax was effected subsequent to the Company opting for a 2% revenue tax with effect from 2013, following the expiry of the Company's tax holiday. The impairment charge of Rs. 931Mn was recognized in line with the Group's conservative approach to ensuring network asset valuations are closely aligned to their efficient economic life, making way for the modernization of network elements to achieve optimum operating efficiency. Group NPAT post normalisation for exceptional gains/charges was recorded at Rs. 6.26Bn for the FY 2012 demonstrating a significant growth in normalized NPAT performance of 29% YoY. The positive performance trajectory at Group level was underpinned by robust growth in the Group's core mobile business as reflected in the financial performance of Dialog Axiata PLC as well as positive performance dynamics accruing at its subsidiaries Dialog Television (DTV) and Dialog Broadband Networks (DBN).

Mobile & Adjacent Business

Dialog Axiata PLC ('the Company), featuring the Mobile, International and Tele-Infrastructure business of the Group, continued to leverage its market leading position within Sri Lanka's mobile sector featuring a subscriber base of 7.7Mn, to deliver strong growth in revenue and profitability. Dialog continued to supplement its leadership in the mobile sector with commensurate leadership with respect to broadband subscribers. Broadband subscribers on the Dialog Network grew by 44% to be recorded over 455,000. The Company continued to contribute a major share (87%) of Group Revenue and (87%) of Group EBITDA. The Company recorded revenue of Rs. 49.80Bn in FY 2012, up 19% relative to 2011. Company NPAT grew by 6% to be recorded at Rs. 6.19Bn. Growth in Company profitability was underpinned by a strong EBITDA growth (6% YoY) at a margin of 32%.

Digital Pay Television

The year 2012 witnessed the revolutionisation of the pay television market in Sri Lanka with DTV introducing Sri Lanka's first ever Prepaid Television Service which enables subscribers to pay for channels on a per-day basis. DTV also earned the distinction of launching High Definition (HD) Television services for the first time in Sri Lanka. During FY 2012 DTV translated its market leading position in Sri Lanka's Pay TV market to superlative growth in terms of subscribers (23% YoY, recorded over 264,000), top line (27% YoY, recorded at Rs. 2.99Bn) and EBITDA (11% YoY, recorded at Rs. 636Mn) respectively. DTV embarked on an aggressive modernization programme during the year under review featuring the upgrade of its digital satellite broadcasting network from MPEG2 to MPEG4 and HD technologies, which will increase the return on investment on satellite transponder resources in tandem with enhancing the quality of service to consumers. The modernization programme incurred the recognition of a one-off non-cash impairment charge of Rs. 85Mn. DTV NPAT was recorded at Rs. 11Mn for FY 2012, a marginal contraction in bottom line profitability relative to the FY 2011 figure of Rs. 26Mn.

Fixed Telecommunications

The Group's fixed telecommunications business was subject to aggressive growth in scale and consolidated operating performance subsequent to the acquisition and amalgamation of Suntel Limited, with DBN in May 2012. Accordingly, DBN revenues grew by 125% YoY to be recorded at Rs. 5.04Bn. Top line growth was supplemented by the realization of substantial synergies from the merger of operations of Suntel and DBN., leading to a 169% improvement in EBITDA (recorded at Rs. 1.79Bn for FY 2012). Enhanced EBITDA performance translated to an 87% improvement in DBN NPAT performance YoY, albeit remaining dilutive to the Group at negative Rs.120Mn.

Investing in Growth

The Group's strategy with respect to Capital Investment continued to be calibrated to ongoing and future returns while being closely aligned to the forward looking growth strategies of our multiple businesses. Group Capital expenditure for FY 2012 totaled to Rs. 17.41Bn and was directed in the main towards the expansion of the Group's High Speed Mobile Broadband Services, Fixed Broadband services, and Optical Fibre Network (OFN) in addition to continued investment in further consolidating Dialog's undisputed leadership in coverage and service quality.

Notwithstanding aggressive investments Group Free Cash Flow (FCF) was recorded at Rs. 1.15Bn for the FY 2012 as a direct outcome of enhanced competitiveness and aggressive growth at top line and EBITDA level. Group operating cash flow grew by 16% YoY to be recorded at Rs. 21.58Bn. The Group continued to maintain a structurally strong balance sheet with the Net debt to EBITDA ratio being recorded at 0.82x, increasing marginally from 0.74x in the previous year. The Dialog Group continued to maintain a National Long-term Rating of 'AAA(lka)' with a 'stable' outlook issued by Sri Lanka's premier credit rating agency, Fitch Ratings Lanka Ltd.

Sharing Value - A Sustainable Contribution to Nation & Society

The Dialog Group continues to be fortunate in being afforded the honor and privilege of connecting and empowering a major proportion of Sri Lankan citizens and homes. As at the end of FY 2012, Dialog's mobile telecommunication service connects in excess of 7.7Mn citizens from across all provinces of Sri Lanka, while its Fixed Telecommunications and Digital Satellite Television Services reached approximately 638,000 and over 264,000 Sri Lankan homes respectively. During 2012 we continued to invest in the expansion of our service portfolio and network infrastructure. In terms of direct investments, FY 2012 featured the investment of USD 136.1Mn towards infrastructure development, taking the cumulative investment by Dialog in Sri Lanka's ICT sector to USD 1.41Bn, The Dialog Group continues to be recognized by the Board of Investment (BOI) to be the single largest Foreign Direct Investment (FDI) in Sri Lanka.

During the course of business in 2012, your Company contributed Rs. 5.68Bn in taxes, fees and levies to the Government of Sri Lanka (GoSL). Further, the Group collected Rs. 8.62Bn as indirect taxes on behalf of GoSL during the past year. Your Company provides employment to 3,000 people and continues to be the largest employer in the mobile telecommunications sector whilst accounting for over 23% of the Telecommunication sector workforce in Sri Lanka.

While our contribution to the nation and community at large is more fully espoused in our Sustainability Report for 2012, I would like to herein reiterate our singular focus on delivering Digital Empowerment to all, with a view to bridging socio-economic divides and asymmetries in access to education, knowledge, information, commerce, health and other fundamental levers of socio-economic development.

"As at the end of FY 2012, Dialog's mobile telecommunication service connects in excess of 7.7Mn citizens from across all provinces of Sri Lanka, while its Fixed Telecommunications and Digital Satellite Television Services reached over 638,000 and 264,000 Sri Lankan homes respectively."

We progressed in 2012 our strategic partnerships with Government and like-minded Non-Government Organisations, with a view to collectively maximising the impact we could deliver to the communities in which we operate. These partners include the International Finance Corporation, the GSM Association, and the International Telecommunications Union; the Ministries of Education, Health, Disaster Management, and the Presidential Secretariat; the National Blood Transfusion Centre, the National Institute of Education, and the National Disaster Management Centre. A significant milestone achieved in 2012 was the creation of the Dialog Foundation, with our Company's Chairman, as its founding Chairperson.

We will continue to ensure that we leave in the wake of our aggressive business growth trajectory, equally aggressive strides in pluralizing the application of ICTs towards the achievement of socio-economic development. We believe Sri Lanka is poised at the cusp of an era of rebound and accelerated development arising from the rejuvenation of multiple sectors of the economy. There is little doubt that empowering technologies if deployed inclusively will be a key driver of development in the emerging era. In this respect, Dialog is uniquely placed to leave behind life enhancing impacts on the communities in which it operates, through paradigm-setting advancements in the inclusive application of its products and services.

In Conclusion

In closing my review of operations, it gives me great satisfaction that we have been able to build on the potential of internal strengths honed over the past years, to deliver robust financial returns simultaneously and in tandem with building several strategic platforms for leadership in the emerging digital era. I am also happy that we have been able to share substantial value with all our stakeholders on an inclusive and plural basis. We however remain ever cognizant of the fact that the consolidated outcomes delivered by the Dialog Group are underpinned by the faith and trust of the consumer. My management team joins me in thanking our customers for their valued patronage and loyalty, and our shareholders for their steadfast support at all times.

I would also like to express my sincere gratitude for the support and encouragement extended to us by the Government of Sri Lanka and its agencies – in particular, the TRCSL, BOI, the Central Bank of Sri Lanka, the Ministry of Mass Media and Information and the Ministry of Posts and Telecommunications. I also extend herein my gratitude to our Chairman, Datuk Azzat Kamaludin and my fellow Board members for their strategic insight, direction and invaluable counsel made available to me in abundance at all times.

The performance for the year 2012 stands testimony to the courage, determination and excellence of the Dialog team. It has been an honour and privilege to work alongside them. Together we look to the future with great excitement as we stand at the cusp of the emerging digital era – an era where ICTs will play an even more transformational role in the lives of people and hence in the shaping of the future of our country. Our excitement remains underpinned and enshrined in our confidence that as the people's chosen leader in our sector, we will guide the future responsibly, and with care for citizen, society and nation.

Dr. Hans Wijayasuriya
Director/Group Chief Executive

30th March, 2013

Board of Directors

Datuk Azzat Kamaludin
Chairman / Non-Independent, Non-Executive Director

Datuk Azzat Kamaludin was appointed to the Board of Dialog Axiata as Chairman and Director on 21st July, 2008.

He is a Senior Independent Non-Executive Director of Axiata, and is a partner in the law firm of Azzat & Izzat, Malaysia.

Datuk Azzat Kamaludin served as an administrative and diplomatic officer with the Ministry of Foreign Affairs, Malaysia from 1970 to 1979 and has also served as a member of the Securities Commission, Malaysia from 1993 to 1999. He is presently a Director of several public listed and private limited companies in Malaysia.

Datuk Azzat Kamaludin graduated from the University of Cambridge, United Kingdom, with degrees in Law and in International Law, and was admitted as a Barrister-at-Law of the Middle Temple, London in 1970. He was admitted as an advocate and solicitor of the High Court of Malaya in 1979.

Dr. Hans Wijayasuriya
Group Chief Executive / Non-Independent, Executive Director

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

Dr. Wijayasuriya joined the Company in 1994 as a member of the founding management team of the Company, and has functioned in the capacity of the Chief Executive of Dialog Axiata, since 1997. He counts over two decades of experience in technology-related business management. Dr Wijayasuriya serves on the boards of several subsidiaries and associates, locally and internationally of the Dialog Group and Axiata Group respectively. He also serves on the Board of Directors of the Sri Lanka Institute of NanoTechnoloy (SLINTEC) and the Ceylon Petroleum Corporation.

Dr. Wijayasuriya holds a degree in Electrical and Electronic Engineering from the University of Cambridge, UK, a PhD in Digital Mobile Communications from the University of Bristol, UK and a Master's in Business Administration from the University of Warwick, UK. He is a Fellow of the Institute of Engineering Technology of the UK (IET), a Chartered Professional Engineer and also a member of the Institution of Electrical and Electronic Engineers (IEEE), USA.

Dr. Wijayasuriya is a past Chairman of GSM Asia Pacific – the regional interest group of the GSM Association representing 49 Asia Pacific member countries, and has earned the distinction of being included in the GSM 100 Role of Honour for his contribution to GSM in the Asia Pacific Region. He was a recipient of the CIMA-Janashakthi Business Leader of the Year award in its inaugural year of presentation in 2003, and of the coveted 'Sri Lankan of the Year' award in 2008 presented by Sri Lanka's premier business journal, the Lanka Monthly Digest (LMD).

Mr. Moksevi Prelis
Independent, Non-Executive Director

Mr. Prelis was appointed to the Board of Dialog Axiata PLC on 15th September, 2004.

He has 27 years experience in the banking sector, out of which 21 years was in the capacity of CEO/Director of the DFCC Bank and the Nations Trust Bank. Prior to this, he has worked for 16 years as an Engineer and a Manager in the automobile manufacturing and steel industries. He has held the posts of Chairman – Ceylon Electricity Board, Chairman – National Institute of Business Management, Chairman – Association of Development Finance Institutions of Asia & Pacific, headquartered in Manila and Chairman – St. Johns National Association of Sri Lanka. He has served as a Director on the boards of 20 companies and five state institutions. He is currently the Chairman of Capital Trust Securities Group and Association for Social Development and a Director of the Colombo Stock Exchange Limited and Sinwa Holdings Limited, Sri Lanka.

Mr. Prelis holds a Bachelor's degree with Honours in Mechanical Engineering from the University of Ceylon, a Master's degree in Industrial Engineering and Management from Purdue University, USA, a Postgraduate Certificate in Industrial Administration from Aston University, Birmingham and has completed the International Senior Management Programme of the Harvard Business School, USA. He is a Chartered Engineer of UK, a Fellow of the Institution of Engineers, Sri Lanka, a (Hon) Member of the Institute of Personnel Management and a (Hon) Fellow of the Institute of Bankers Sri Lanka.

Mr. Mohamed Muhsin
Independent, Non-Executive Director

Mr. Muhsin was appointed to the Board of Dialog Axiata on 14th June, 2006.

Mr. Muhsin's experience includes working as a Strategic Management Consultant and Director on international corporate and Foundation Boards. Prior to his retirement as the Vice President and Chief Information Officer at the World Bank, Mr. Muhsin was responsible for aligning information technology with the organisation's business strategy. He successfully implemented major reforms in global telecommunications, video conferencing, information management and enterprise business systems, and the work he accomplished is featured in a Harvard Business School Case Study.

He has also worked in senior positions in the private sector in Sri Lanka and served for several years as the Group Financial Director of Zambia's industrial and mining conglomerate and as advisor on state enterprise reform in the office of the then President of Zambia, Dr. Kenneth Kaunda.

Mr. Muhsin is a Chartered Accountant and a Fellow of The Institute of Chartered Accountants of Sri Lanka.

Mr. Jayantha Dhanapala
Independent, Non-Executive Director

Mr. Dhanapala was appointed to the Board of Dialog Axiata PLC on 3rd August, 2007.

He was a career diplomat in the Sri Lanka Foreign Service and the United Nations (UN). He was the Ambassador of Sri Lanka and the Permanent Representative to the UN in Geneva (1984-87), the Ambassador of Sri Lanka to the USA (1995-97) and UN Under-Secretary-General (1998-2003). He served as a member of the UN University Council for a period of seven years.

Mr. Dhanapala is the current President of the 1995 Nobel Peace Prize-winning Pugwash Conferences on Science and World Affairs and sits on the Governing Board of the Stockholm International Peace Research Institute and advisory boards of other international institutes. He has published several books and written articles for international journals. Mr. Dhanapala was named 'Sri Lankan of the Year 2006' by Sri Lanka's premier business magazine, the Lanka Monthly Digest (LMD). He has also received many international awards.

Mr. Dhanapala holds a Bachelor of Arts (Honours) degree majoring in English Literature with French from the University of Peradeniya Sri Lanka and a Master of Arts degree in International Studies from the American University in Washington DC, USA. He was awarded honorary doctorates by the Universities of Peradeniya and Sabaragamuwa, Sri Lanka, the Monterey Institute of International Studies in the USA, the University of Southampton UK and the Dubna International University in the Russian Federation.

Dato' Sri Jamaludin Ibrahim
Non-Independent, Non-Executive Director

Dato' Sri Jamaludin was appointed to the Board of Dialog Axiata on 23rd March, 2011.

Dato' Sri Jamaludin has worked for about 32 years in the ICT industry - 16 years in IT industry and 16 years in telecommunications industry. He is currently the President and Group Chief Executive Officer of Axiata, which he joined in March 2008. He is also an Executive Director of Axiata.

Prior to that, Dato' Sri Jamaludin was with Maxis Communications Berhad (Malaysia), which he joined in 1997 and was appointed Chief Executive Officer in 1998. In 2006, he was redesignated the Group Chief Executive Officer.

Before joining Maxis, he spent 16 years in the IT Industry. He was Managing Director/Chief Executive Officer of Digital Equipment Malaysia (the Malaysian branch of Digital Equipment, then the second largest IT Company worldwide) from 1993 to 1997. Dato' Sri Jamaludin also spent 12 years in IBM (1981-1993), the first five years as Systems Engineer and then in various positions in Sales, Marketing and Management. Prior to IBM, he was a lecturer in Quantitative Methods at California State University, United States in 1980.

Dato' Sri Jamaludin holds a B.Sc. in Business Administration and minor in Mathematics from the California State University, USA and an MBA from the Portland State University, Oregon, USA.

Dato' Sri Jamaludin is also the Chairman of Celcom Axiata Berhad (Malaysia), and sits on the boards of PT XL Axiata Tbk. (Indonesia) and M1 Limited (Singapore). Dato' Sri Jamaludin is also a board member of the GSMA (the Global World GSM Association).

Mr. James Maclaurin
Non-Independent,
Non-Executive Director

Mr. James Maclaurin was appointed to the Board of Dialog Axiata on 10th May, 2011.

He is presently the Group Chief Financial Officer of Axiata. Mr. Maclaurin has worked in the telecommunications industry for over 16 years and has held a number of senior finance leadership positions including CFO for Africa and Central Europe at Vodafone, Group CFO of Celtel, the pan-African mobile operator, CFO of UbiNetics, the 3G technology developer and EVP Finance of Marconi, the UK-based telecom vendor subsequently sold to Ericsson. In the mid 90's he worked in Asia and served as the Finance Director of General Electric Co. of Singapore and prior to this he was the Finance Director of the General Electric Co. of Bangladesh. He currently serves on the boards of a number of international public listed and private limited companies within the Axiata Group.

Mr. Maclaurin holds degrees in Engineering and Finance from the Universities of Dundee and Heriot Watt, Edinburgh, Scotland respectively. He is also a member of the Institute of Chartered Accountants of Scotland.

Mr. Mohd Khairil Abdullah
Non-Independent,
Non-Executive Director

Mr. Khairil Abdullah was appointed to the Board of Dialog Axiata on the 19th November, 2012.

Mr. Khairil Abdullah is presently the Group Chief Marketing & Operations Officer of Axiata. Prior to Axiata, he was a Partner at Bain & Company, Inc., a leading global management consultancy. He was with Bain for more than 15 years and worked out of various offices in the firm, including San Francisco, Munich, Sydney, Tokyo and Shanghai. He has built a strong track record of helping his clients in the telecommunication and other industries and has achieved major improvements to their strategic positions and operational performance. In 2008, he returned to Southeast Asia to help Bain grow its telecommunication practice in the region based out of Singapore.

Prior to joining Bain, he was an operations consultant at Coopers & Lybrand, Management Consulting Services. He also had a stint running a tech start-up based in Southeast Asia.

Mr. Khairil Abdullah holds a BA (Engineering) and MEng from the University of Cambridge, United Kingdom as well as an MBA from INSEAD, France.

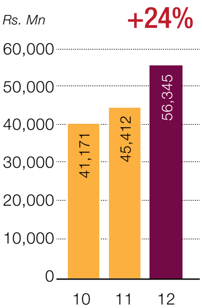
Business and Financial Review

Amidst the prevalent fierce competition in the mobile space, depreciation of the SLR relative to the USD and the significant inflation in energy related costs, 2012 was yet another year of excellent performance for Dialog Group with growth momentum being fuelled by both organic and inorganic means. Consolidation in performance was achieved through double digit growth in all key financial metrics.

Dialog Group's performance is derived from consolidating the performance of Dialog Axiata PLC ("Dialog"/"Dialog Axiata"/ "Company") and its subsidiaries Dialog Broadband Networks (Private) Limited (DBN) and Dialog Television (Private) Limited (DTV).

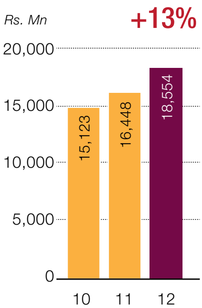
The Group recorded a consolidated revenue of Rs. 56.35Bn for FY 2012 up by 24% YoY, underpinned by strong growth across all its business segments. Strong revenue growth led to the Group posting a healthy EBITDA of Rs. 18.55Bn in 2012, up by 13% YoY with Group EBITDA margin declining by 3 percentage points to 33%.

Group Revenue



- Company revenue up 19% YoY, registering double digit revenue growth for the 3rd consecutive year
- Growth in revenue driven by both Voice, Data and VAS revenues; over 13% YoY increase in voice revenue
- Data revenue up 53% YoY led by 49% YoY growth in Mobile Broadband Revenue
- Significant 125% increase in YoY DBN revenue following the Suntel acquisition

Group EBITDA

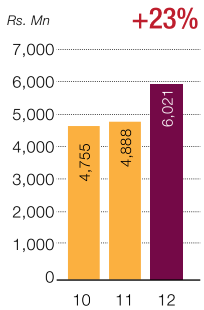


- Growth in Group EBITDA on the back of higher revenue
- Group EBITDA margin at 33%
- DBN sustains eleventh consecutive quarter of positive EBITDA in Q4 2012; EBITDA margin of 36% in FY 2012 with over 100% growth in EBITDA YoY
- DTV recorded 11% YoY growth in EBITDA with margin of over 20% in FY 2012

"Amidst the prevalent fierce competition in the mobile space, depreciation of the SLR relative to the USD and the significant inflation in energy related costs, 2012 was yet another year of excellent performance for Dialog Group"

Group Net Profit after Tax (NPAT) for FY 2012 was recorded at Rs. 6.02Bn, up by 23% compared to FY 2011 with a NPAT margin of 11%. Growth in profitability was achieved on the backdrop of non-cash translational foreign exchange losses amounting to Rs. 2.18Bn, and a one-off write back of the company's deferred tax provision of positive Rs. 2.28Bn.

Group NPAT



- Strong Group NPAT performance amidst high operating cost and adverse macro environment
- DTV remained NPAT positive while DBN's profitability improved significantly due to synergies achieved through Suntel amalgamation

The depreciation of the SLR relative to the USD by 11.8% YoY resulted in the provision of a non-cash translational foreign exchange loss arising primarily from the USD denominated outstanding loans. The deferred tax write back was effected subsequent to the Company opting for a 2% post-tax holiday revenue based tax with effect from 2013, in line with the terms of its Flagship Investor Agreement with the Board of Investment of Sri Lanka.

Group NPAT post normalisation for one-off gains/charges (consisting of the non-cash foreign exchange loss of Rs. 2.18Bn, deferred taxation reversal of Rs. 2.28Bn and costs related to the Suntel acquisition amounting to Rs. 343Mn), was recorded at Rs. 6.26Bn for FY 2012, a significant growth in normalized NPAT performance of 29% compared to FY 2011.

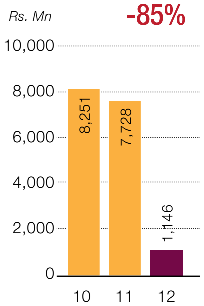
In 2012 DTV continued its growth momentum in terms of revenue and EBITDA however NPAT decreased by 57% YoY to record at Rs. 11Mn due to the recording of an exceptional impairment charge arising from the ongoing upgrade of it's digital satellite broadcasting network from MPEG2 to MPEG4 and High Definition (HD) technologies.

DBN remained dilutive to the Group at NPAT level, but registered significant improvements in revenue and operational performance on the back of strong revenue and synergies achieved through acquisition, merger and operational consolidation of Suntel Limited. The acquisition of 100% of the shares in Suntel by DBN was completed on the 21st of March 2012. Accordingly DBN registered an 87% decrease in Net Loss YoY, with NPAT for FY 2012 being recorded at negative Rs. 120Mn relative to negative Rs. 945Mn in FY 2011.

Group Capital expenditure for FY 2012 amounted to Rs. 17.41Bn. Capital expenditure was directed in the main towards High Speed Mobile Broadband and Optical Fibre Network (OFN) expansion projects and towards providing unparalleled data speeds and connectivity, in addition to the aggressive expansion of its Mobile Telephony services to meet growth in subscriber demand across all provinces of the country, further consolidating the Company's leadership position at the helm of Sri Lanka's ICT sector as the country's premier connectivity provider.

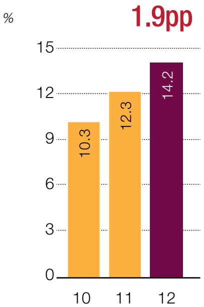
Accordingly, on the back of significantly higher capital expenditure, free cash flow of the Group for FY 2012 was recorded at Rs. 1.15Bn, a decrease of 86% compared to FY 2011. Dialog's financial position remained robust through prudent financial management with Group's Gross debt to EBITDA standing at 1.3x as at end of 2012.

Free Cash Flow



- Group FCF remained positive despite the significant increase in capex
- Rs. 2.69Bn dividends proposed for FY 2012 on the back of strong cash position and solid performance of the Group
- Dividend payout increased to 45% in FY 2012 (39% in 2011) with a dividend yield of 4.0% on a closing share price of Rs. 8.30 as at end December 2012

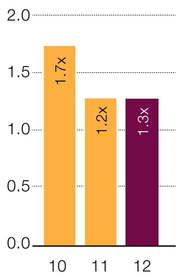
ROIC



- 2 percentage points improvement in ROIC mainly due to growth in Group earnings

Dialog's borrowings as at 31st December 2012 comprised of Rs. 3.72Bn in local currency debt and USD 158.5Mn of foreign currency debt. The local currency borrowing of Rs. 3.72Bn is an interest free advance due to parent Axiata Berhad. Of the foreign currency borrowings USD 121.0Mn is an outstanding term loan from OCBC, whilst the remaining USD 37.5Mn is due to Axiata Berhad which carries a notional interest rate of 0.5% per annum. During 2012, a repayment of USD 32.7Mn was made on the OCBC loan, while USD 37.5Mn was drawn down in December 2012.

Gross Debt to Equity



- Group continued to maintain a structurally robust Balance Sheet with Gross Debt/EBITDA at 1.3x in 2012
- Net Debt / EBITDA at 0.82x

Group Financial Highlights

Group Financial Indicators	2012 - Rs. Mn	2011 - Rs. Mn	YoY %
Revenue	56,345	45,412	24
EBITDA[1]	18,554	16,448	13
NPAT	6,021	4,888	23
Capex	17,409	8,719	100
Free Cash Flows (FCF)[2]	1,146	7,728	(85)

Group Financial Ratios	2012	2011	YoY
EBITDA margin	32.9%	36.2%	(3.3)
NPAT margin	10.7%	10.8%	(0.1)
Capex to revenue	30.9%	19.2%	11.7
FCF to revenue	2.0%	17.0%	(15.0)
ROIC[3]	14.2%	12.3%	1.9
Debt/Equity ratio (x)	0.64	0.68	(0.04)

1 EBITDA – Earnings before interest, taxation, depreciation and amortisation
2 FCF – EBITDA - Capex
3 ROIC – EBIT after tax divided by average invested capital
4 Tax – Tax excluding deferred taxation

Dialog Axiata PLC – Business Overview

The operations of Dialog Axiata PLC include Mobile, International and Tele-Infrastructure businesses.

Amidst intense competitive market conditions the Company continued to be the forerunner in the mobile telecommunication sector by retaining 55% revenue market share of the total industry revenue.

The mobile penetration in the country increased by 11.4 percentage points and reached 100% by the end of 2012. However, when discounted for the effect of multiple connections used by same individual, the real mobile telephony penetration is lower and provides an opportunity for further growth. This opportunity is prevalent mainly in rural areas and recently resettled areas in the North and East Provinces.

The Company further strengthened its geographical reach by increasing the number of base stations by 15% during the year to cater over 7.7Mn mobile customers across the island.

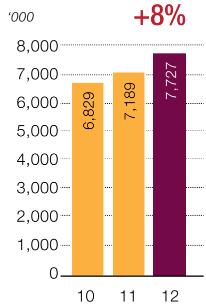
Despite fierce competition, Dialog grew both its Average Revenue per User (ARPU) and Minutes of Usages (MoUs) by 8% and 6% YoY respectively. The Company believes that there is significant potential for revenue enhancement via futuristic market offerings with evolving consumer behaviour.

Dialog continued to be the revolutionary telecommunication provider in Sri Lanka enhancing the value to its customers with world-class experience. 2012 witnessed such innovative step with Dialog launching a state of the art mobile money technology 'eZ cash' for the first time in Sri Lanka. eZ Cash, enables mobile subscribers to send and receive money, settle utility bills and make payments for other goods and services direct from their mobile phone.

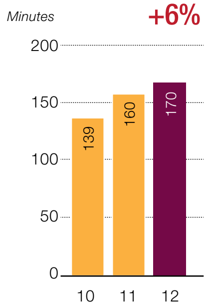
Further, the Company extended its novel offerings by launching Sri Lanka's first ever location based deal application 'D-App' for smart phone users, which allows subscribers to get location specific special deals offered at partner merchants for different products and services. In its continued commitment in offering the world's best applications to its subscribers, Dialog partnered with Med1, an American managed emergency medical response service provider operating in Sri Lanka, to offer access to emergency health advice via 'The First Aid Helpline.'

High-speed mobile broadband service sector poise a substantial growth potential. Industry subscriber base witnessed a growth of 94% YoY to reach almost 1Mn at the end of 2012. Mobile internet subscriber base increased more than three folds (3.2) in just two year.

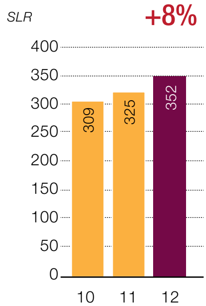
Mobile Subscribers



Blended MoUs



Blended ARPUs



The Company's mobile broadband subscriber base grew by 44% during the year, reflecting a stable growth. In order to meet the increasing data usage demand, the Company continued to augment 3G network by increasing number of Node Bs by 33% YoY.

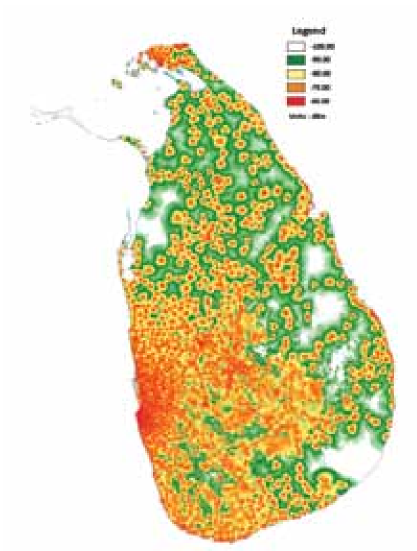


Figure 1 : 2G coverage

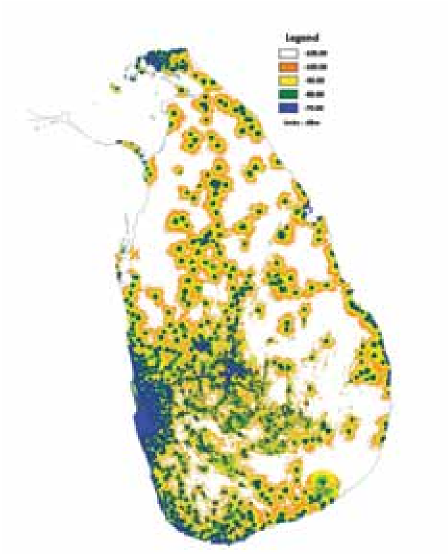


Figure 2 : 3G coverage

Dialog's international roaming network services continued to chart impressive growth, by reinforcing its presence beyond borders collaborating with 583 operators in over 200 countries around the globe. The Company strengthened its connectivity to its customers at all times, home and away, by expanding 3G, GPRS and Pre paid roaming destinations to 108, 164 and 99 respectively.

Dialog was the first telecom operator in Sri Lanka to offer data roaming facility to prepaid customers in order to meet the increasing data usage demand driven by the high take up in smart phones. In its continued commitment to offer the best services to its subscribers, Dialog introduced 'One Country One Rate', a simplified tariff plan for customers to call, SMS and surf the internet on any network in the country they visit without the hassle of manually selecting the preferred network. With the new tariff plan subscribers would be charged the same tariff irrespective of the network they choose. 'One Country One Rate' offer subscribers convenient, hassle free roaming at lower rates in more than 100 destinations.

To facilitate connectivity between migrant workers and their families in Sri Lanka, Dialog introduced a solution, which involves providing two mobile connections from host country and Sri Lanka at preferential rates. Further, the Company partnered with Ministry of Foreign Employment & Welfare Sri Lanka to provide an exclusive migrant connectivity solution for Sri Lankan expatriate workers in the Kingdom of Saudi Arabia and the United Arab Emirates, to keep in touch with their families.

"By end 2012, DTI had over 1,345 sharable tower sites with an external tenancy ratio of 1.05 times. This is in line with the Group's vision of augmenting the revenue streams of its core business areas"

Furthermore, Dialog extended its strategic partnership with Cable & Wireless Worldwide (CWW) to meet the growing customer demands for managed services on video, voice and data platforms. The partnership will enable Dialog to expand its network coverage beyond its own points of presence (PoP) in the UK and establish itself as the leading International MPLS provider in the Sri Lankan market.

In December 2012 Dialog acquired a 26% stake in the newly formed company Digital Commerce Lanka (Private) Limited which encompassed the e-commerce properties of market leading Daily Deals site Anything.lk with those of the Dialog Group. This strategic move would yield Dialog achieving its aspiration of becoming leader in Sri Lanka's growing e-commerce industry.

DTI, the Company's infrastructure arm continued to offer passive infrastructure (tower and ground space) as well as microwave and fiber optic transmission capacity to telecommunication operators and broadcasters. In view of providing high capacity and reliable backhaul transmission services, Dialog continued to expand the company's optical fibre network connecting major cities of the country.

By end 2012, DTI had over 1,345 sharable tower sites with an external tenancy ratio of 1.05 times. This is in line with the Group's vision of augmenting the revenue streams of its core business areas by continuing to be forefront of active and passive telecommunication infrastructure provider in Sri Lanka.

Dialog Axiata PLC - Financial Review

The Company continued to leverage its market leading position to deliver strong growth in revenue and profitability. The Company recorded a revenue of Rs. 49.80Bn for FY 2012, a strong increase of 19% YoY. Growth in revenue was driven by increase in both voice revenue and non voice revenues (SMS, Data and VAS) primarily consisting of mobile broadband service.

Total costs increased by 27% YoY driven by higher regulatory, network and marketing costs. Network operating costs witnessed a 29% YoY increase due to significant inflation with respect to energy related costs and the expansion of the Company's 2G and 3G infrastructure footprint.

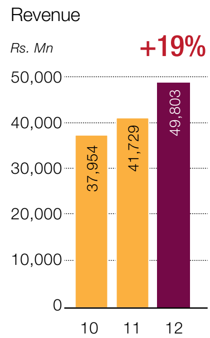
Regulatory cost increased by over 2 folds compared to FY 2011 mainly due to the increase in international telecommunications levy from USD 1.5 cents per minute to USD 3 cents per minute which came into effect from 1st January 2012 combined with the rupee depreciation impact. Regulatory cost of FY 2011 was also benefited by the recognition of a Telecommunication Development Charge (TDC) refund of Rs. 653Mn.

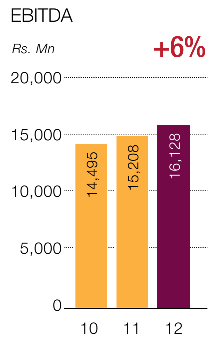
Sales and marketing cost increased by 22% due to modernisation of the Company's expansive service centre network to deliver the very best in efficient customer care across all provinces of the country and increased marketing costs spent on new products launched and promotional activities carried out for seasonal/event targeted campaigns.

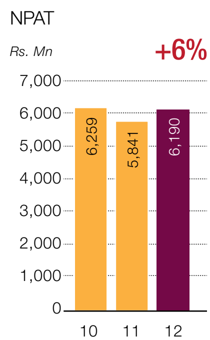
On the backdrop of strong revenue performance, the Company achieved an EBIDTA of Rs. 16.13Bn in FY 2012, a 6% growth compared to FY 2011 at a margin of 32%.

The Company NPAT posted at Rs. 6.19Bn for FY 2012 grew by 6% relative to FY 2011. The NPAT performance for 2012 is inclusive of the impact of the deferred tax reversal of positive Rs. 2.28Bn and non-cash forex translational loss of negative Rs. 2.18Bn.

The Company NPAT normalized for the one-off items was recorded at Rs. 6.40Bn for FY 2012 an increase of 10% relative to FY 2011.







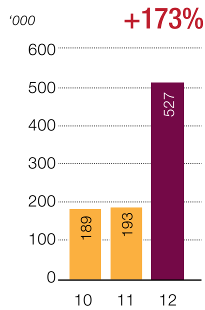
Dialog Broadband Networks (DBN) - Business Overview

DBN is a key player in the Fixed Telecommunication space offering multiple services to individuals and corporate clients ranging from Fixed Telephony, Broadband Internet, and Converged ICT Solutions including IPVPN, VoIP and Hosted PABX offerings to Data Communication.

Subsequent to the completion of its acquisition on the 21st of March 2012, Suntel was amalgamated with DBN, in accordance with the provisions of the Companies Act, No. 07 of 2007 ("Act") with effect from 15th May 2012. Thus DBN became the second largest player in the fixed telecommunication industry in Sri Lanka, with a widened portfolio in terms of market offering, customer base, network and expertise in fixed telecommunication space. The expansion was reflected by the 173% growth in DBN's CDMA subscriber base to reach over 527,000 at the end of 2012. Further, DBN fortified its presence in the enterprise sector by providing seamless connectivity to fulfill diverse requirements of enterprises.

Keeping the promise of 'The Future Today', DBN launched 4th Generation Fixed LTE technology. This pioneer initiative represents quantum advancement in Fixed Broadband services delivered to Sri Lankan homes and enterprises. DBN expects to expand the high-speed wireless broadband technology in most towns of the island in the near future to make the technology available and affordable to a majority of Sri Lankans.

CDMA Subscribers



"Keeping the promise of 'The Future Today', DBN launched 4th Generation Fixed LTE technology."

Dialog Broadband Networks (DBN) - Financial Review

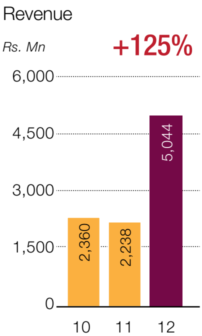
DBN witnessed a significant expansion in scale as well as in consolidated operating performance following the acquisition and subsequent amalgamation of Suntel with its operations.

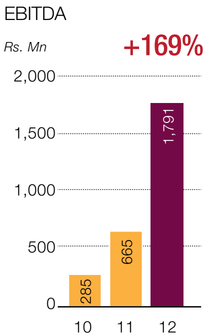
DBN registered revenue of Rs. 5.04Bn in FY 2012, up 125% relative to FY 2011. Revenue from Corporate and SME segments witnessed a significant boost of 148% following the Suntel acquisition while Broadband and ISP revenues grew by 92% compared to FY 2011.

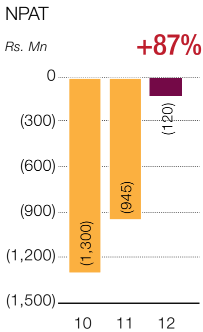
On the back of strong revenue and synergies achieved through the amalgamation, DBN recorded an EBITDA of Rs. 1.79Bn in FY 2012, a significant improvment of 169% compared to FY 2011.

Underpinned by the healthy growth in EBITDA and Suntel being PAT accretive, DBN recorded a significant 87% reduction in Net Loss YoY, with NPAT for FY 2012 being recorded at negative Rs. 120Mn relative to negative Rs. 945Mn in FY 2011.

Synergy savings achieved through the amalgamation of Suntel amounted to Rs. 449Mn for FY 2012.







Dialog Television (DTV) - Business Overview

Dialog Television (DTV) is the only licensed Direct-to-Home (DTH) satellite service provider in Sri Lanka with island wide coverage. It caters the diverse infotainment needs of over 264,000 households in the country with an estimated market share of 78%.

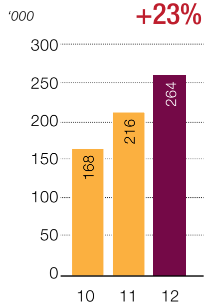
DTV, the single largest DTH digital television service provider in the country achieved a significant milestone in 2012 by introducing the country's first High Definition (HD) broadcasting, taking Sri Lanka into the era of advance digital media. This will enable its subscribers to enjoy an incredible home entertainment experience.

Further 2012 witnessed the revolutionisation of the pay television market in Sri Lanka with the introduction of Sri Lanka's first ever Prepaid Television Service, "Dialog Per Day TV". DTV's prepaid service brings best in class Pay Television content within reach of a wide spectrum of Sri Lankan households. The "Dialog Per Day TV" service enables subscribers to customize channels and pay for them on a per-day basis.

DTV's product offerings include an extensive assortment of more than 70 international channels including CNN, Star, HBO, Cinemax, AXN, ESPN, Ten Sports, Discovery, History, MTV (Music Television) and Cartoon Network, alongside a variety of local content.

In 2012 DTV launched 'Revision TV', an edutainment channels with a state of the art learning facility, to enable learning environment that provides the best of a classroom environment without leaving home to all DTV subscribers free.

Pay TV Subscribers



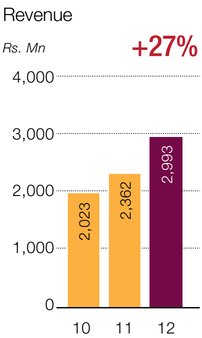
Dialog Television (DTV) - Financial Review

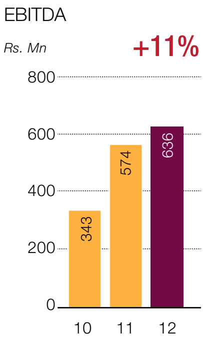
DTV continued its positive growth trajectory with a revenue growth of 27% YoY to reach Rs. 2.99Bn in FY 2012. Revenue growth was fuelled by the increase in subscription revenue and higher connection fees due to subscriber additions of over 48,000.

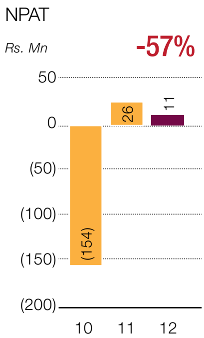
Revenue comprises initial connection fees, subscription rentals and other revenue including revenues from advertising and miscellaneous services. The revenue generated from monthly subscriptions accounted for 84% of the total revenue in FY 2012.

DTV EBITDA was posted at Rs. 636Mn in FY 2012, an improvement of 11% compared to FY 2011 on the backdrop of strong revenue growth. EBITDA performance was achieved amidst significant inflation with respect to energy related costs and foreign exchange denominated inputs such as television channel and satellite transponder costs as well as cost expansion arising from the launch of HD services.

Despite the strong improvement in EBITDA, NPAT however decreased by 57% YoY to record at Rs. 11Mn for FY 2012 due to the recording of an exceptional impairment charge arising from transition of the company's satellite network from MPEG2 to MPEG4 and HD technologies.







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 of its stakeholders while providing for accountability and sound internal control systems.

The Board confirms that the Company is compliant with the requirements stipulated in the Code, the Rules on Corporate Governance contained in the Listing Rules of the CSE and the requirements stipulated in the Companies Act, No. 7 of 2007. This report outlines the Corporate Governance framework, application and practice within the Group for the year 2012.

1. The Board

The Company's business and Group operations are managed under the supervision of the Board. The role of the Board includes:–

- Providing entrepreneurial leadership to the Group;
- Providing strategic guidance and evaluating, reviewing and approving corporate strategy and the performance objectives for the Company;
- Approving and monitoring financial and other reporting practices adopted by the Group;
- Effectively reviewing and constructively challenging management performance in meeting the agreed goals, monitoring the reporting of performance and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives.

The composition of Board of Directors as at 31 December 2012, were as follows-

Name of Director	Date of Appointment	Position
Datuk Azzat Kamaludin	21 July 2008	Chairman (Non-Executive/Non-independent)
Dr. Hans Wijayasuriya	19 January 2001	Group Chief Executive Officer - (Executive/Non-independent)
Mr. Moksevi Prelis	15 September 2004	Director (Non-Executive/Independent)
Mr. Mohamed Muhsin	14 June 2006	Director (Non-Executive/Independent)
Mr. Jayantha Dhanapala	3 August 2007	Director (Non-Executive/Independent)
Dato' Sri Jamaludin Ibrahim	23 March 2011	Director (Non-Executive/Non-independent)
Mr. James Maclaurin	10 May 2011	Director (Non-Executive/Non-independent)
Mr. Mohd Khairil Abdullah	19 November 2012	Director (Non-Executive/Non-independent)

Table 1 –Composition of Board of Directors

Mr. Mohd Khairil Abdullah was appointed to the Board in November 2012 as a nominee director of Axiata Group Berhad, in replacement of Mr. Azwan Khan Osman Khan.

The profiles of each Director are found on pages 10 to 13 of this Report.

- **Composition of the Board and Balance**

The Board comprises of 08 directors, of which 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 two 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, 03 out of the 07 non-executive directors, namely, Mr. Moksevi Prelis, Mr. Mohamed Muhsin and Mr. Jayantha Dhanapala are considered independent. They 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, , Dato' Sri Jamaludin Ibrahim, Mr. James Maclaurin and Mr. Mohd Khairil Abdullah 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 organization 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 with specific matters. A total of 07 meetings were held in 2012, which included 03 special meetings. The attendance of directors at these meetings is set out in the table below:

Name of Director	Attendance
Datuk Azzat Kamaludin	7/7
Dr. Hans Wijayasuriya	7/7
Mr. Moksevi Prelis	7/7
Mr. Mohamed Muhsin	7/7
Mr. Jayantha Dhanapala	6/7
Mr. Azwan Khan Osman Khan*	5/6
Dato' Sri Jamaludin Ibrahim	7/7
Mr. James Maclaurin	6/7
Mr. Mohd Khairil Abdullah**	1/1

Table 2 – Board Meeting Attendance
*Resigned w.e.f. 19.11.2012
**Appointed w.e.f 19.11.2012

▲ **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 (NRC) is responsible for evaluating the Board's performance and decides how the Board's performance may be evaluated and also proposes the objective performance 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 states 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

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 (BAC)

The BAC ensures that the Group complies with applicable financial standards and laws. In addition, it ensures high standards of transparency and corporate disclosure and endeavours to maintain appropriate standards of corporate responsibility, integrity and accountability to the shareholders. The appointed members of the BAC are required to exercise independent judgment in carrying out their functions.

The activities conducted by the BAC are set out in the BAC Report on pages 34 to 36.

b) Nominating and Remuneration Committee (NRC)

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. Moksevi Prelis and Mr. Mohamed Muhsin.

The NRC held 04 meetings during the financial year ended 31 December 2012 and the attendance at these meetings is set out below.

Name of Director	Attendance
Datuk Azzat Kamaludin (Chairman)	4/4
Mr. Moksevi Prelis	4/4
Mr. Mohamed Muhsin	4/4

Table 3 –NRC meeting Attendance

c) Group Executive Committee (EXCOM)

The role of the 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 04 representatives of the Board, namely Mr. James Maclaurin (Chairman), Mr. Azwan Khan Osman Khan (up until 19 November 2012), Mr. Mohd Khairil Abdullah (appointed w.e.f 19 November 2012), Mr. Mohamed Muhsin and Dr. Hans Wijayasuriya and 03 ex-officio members who are drawn from the membership of the Senior Management of Dialog and Axiata.

The EXCOM held 04 meetings during the financial year ended 31 December 2012.

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 newly appointed director and the director retiring by rotation and eligible for re-election this year are mentioned in the Notice of the AGM on page 135.

2. Remuneration

The Company's remuneration policy endeavours to attract, retain and motivate directors of the quality and experience commensurate with the stature and operational complexity of the Dialog Group. The remuneration policy for directors is proposed, evaluated and reviewed by the NRC, in keeping with criteria of reasonability.

The remuneration of non-executive directors comprises a monthly fixed allowance and meeting allowances paid in accordance with the number of meetings attended during the year 2012.

The remuneration of the executive director, in his capacity of an employee, comprises a salary, bonus, share options 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 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. 72.61Mn was paid to the Directors as emoluments for the financial year 2012.

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 Group and the Company's financial reports present a true and fair view, in all material respects, of the Group and 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 Group Risk profile which contains a description of the material risks facing the Group including financial and non-financial matters;
- ▲ Assessment of Compliance and control;
- ▲ Assessment of effectiveness - mechanism to review, at least annually, the effectiveness of the Group'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 recommends to the Board 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 page 36.

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.

▲ **Communication with shareholders**

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

a. 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.

b. 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.

c. 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.

d. Company website

Information on the Company's performance, financial information, press releases, annual reports all relevant announcements made to the Colombo Stock Exchange and related information and other corporate information is made available on the Company's website at http://www.dialog.lk/about/investors/.

▲ **Investor Relations**

The Group Investor Relations (IR) Unit proactively disseminates relevant information about the Company to the investor community, specifically the institutional fund managers and analysts. The IR unit maintains close contact with the investor community by means of road shows, company visits, one-on-one meetings, teleconferences and emails etc to ensure that the Group's strategies, operational activities and financial performance are well understood and that such information is made available to them in a timely manner.

In the year 2012, the Company actively participated in 04 overseas investor conferences held in Malaysia, Singapore and the U.S.A. The Company also conducted two local forums for clients of reputed global financial services institutions. In addition the Company has also conducts one-on-one meetings with key local and foreign investors on a regular basis.

The Company held Investor Forums every quarter to brief local analysts, followed by an earnings call via teleconference for foreign analysts and investors on the results achieved in that quarter. These sessions not only provide analysts with a comprehensive review of the Group's financial performance, but also give 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/about/investors/.

▲ **Major Transactions**

There were no transactions during the year deemed 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, applicable local laws and regulations and the requirements of the Listing Rules of the Colombo Stock Exchange.

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.

Composition

The BAC comprises five non-executive directors, of whom a majority of three are independent directors. The composition meets the requirements stipulated in the Listing Rules of the CSE. The Board Secretary functions as the Secretary to the BAC.

Mr. Mohd Khairil Abdullah was appointed as a member of the BAC in November 2012, in place of Mr. Azwan Khan Osman Khan. The BAC wishes to place on record its appreciation to Mr. Azwan Khan Osman Khan for his valued contribution.

The members of the BAC as at 31 December 2012 were:

1. Mr. Mohamed Muhsin - *Independent Non-Executive Director (Chairman)*
2. Mr. Moksevi Prelis - *Independent Non-Executive Director*
3. Mr. Jayantha Dhanapala - *Independent Non-Executive Director*
4. Mr. James Maclaurin - *Non-Independent Non-Executive Director*
5. Mr. Mohd Khairil Abdullah - *Non-Independent Non-Executive Director*

Meetings

The BAC had six meetings during the year 2012 which includes two special meetings. The meeting attendance of the members is given as follows:-

Name of Member	Attendance
Mr. Mohamed Muhsin - Chairman	6/6
Mr. Moksevi Prelis	6/6
Mr. Jayantha Dhanapala	6/6
Mr. Azwan Khan Osman Khan*	5/5
Mr. James Maclaurin	5/6
Mr. Mohd Khairil Abdullah**	1/1

* Resigned w.e.f 19 November 2012

** Appointed w.e.f. 19 November 2012

The Group Chief Executive Officer, the Group Chief Financial Officer and the Group Chief Internal Auditor, attended these meetings on invitation. The external auditors also attended these meetings, on invitation, to brief the BAC on specific issues. In addition to these formal meetings, the BAC members met with the external auditors in private sessions without any of the management present to exchange views.

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 emerging business risks, control issues and legal risks. Following the adjustment of the local financial reporting standards with the International Financial Reporting Standards (IFRSs) in the form of Sri Lanka Financial Reporting Standards (SLFRSs), by the Institute of Charted Accountants of Sri Lanka (ICASL) special attention was paid by the BAC to assess the implications of the SLFRS and took necessary steps to ensure that the policies, processes, systems and financial disclosures were aligned to the SLFRSs. This enabled the Company to release its interim financial statements for the 1st Quarter 2012, which were fully compliant with the SLFRSs, making it the first its quoted company to do so.

An important aspect of the BAC's activities is for the Chairman of the BAC to liaise directly with the Ombudsman to ensure independence of the Ombudsman's actions. The Ombudsman has also met with groups of staff to establish an open channel of communication. This liaison has been very beneficial and has established confidence among staff.

The following include other key activities carried out by the BAC during 2012:

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 signed 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 2013.

Internal Audit

The BAC is supported by the Group Internal Audit Division, which is headed by Mr. Izrin Hashim, the Group Chief Internal Auditor who reports directly to the BAC. The Division has a mix of expertise in the disciplines of Finance, Information Technology, Sales & Marketing, and Network Engineering. 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 actions in regard to past and present recommendations are monitored.

The Group Internal Audit Division performed 29 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

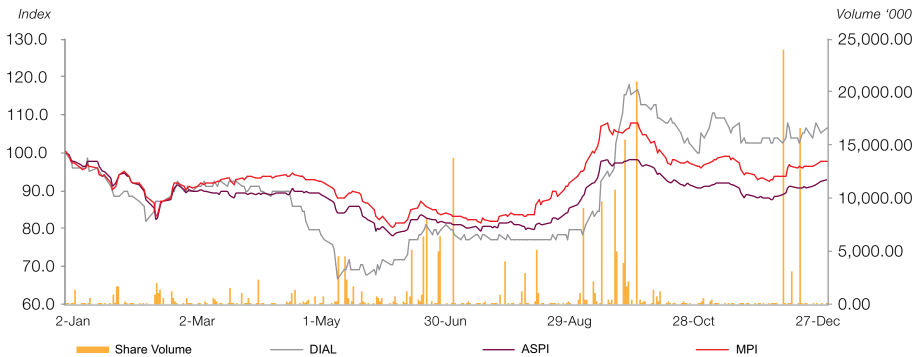
30th March, 2013

DIAL Share Information

Table 1: Market information on DIAL Share

	2012	Q4	Q3	Q2	Q1	2011
Share information						
Highest Price (Rs.)	**9.40**	9.20	9.40	7.20	8.00	12.20
Lowest Price (Rs.)	**5.10**	7.80	5.90	5.10	6.00	7.50
Closing Price (Rs.)	**8.30**	8.30	9.00	6.20	7.10	7.80
Trading statistics						
Number of Trades'000	**11.3**	2.0	4.2	2.9	2.2	14.5
% of Total Market Trades	**0.6**	0.6	0.6	0.8	0.4	0.3
Number of shares traded (Mn)	**255**	73	97	63	22	311
% of Total Shares Traded	**2.6**	3.4	3.1	3.5	0.8	1.3
% of Public float	**21.2**	6.1	8.1	5.2	1.8	26.0
Turnover (Rs. Mn)	**1,837**	614	694	376	153	2,949
Avg. Daily Turnover (Rs. Mn)	**7.6**	10.1	11.2	6.4	2.6	12.3
% of Total Market Turnover	**0.9**	1.5	1.2	1.1	0.2	0.5
Market Capitalisation (Rs. Mn)	**67,593**	67,593	73,294	50,491	57,821	63,521
% of Total Market Capitalisation	**3.1**	3.1	3.2	2.7	2.9	2.9

Figure 1: Share Volumes & Relative Performance vs Market



The DIAL Share

External shocks witnessed in the first half of 2012 resulted in both benchmark All Share Price Index (ASPI) and Milanka Price Index (MPI) moving in a downward trend. However, the market regained momentum towards the second half of the year, largely driven by high foreign investor participation, a slight recovery of the foreign exchange and stabilisation of interest rates. The ASPI recorded a decrease of 7.1% while the MPI recorded a decrease of 2.1% in 2012.

DIAL share started the year at Rs. 7.80 and traded between a high of Rs. 9.40 and a low of Rs. 5.10 to close the year at Rs. 8.30. The share price increased by 6.4% compared to 2011. DIAL share outperformed both the ASPI and MPI. The recovery in earnings and improved performance during the second half of 2012 has translated into positive performance of the share.

Performance vs the New Liquidity Index

The Colombo Stock Exchange (CSE) introduced a new index in 2012, the S&P Sri Lanka 20. The index was designed to include liquid investible stocks, and is based on criteria of size, liquidity and financial viability. Hence, the index consists mainly of the top market cap stocks on the CSE.

Subsequent to the launch of the S&P SL 20, the CSE discontinued the previous liquid index, the MPI on 31st December 2012.

DIAL has significantly outperformed the index since its launch in June 2012, rising 33.9% in the six month period to 31st December 2012, vs the S&P SL 20 movement of 8.2%.

Figure 2: DIAL vs S&P SL 20 Index

Market Capitalisation

The total Market Capitalisation of the Company increased by 6.4% to Rs. 67.59Bn as at 31st December 2012 compared to Rs. 63.52Bn as at 31st December 2011, representing approximately 3.1% of the total market capitalisation of the CSE. DIAL is among the top ten largest companies on the CSE in terms of Market Capitalisation.

Dividends

Dialog's dividend policy seeks to ensure a dividend payout which is derived based on deleveraging requirements and free cash flows generated for the year, thus assisting in the creation of sustainable shareholder value in the medium and long term.

The Board has resolved to propose for consideration by the shareholders of the Company, a cash dividend to ordinary shareholders of thirty three cents (Rs.0.33) for the FY 2012. This translates to a dividend payout amounting to 45% of Group PAT.

The total dividend proposed in FY 2012 is Rs 2.69Bn compared to Rs 2.04Bn declared and paid out for the FY 2011, representing an increase of 32%.

Total shareholder returns

The Total Shareholder Returns (TSR) of the share was 9.6% in 2012 as a result of the 6.4% increase in the share price and the dividend per share of Rs. 0.25 paid during the year. The Market TSR (based on ASPI) was negative 4.4% in 2012, while TSR based on MPI increased by 0.1%.

Earnings per share

The diluted earnings per share (EPS) for the year was Rs. 0.75 compared to the EPS of Rs. 0.61 recorded in FY 2011 an increase of 23% YoY. EPS is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year and excluding ordinary shares held by the Employee Share Option Trust.

Price Earnings Ratio

DIAL share was trading at 11.1 times earnings as at 31 December 2012 compared to 12.8 times as at 31 December 2011 due to the EPS growing at a higher rate compared to the share price. Consequently, DIAL share was trading at a lower earnings multiple to the market, which was recorded at 15.9 times as at 31 December 2012.

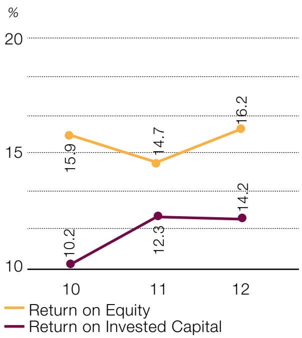
Table 2: Trading Multiples

	2012	2011	2010
Market cap (Rs. Bn)	**67.6**	63.5	96
Market value added (Rs. Bn)	**4**	(32)	37
Enterprise value (Rs. Bn)	**83**	76	116
EV/EBITDA (X)	**4.5**	4.6	7.7
Diluted EPS (Rs.)	**0.8**	0.6	0.6
PER (X)	**11.1**	12.8	20.0
Price to book (X)	**1.8**	1.9	3.2
Dividend yield (%)	**4.0**	3.2	1.7
Dividend payout ratio (%)	**45**	39	34

Return on Equity and Return on Invested Capital

The Return on Equity (ROE) for the Group increased to 16.2% in 2012 from 14.7% in 2011. Return on Invested Capital (ROIC) for the Group improved 14.2% in 2012 from 12.3% in 2011 driven by the strong growth in earnings.

Figure 3: Return on Equity and Return on Invested Capital



Price to Book Ratio

The price to book ratio of the Group as at 31 December 2012 was 1.8 times, compared to 1.9 times in the previous year.

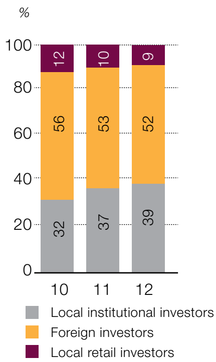
Composition of Shareholders

The total number of Shareholders of DIAL decreased to 22,194 as at 31 December 2012 compared to the 22,744 during the previous year.

The public float of DIAL remained at 14.73% as at 31 December 2012. In terms of composition of the public float, foreign investors held 52% of the float, 39% was held by local institutional investors and 9% by local retail investors.

Local institutional investor interest in DIAL share continued to increase during 2012, as evident from figure 4, the local institutional investor composition increased to 39% in 2012 compared to 37% in the previous year.

Figure 4: Trend in Composition of Shareholders



Shareholders Profile

Table 3: Distribution of Shareholders

Distribution of Shareholders										
			31st December 2012				31st December 2011			
			No. of Shareholders	%	No. of Shares Held	%	No. of Shareholders	%	No. of Shares Held	%
1	to	1,000	6,802	30.65	1,856,023	0.02	10,861	47.75	6,041,385	0.07
1,001	to	10,000	13,835	62.34	26,915,630	0.33	10,463	46.00	26,252,869	0.32
10,001	to	100,000	1,274	5.74	31,856,277	0.39	1,165	5.12	34,785,566	0.43
100,001	to	1,000,000	210	0.95	53,520,961	0.66	177	0.78	50,252,033	0.62
Over		1,000,000	73	0.33	8,029,629,514	98.60	78	0.34	8,026,446,552	98.56
Total			22,194	100.00	8,143,778,405	100.00	22,744	100.00	8,143,778,405	100.00

* *The issued Ordinary Shares of Dialog Axiata PLC are listed on the Colombo Stock Exchange.*
* *Stock exchange ticker symbol for Dialog Axiata shares : DIAL*
* *Newswire codes*

Bloomberg : DIAL.SL   Dow Jones : DIAL.SL   Reuters : DIAL.CM

Twenty Largest shareholders of the Company

Table 4: Twenty Largest Shareholders

	Name of Shareholder	No. of Shares as at 31-Dec-12	% of Holding	No. of Shares as at 31-Dec-11	% of Holding
1	Axiata Investments (Labuan) Limited	6,785,252,765	83.3	6,785,252,765	83.3
2	HSBC-BBH Genesis Smaller Companies	191,221,640	2.3	191,221,640	2.3
3	Employees Provident Fund	177,463,109	2.2	165,411,989	2.0
4	Dialog Axiata Employees ESOS Trust	158,572,462	1.9	158,572,462	1.9
5	Sri Lanka Insurance Corporation Ltd-Life Fund	74,585,920	0.9	74,585,920	0.9
6	HSBC-SSBT-Morgan Stanley and Co International	74,129,958	0.9	1,458,337	0.0
7	CB NY S/A -International Finance Corporation	64,086,800	0.8	64,086,800	0.8
8	HSBC-BBH-Genesis Emerging Markets Opportunities Fund	55,345,900	0.7	55,345,900	0.7
9	Browns Investments (Private) Limited	44,991,400	0.6	44,990,600	0.6
10	BNY-CF Ruffer Investment Funds : Cf Ruffer Pacific Fund	44,314,300	0.5	44,314,300	0.5
11	Pemberton Asian Opportunities Fund	40,000,000	0.5	23,000,000	0.3
12	HSBC-JPMCB-Scottish ORL SML TR GTI 6018	32,207,500	0.4	32,207,500	0.4
13	JB Cocoshell (Private) Limited	28,524,520	0.4	9,804,067	0.1
14	Associated Electrical Corporation Ltd	24,450,600	0.3	18,450,600	0.2
15	Sri Lanka Insurance Corporation Ltd-General Fund	22,320,360	0.3	22,320,360	0.3
16	Mellon Bank N.A.- UPS Group Trust	18,880,000	0.2	-	-
17	Seylan Bank PLC. - A/C No. 3	17,459,100	0.2	17,459,100	0.2
18	Mercantile Investments Limited	11,000,000	0.1	11,000,000	0.1
19	MAS Capital (Private) Limited	8,450,977	0.1	100,400	0.0
20	HSBC-SSBT- National Westminister Bank AS DEP of FS Asia Pacific Sustainability Fund	8,063,600	0.1	26,370,100	0.3

Financial Reports

Annual Report of the Board of Directors

The Board of Directors 'the Board' of Dialog Axiata PLC 'DAP' or 'the Company' is pleased to present herewith the Annual Report together with the audited consolidated financial statements of the Company and its subsidiaries [collectively referred to as 'the Group'] for the financial year ended 31st December, 2012 as set out on pages 52 to 129.

This Annual Report of the Board on the affairs of the Company contains the information required in terms of the Companies Act, No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange (CSE) and is guided by recommended best practices.

Formation

The Company is a public limited liability company incorporated and domiciled in Sri Lanka and is listed on the Colombo Stock Exchange. The registered office of the Company is located at No. 475, Union Place, Colombo 2.

The Company was incorporated in Sri Lanka on 27th August, 1993, under the Companies Act, No. 17 of 1982, as a private limited liability company bearing the name of MTN Networks (Private) Limited.

MTN Networks (Private) Limited changed its name to Dialog Telekom Limited on 26th May, 2005 and was listed on the Colombo Stock Exchange on 28th July, 2005. Pursuant to the requirements of the Companies Act, No. 07 of 2007, the Company was re-registered on 19th July, 2007 and was accordingly renamed as Dialog Telekom PLC and bears registration number PQ38. The Company and its subsidiaries have entered into number of agreements with the Board of Investment of Sri Lanka (BOI). The Company and the Group enjoy concession under Section 17 of the BOI Act.

Dialog Telekom PLC changed its name to Dialog Axiata PLC on 7th July, 2010 in accordance with the provisions of the Section 8 of the Companies Act, No. 07 of 2007.

Principal Activities

The principal activities of the Group, are to provide communication services (mobile, fixed, broadband, international gateway services), telecommunication infrastructure services (tower infrastructure and transmission services), media (digital television services based on multiple media – satellite, cable, terrestrial) 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].

Financial Statements

The financial statements which include the statements of financial position, statements of comprehensive income, statements of changes in equity, statements of cash flows and notes to the financial statements of the Comapny and the Group for the year ended 31st December, 2012 are set out on pages 52 to 129.

Independent Auditor's Report

The Independent auditor's report is set out on page 51.

Accounting Policies

The Company and the Group prepare its financial statements in accordance with Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka. Sri Lanka Accounting Standards were revised to incorporate International Financial Reporting Standards as issued by the International Accounting Standards Board, which requires all entities to apply these standards with effect from years beginning on or after 1st January, 2012. The effects of the transition to Sri Lanka Financial Reporting Standards on previously reported financial position, financial performance and cash flows of the Company and the Group are provided in note 6 to the financial statements. The significant accounting policies adopted in the preparation of financial statements are given on pages 57 to 73.

Statement of Directors' Responsibility

The Directors are responsible for preparing and presenting the financial statements of the Company and the Group to reflect a true and fair view of the state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Financial Reporting Standards, the Companies Act, No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange. The detail statement of Directors' responsibility is included in page 50.

Review of Business

The state of affairs of the Company and the Group as at 31st December, 2012 is set out in the statements of financial position on page 52. An assessment of the financial performance of the Company and the Group is set out in the statements of comprehensive income on page 53.

Property, Plant and Equipment

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

Market Value of Properties

The Directors are of the view that the carrying values of properties stated in note 8 to the financial statements reflect their fair value.

Reserves

The aggregate values of reserves and their composition are set out in the statements of changes in equity of the Company and the Group on pages 54 and 55 to the financial statements.

Dividends

The Board of Directors has recommended a tax-free final dividend of Rs 0.33 per share amounting to Rs. 2,687,446,874 for the financial year 2012, subject to the approval of the shareholders at the Annual General Meeting.

Substantial Shareholdings

The parent company, Axiata Investments (Labuan) Limited, held 83.32 percent of the ordinary shares in issue of the Company as at 31st December, 2012. The main shareholders of the Company and the corresponding holding percentages are set out below:

	2012		2011	
Name of shareholder	No. of shares	Holding percentage	No. of shares	Holding percentage
Axiata Investments (Labuan) Limited	**6,785,252,765**	**83.32%**	6,785,252,765	83.32%
HSBC-BBH Genesis Smaller Companies	**191,221,640**	**2.35%**	191,221,640	2.35%
Employees Provident Fund	**177,463,109**	**2.18%**	165,411,989	2.03%
Dialog Axiata Employees ESOS Trust	**158,572,462**	**1.95%**	158,572,462	1.95%
Sri Lanka Insurance Corporation Limited-Life Fund	**74,585,920**	**0.92%**	74,585,920	0.92%
HSBC-SSBT-Morgan Stanley and Co International	**74,129,958**	**0.91%**	1,458,337	0.02%
CB NY S/A -International Finance Corporation	**64,086,800**	**0.79%**	64,086,800	0.79%
HSBC-BBH-Genesis Emerging Markets Opportunities Fund	**55,345,900**	**0.68%**	55,345,900	0.68%
Browns Investments (Private) Limited	**44,991,400**	**0.55%**	44,990,600	0.55%
BNY-CF Ruffer Investment Funds : CF Ruffer Pacific Fund	**44,314,300**	**0.54%**	44,314,300	0.54%

As at 31st December, 2012, the public held 14.73 percent (2011 - 14.73 percent) of the ordinary shares in issue of the Company.

Directors

The Directors of the Company as at 31st December, 2012 were;
Datuk Azzat Kamaludin *(Chairman)*
Dr. Hansa Wijayasuriya *(Group Chief Executive Officer)*
Mr. Moksevi Prelis
Mr. Mohamed Muhsin
Mr. Jayantha Dhanapala
Dato' Sri Jamaludin Ibrahim
Mr. James Maclaurin
Mr. Mohd Khairil Abdullah

Mr. Azwan Khan Osman Khan resigned from the Board with effect from 19th November, 2012.

Mr. Mohd Khairil Abdullah was appointed to the Board on 19th November, 2012, since the last Annual General Meeting, and in terms of the Articles of Association of the Company, will submit himself for re-election at the forthcoming Annual General Meeting.

In accordance with the Articles of Association of the Company, Dato' Sri Jamaludin Ibrahim retires by rotation and is eligible for re-election at the forthcoming Annual General Meeting.

Mr. Moksevi Prelis, who has attained the age of 76 years on 2nd July, 2012 and Mr. Jayantha Dhanapala, who has attained the age of 74 years on 30th December, 2012, retire pursuant to Section 210 of the Companies Act, No. 07 of 2007, and resolutions that the age limit of 70 years referred to in Section 210 of the Companies Act shall not be applicable to Mr. Moksevi Prelis and Mr. Jayantha Dhanapala will be proposed at the forthcoming Annual General Meeting.

Interests Register

The Company has maintained an interests register as required by the Companies Act, No. 07 of 2007. The names of the Directors who were directly or indirectly interested in a contract or a proposed transaction with the Company or the Group during the year are given in note 37 to the financial statements.

Remuneration and Other Benefits of Directors

The remuneration and other benefits of the Directors are given in note 26 to the financial statements.

Employee Share Option Scheme

The total number of shares granted under Tranche 0 was 88,841,218. As at 31st December, 2012, 51,103,699 share options had been exercised, and 26,373,400 share options remain unexercised and are exercisable before October 2014. As at 31st December, 2012, 11,172,801 options which have been forfeited together with 191,318 shares unallocated in Tranche 0 are available for allocation for subsequent tranches.

No options under the employee share option scheme were exercised during the financial year 2012.

Directors' Interests in Shares of the Company

The details of shares held by the Directors and their spouses as at 31st December, 2012 are as follows:

	As at December	
	2012	2011
Dr Hansa Wijayasuriya	**42,570**	42,570
Mr. Moksevi Prelis	**18,480**	18,480
Mr. Mohamed Muhsin	**18,040**	18,040

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

Amounts Payable to the Firm Holding Office as Independent Auditor

The remuneration payable by the Company to the independent auditor is given in note 26 to the financial statements.

Stated Capital

The stated capital of the Company as at 31st December, 2012 was Rs 28,103,913,434 comprising 8,143,778,405 ordinary shares.

Corporate Governance

The Directors place great emphasis on instituting and maintaining internationally accepted corporate governance practices and principles with respect to the management and operations of the Company and the Group, in order to develop and nurture long-term relationships with key stakeholders. The Directors confirm that the Company is in compliance with Section 7.10 of the Listing Rules of the Colombo Stock Exchange on corporate governance.

Statutory Payments

The Directors confirm that, to the best of their knowledge having made adequate inquiries from management, all taxes, duties, levies and statutory payments payable by the Company and the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and the Group as at the date of the statement of financial position have been duly paid, or where relevant provided for, except as disclosed in note 34.

Risk Management and Internal Controls

The Directors are responsible for the Company's and the Group's system of internal controls covering financial operations and risk management activities and review its effectiveness, in accordance with the provisions of the Corporate Governance Framework. The Directors consider that the system is appropriately designed to manage the risk and to provide reasonable assurance against material misstatement or loss. The Directors further confirm that there is an ongoing process to identify, eveluate and manage significant business risks.

Environmental Protection

The Company and the Group are sensitive to the needs of the environment and makes every endeavour to comply with the relevant environmental laws, regulations and best practices applicable in the country. After making adequate inquiries from the management, the Directors are satisfied that the Company and the Group operate in a manner that minimises the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Company and the Group operate.

Donations

The total donations made by the Company during the year for charitable purposes amounted to Rs 69,993,781 (2011 – Rs. 16,849,911).

Going Concern

The Directors have reviewed the business plans and are satisfied that the Company and the Group have adequate resources to continue as a going concern in the foreseeable future. As such, the financial statements have been prepared on the basis that the Company and the Group being a going concern.

Future Developments

In line with its corporate vision to be a leader in multi-sensory connectivity as manifested in a quadruple play business and technology formulation, the Group will continue to be aggressive in establishing customer facing technology and service delivery infrastructures spanning mobile, fixed line, broadband, digital television and digital services sectors. The Company and the Group will employ an up-to-date portfolio of access and core network technologies in keeping with a dynamic and regularly reviewed technology and service delivery roadmap architected in keeping with global best practices and technology evolution. The Company will also continue to develop and consolidate its service delivery capability footprint across Sri Lanka in terms of the establishment of basic physical infrastructures such as fiber optic transmission backbone, transmission towers and Internet Protocol (IP) transport networks capable of supporting the delivery of the multiple and converged connectivity services provided by the Group.

The Group will continue to focus on delivering enhanced levels of empowerment to Sri Lankan citizens and businesses, and will in particular seek to leverage its strengths in technology and research, to deliver parity access to financial services, education, information and entertainment via its portfolio of connectivity services.

Independent Auditor

Messrs PricewaterhouseCoopers Sri Lanka, Chartered Accountants, served as the Independent Auditor during the year. The Directors are satisfied that, based on representations made by the Independent Auditor to the Board, they did not have any relationship or interest with the Company and its subsidiaries that would impair their independence and objectivity, other than as Independent Auditor and tax consultant for income tax compilation.

Messrs PricewaterhouseCoopers, Chartered Accountants have expressed their willingness to continue as Independent Auditor of the Company and a resolution to reappoint Messrs PricewaterhouseCoopers as Independent Auditor will be proposed at the forthcoming Annual General Meeting.

Events After the Reporting Period

No other material events have occurred since the date of the statement of financial position which require adjustments to or disclosures in the financial statements other than those disclosed in note 39 to the financial statements.

BY ORDER OF THE BOARD

Dr. Hans Wijayasuriya	**Mr. Moksevi Prelis**	**Ms. Viranthi Attyagalle**
Director	*Director*	*Secretary*

COLOMBO

15th February, 2013

The Statement of Directors' Responsibility

The responsibility of the Directors in relation to the financial statements of the Company and the Group is set out in the following statement. The responsibility of the Independent Auditor in relation to the financial statements prepared in accordance with the provisions of the Companies Act, No. 07 of 2007 ['the Act'], is set out in the Independent Auditor's Report on page 51.

The financial statements comprise:

- the statements of comprehensive income, which presents a true and fair view of the profit or loss and/or other comprehensive income of the Company and the Group for the financial year,
- the statements of financial position, which presents a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year.

In preparing these financial statements the Directors are required to ensure that:

- appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- all applicable accounting standards, as relevant, have been followed;
- reasonable and prudent judgments and estimates have been made; and
- information required by the Act and the Listing Rules of the Colombo Stock Exchange has been complied with.

The Directors are also required to ensure that the Company and the Group have adequate resources to continue operations to justify applying the 'going concern' basis in preparing these financial statements. Further, the Directors have a responsibility to ensure that the Company and the Group maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company and of the Group, and to ensure that the financial statements presented comply with the requirements of the Act.

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view of preventing and detecting fraud and other irregularities.

The Directors are required to prepare the financial statements and to provide the Independent Auditor with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate to enable them to give the Independent Auditor's opinion.

Further, the Directors have recommended a final dividend of thirty three cents (Rs 0.33) per share, after being satisfied that the Company would satisfy the solvency test immediately after such distribution in accordance with Section 57 of the Act, and have obtained a certificate of solvency from the Independent Auditor.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and the Group, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and the Group, and all other known statutory dues as were due and payable by the Company and the Group as at the date of the statement of financial position have been paid, or where relevant provided for, except as disclosed in note 34 to the financial statements covering contingent liabilities.

By Order of the Board

Ms. Viranthi Attyagalle
Company Secretary
Colombo
15th February, 2013

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Independent Auditor's Report

To the Shareholders of Dialog Axiata PLC

Report on the Financial Statements

1 We have audited the accompanying financial statements of Dialog Axiata PLC ("the Company"), the consolidated financial statements of the Company and its subsidiaries, which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 52 to 129.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

5 We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

6 In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

7 In our opinion, the consolidated financial statements give a true and fair view of the Group's state of affairs as at 31 December 2012 and of the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on other legal and regulatory requirements

8 These financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act, No. 07 of 2007.

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS

15th February, 2013
COLOMBO

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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**

Statements of Financial Position

		Group			Company		
	Note	**31 Dec 2012 Rs. '000**	31 Dec 2011 Rs.000	1 Jan 2011 Rs.000	**31 Dec 2012 Rs.000**	31 Dec 2011 Rs.00	1 Jan 2011 Rs.000
ASSETS							
Non-current assets							
Property, plant and equipment	8	**59,063,675**	51,127,539	53,014,351	**44,744,236**	41,212,795	44,348,523
Intangible assets	9	**10,385,652**	3,869,456	3,757,193	**1,485,313**	1,619,582	1,397,140
Investment in subsidiaries	10	**Nil**	Nil	Nil	**17,826,010**	10,326,010	10,326,010
Investment in associates	11	**242,173**	45,108	Nil	**233,346**	27,742	Nil
Available-for-sale financial asset	13	**30,596**	30,596	30,596	**30,596**	30,596	30,596
Amounts due from related companies	14	**5,091**	11,545	17,717	**9,559,729**	14,007,435	8,789,709
		69,727,187	55,084,244	56,819,857	**73,879,230**	67,224,160	64,891,978
Current assets							
Inventories	15	**284,048**	409,157	271,184	**213,178**	395,515	266,159
Trade and other receivables	14	**12,021,976**	10,281,499	9,634,899	**9,378,161**	9,023,404	8,077,487
Cash and cash equivalents	16	**8,647,069**	10,452,379	5,433,770	**7,767,439**	6,900,163	5,079,135
		20,953,093	21,143,035	15,339,853	**17,358,778**	16,319,082	13,422,781
Total assets		**90,680,280**	76,227,279	72,159,710	**91,238,008**	83,543,242	78,314,759
EQUITY							
Capital and reserves attributable to equity holders							
Stated capital	17	**28,103,913**	28,103,913	28,103,913	**28,103,913**	28,103,913	28,103,913
Shares in ESOS Trust	17	**(1,990,921)**	(1,990,921)	(1,990,921)	**(1,990,921)**	(1,990,921)	(1,990,921)
Dividend reserve - ESOS Trust	19	**331,425**	291,781	260,067	**331,425**	291,781	260,067
Retained earnings	18	**10,737,128**	6,789,148	3,529,415	**19,948,823**	15,794,723	11,582,673
Total equity		**37,181,545**	33,193,921	29,902,474	**46,393,240**	42,199,496	37,955,732
LIABILITIES							
Non-current liabilities							
Borrowings	22	**12,094,321**	17,017,956	20,671,877	**12,094,321**	17,017,956	20,671,877
Deferred tax liabilities	23	**Nil**	1,972,933	1,570,850	**Nil**	1,972,933	1,570,850
Retirement benefit obligation	24	**587,030**	443,731	390,635	**481,385**	403,482	358,854
Provision for other liabilities	25	**813,874**	586,660	619,876	**663,367**	574,054	607,794
Deferred revenue	21	**983,273**	1,056,654	285,766	**863,001**	1,055,174	285,766
		14,478,498	21,077,934	23,539,004	**14,102,074**	21,023,599	23,495,141
Current liabilities							
Trade and other payables	20	**26,163,610**	15,836,926	13,840,521	**18,187,872**	14,280,082	12,189,944
Current income tax liabilities		**24,052**	63,824	14,151	**15,535**	60,668	10,897
Borrowings	22	**12,832,575**	6,054,674	4,863,560	**12,539,287**	5,979,397	4,663,045
		39,020,237	21,955,424	18,718,232	**30,742,694**	20,320,147	16,863,886
Total liabilities		**53,498,735**	43,033,358	42,257,236	**44,844,768**	41,343,746	40,359,027
Total equity and liabilities		**90,680,280**	76,227,279	72,159,710	**91,238,008**	83,543,242	78,314,759
Net assets per share (Rs.)		**4.57**	4.08	3.67	**5.70**	5.18	4.66

The notes on pages 57 to 129 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.

Lucy Tan
Group Chief Financial Officer
15th February, 2013

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.

Dr. Hans Wijayasuriya
Director
15th February, 2013

Mr. Moksevi Prelis
Director
15th February ,2013

Statements of Comprehensive Income

	Note	Group 31 December 2012 Rs.000	Group 31 December 2011 Rs.000	Company 31 December 2012 Rs.00	Company 31 December 2011 Rs.000
Revenue	7	**56,345,458**	45,412,002	**49,802,752**	41,729,199
Direct costs		**(32,216,108)**	(24,949,185)	**(27,757,545)**	(22,494,294)
Gross profit		**24,129,350**	20,462,817	**22,045,207**	19,234,905
Distribution costs		**(7,600,969)**	(6,265,252)	**(7,020,384)**	(5,858,998)
Administrative costs		**(9,865,350)**	(8,073,548)	**(8,214,754)**	(6,278,029)
Other income		**138,146**	83,076	**119,637**	69,961
Operating profit		**6,801,177**	6,207,093	**6,929,706**	7,167,839
Finance income	28	**307,022**	424,927	**270,214**	409,932
Finance costs	28	**(3,034,134)**	(1,193,482)	**(2,983,165)**	(1,188,475)
Finance costs - net	28	**(2,727,112)**	(768,555)	**(2,712,951)**	(778,543)
Share of (loss) / profit associates - net of tax	11	**(8,539)**	9,681	**Nil**	Nil
Profit before income tax		**4,065,526**	5,448,219	**4,216,755**	6,389,296
Income tax	29	**1,964,661**	(578,657)	**1,973,509**	(566,238)
Profit for the year		**6,030,187**	4,869,562	**6,190,264**	5,823,058
Other comprehensive income					
Actuarial (loss) / gains from retirement benefit obligation - net of tax		**(8,762)**	18,927	**(219)**	17,748
Total comprehensive income for the year		**6,021,425**	4,888,489	**6,190,045**	5,840,806
Attributable to equity holders of the Company		**6,021,425**	4,888,489	6,190,045	5,840,806

Earnings per share attributable to the ordinary share holders of the Company (expressed in Rupees per share)

	Note	Group 2012	Group 2011	Company 2012	Company 2011
- Basic	30	**0.75**	0.61	**0.78**	0.73
- Diluted	30	**0.75**	0.61	**0.78**	0.73

The notes on pages 57 to 129 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company				
	Stated capital Rs.000	Shares in ESOS Trust Rs.000	Dividend reserve ESOS Trust Rs.000	Retained earnings Rs.000	Total Rs.000
Balance at 1 January 2011	28,103,913	(1,990,921)	260,067	3,529,415	29,902,474
Profit for the year	Nil	Nil	Nil	4,869,562	4,869,562
Other comprehensive income	Nil	Nil	Nil	18,927	18,927
Total comprehensive income for the year	Nil	Nil	Nil	4,888,489	4,888,489
Transactions with owners recognised directly in equity					
Dividend received by ESOS Trust	Nil	Nil	31,714	Nil	31,714
Dividend to equity holders	Nil	Nil	Nil	(1,628,756)	(1,628,756)
Balance as at 31 December 2011	28,103,913	(1,990,921)	291,781	6,789,148	33,193,921
Balance at 1 January 2012	28,103,913	(1,990,921)	291,781	6,789,148	33,193,921
Profit for the year	Nil	Nil	Nil	6,030,187	6,030,187
Other comprehensive income	Nil	Nil	Nil	(8,762)	(8,762)
Total comprehensive income for the year	Nil	Nil	Nil	6,021,425	6,021,425
Transactions with owners recognised directly in equity					
Direct cost on share issue	Nil	Nil	Nil	(37,500)	(37,500)
Dividend received by ESOS Trust	Nil	Nil	39,644	Nil	39,644
Dividend to equity holders	Nil	Nil	Nil	(2,035,945)	(2,035,945)
Balance as at 31 December 2012	28,103,913	(1,990,921)	331,425	10,737,128	37,181,545

The notes on pages 57 to 129 form an integral part of these financial statements.

Company Statement of Changes in Equity

	Attributable to equity holders of the Company				
	Stated capital Rs.000	Shares in ESOS Trust Rs.000	Dividend reserve ESOS Trust Rs.000	Retained earnings Rs.000	Total Rs.000
Balance at 1 January 2011	28,103,913	(1,990,921)	260,067	11,582,673	37,955,732
Profit for the year	Nil	Nil	Nil	5,823,058	5,823,058
Other comprehensive income	Nil	Nil	Nil	17,748	17,748
Total comprehensive income for the year	Nil	Nil	Nil	5,840,806	5,840,806
Transactions with owners recognised directly in equity					
Dividend received by ESOS Trust	Nil	Nil	31,714	Nil	31,714
Dividend to equity holders	Nil	Nil	Nil	(1,628,756)	(1,628,756)
Balance as at 31 December 2011	**28,103,913**	**(1,990,921)**	**291,781**	**15,794,723**	**42,199,496**
Balance at 1 January 2012	28,103,913	(1,990,921)	291,781	15,794,723	42,199,496
Profit for the year	Nil	Nil	Nil	6,190,264	6,190,264
Other comprehensive income	Nil	Nil	Nil	(219)	(219)
Total comprehensive income for the year	Nil	Nil	Nil	6,190,045	6,190,045
Transactions with owners recognised directly in equity					
Dividend received by ESOS Trust	Nil	Nil	39,644	Nil	39,644
Dividend to equity holders	Nil	Nil	Nil	(2,035,945)	(2,035,945)
Balance as at 31 December 2012	28,103,913	(1,990,921)	331,425	19,948,823	46,393,240

The notes on pages 57 to 129 form an integral part of these financial statements.

Statements of Cash Flows

		Group		Company	
		31 December		31 December	
		2012	2011	2012	2011
	Note	Rs.000	Rs.000	Rs.000	Rs.000
Cash flows from operating activities					
Cash generated from operations	32	**21,727,077**	17,086,969	**20,054,932**	16,030,860
Interest received		**347,270**	383,683	**310,589**	369,157
Interest paid		**(286,202)**	(354,552)	**(284,506)**	(354,488)
Telecommunication Development Charge (TDC) refunds received		**Nil**	1,650,244	**Nil**	1,646,941
Tax paid		**(125,513)**	(106,404)	**(116,755)**	(101,035)
Retirement benefit obligation paid		**(79,731)**	(20,064)	**(23,799)**	(19,471)
Net cash generated from operating activities		**21,582,901**	18,639,876	**19,940,461**	17,571,964
Cash flows from investing activities					
Purchase of property, plant and equipment		**(17,248,108)**	(8,334,706)	**(12,349,095)**	(6,377,813)
Purchase of intangible assets		**(160,563)**	(384,614)	**(7,502)**	(384,614)
Amounts advanced to subsidiaries		**Nil**	Nil	**(3,919,583)**	(4,208,813)
Investment in associates		**(156,000)**	(11,440)	**(156,000)**	(11,440)
Acquisition of subsidiary, net of cash acquired		**(3,363,175)**	Nil	**Nil**	Nil
Proceeds from sale of subsidiary		**Nil**	69,190	**Nil**	69,190
Proceeds from sale of property, plant and equipment		**63,383**	10,205	**47,720**	8,862
Net cash used in investing activities		**(20,864,463)**	(8,651,365)	**(16,384,460)**	(10,904,628)
Cash flows from financing activities					
Repayment of finance leases		**(10,668)**	(5,755)	**Nil**	Nil
Repayment of borrowings		**(3,916,732)**	(3,160,950)	**(3,916,732)**	(3,160,950)
Proceeds from borrowings		**4,884,750**	1,096,000	**4,884,750**	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 equity holders		**(2,035,945)**	(1,628,756)	**(2,035,945)**	(1,628,756)
Dividend received by ESOS Trust		**39,643**	31,714	**39,643**	31,714
Dividend paid to rated cumulative redeemable - preference shareholders		**(82,637)**	(177,399)	**(82,637)**	(177,399)
Direct cost on share issue		**(37,500)**	Nil	**Nil**	Nil
Net cash used in financing activities		**(2,409,089)**	(5,095,146)	**(2,360,921)**	(5,089,391)
Net (decrease) / increase in cash and cash equivalents		**(1,690,651)**	4,893,365	**1,195,080**	1,577,945
Movement in cash and cash equivalents					
At start of the year		**9,406,074**	4,475,738	**5,929,135**	4,314,219
(Decrease) / increase		**(1,690,651)**	4,893,365	**1,195,080**	1,577,945
Exchange (losses) / gains on cash and cash equivalents		**(347,302)**	36,971	**(347,302)**	36,971
At end of the year	16	**7,368,121**	9,406,074	**6,776,913**	5,929,135

The notes on pages 57 to 129 form an integral part of these financial statements.

Notes to the Financial Statements

1 Corporate information

Dialog Axiata PLC (the 'Company') and its subsidiaries (together 'the Group') provide communication services (mobile, fixed, broadband, international gateway services), telecommunication Infrastructure services (tower infrastructure and transmission services), media (digital television services based on multiple media – satellite, cable, terrestrial) 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.

The Company's and the Group's financial statements were authorised for issue by the Board of Directors on 15 February 2013.

All amounts disclosed in notes are shown in Sri Lanka Rupees thousands unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

2.1 Basis of preparation and adoption of Sri Lanka Financial Reporting Standards

The Company and the Group prepare its financial statements in accordance with Sri Lanka Financial Reporting Standards issued by the Institute of Chartered Accountants of Sri Lanka. Sri Lanka Accounting Standards (SLASs) were revised to incorporate International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board, which requires all entities to apply these standards effective for years beginning on or after 1st January, 2012. The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards (SLFRSs), Sri Lanka Accounting Standards (LKASs), relevant interpretations of the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which are collectively referred to as SLFRSs. Subject to certain transition elections and exceptions disclosed in note 6, the Company and the Group have consistently applied the accounting policies in the preparation of its opening SLFRS statement of financial position at 1st January, 2011 and throughout all periods presented, as if these policies had always been in effect. Note 6 discloses the impact of the transition to SLFRSs on the Company's and the Group's reported financial position and financial performance, including the nature and effect of significant changes in accounting policies from those used in the Company's and the Group's financial statements for the year ended 31st December, 2011 prepared under previous Sri Lanka Accounting Standards.

These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are measured at fair value. The preparation of financial statements in conformity with SLFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's and the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's and the Group's financial statements are disclosed in note 5.

2 Summary of significant accounting policies contd.

2.1.1 Changes in accounting policies and disclosures

New accounting standards, amendments and interpretations issued but not effective for the financial year beginning 1st January, 2012 and not early adopted.

(i) SLFRS 13, 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs.

(ii) SLFRS 10, 'Consolidated Financial Statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company and the Group is yet to assess SLFRS 10's full impact.

(iii) FRS 12, 'Disclosures of Interests in Other Entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company and the Group is yet to assess SLFRS 12's full impact.

(iv) SLFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces the areas of LKAS 39 which relate to classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified in to two measurement categories at initial recognition which are financial assets measured as at fair value and financial assets measured at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains majority of the IAS 39 requirements. The main change being the fair value option taken as financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income in the statement of comprehensive income, unless this creates an accounting mismatch. The Company and the Group is yet to assess SLFRS 9's full impact.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

When initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in the financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group also recognises additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the statement of comprehensive income.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised in accordance with LKAS 39, in the statement of comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.If this consideration is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investment.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. The financial periods of the subsidiary undertakings are same as that of the Company.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss in the statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised as other comprehensive income in the statement of comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2 Summary of significant accounting policies contd.

A listing of the Group's principal subsidiaries is set out in note 10.

(b) Associates

Associates are companies, partnerships or other entities in which the Group exercises significant influence, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is power to participate in financial and operating policy decisions of the associates but not power to exercise control or jointly control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method of accounting, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the post-acquisition results and changes of the associate's reserves in the consolidated statement of comprehensive income after the date of acquisition and net off with any accumulated impairment loss, if any. The Group's investment in associates includes goodwill identified on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Profits and losses resulting from transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Equity accounting is discontinued when the Group ceases to have significant influence over the associates. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income in the consolidated statement of comprehensive income is reclassified to profit or loss in the consolidated statement of comprehensive income where appropriate. The cost of acquiring an additional stake in an associate is added to the carrying amount of the associate and equity accounted. Goodwill arising on the purchase of additional stake is computed using fair value information at the date the additional interest is purchased. The previously held interest is not re-measured. Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the difference in the consolidated statement of comprehensive income.

2.3 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entities operate ('the functional currency'). The consolidated financial statements are presented in Sri Lankan Rupees, which is the Company's and the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'Finance income or cost'.

2.4 Property, plant and equipment (PPE)

(a) Measurement

PPE other than land and buildings are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The Company and the Group elected the exemption to measure land and buildings recognised previously at revalued amounts as deemed cost with effect from 1 January 2011 in accordance with provisions of SLFRS 1. Accordingly, land and buildings are stated at deemed cost less accumulated depreciation.

Cost of telecom equipment comprises expenditure up to and including the last distribution point before customers' premises and includes contractors' charges, materials, direct labour and related directly attributable overheads. Cost of fixed line CDMA network includes customer premises equipments, including handsets. The cost of other PPE comprises expenditure directly attributable to the acquisition of the item. These costs include the costs of dismantling, removal and restoration, and the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation of assets begin when it is available for use. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	% per annum
Buildings	2.5
Building - electrical installation	12.5
Building - leasehold property	Over lease period
Computer equipment	20
Telecom equipment	5 to 20
Customer premises equipment	33 to 100
Office equipment	20
Office equipment - Test Phones	50
Furniture and fittings	20
Toolkits	10
Motor vehicles	20

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income' in the statement of comprehensive income.

Identifiable interest costs on borrowings to finance the construction of PPE are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

2 Summary of significant accounting policies contd.

2.4 Property, plant and equipment (PPE) Contd.

(b) Asset exchange transaction

PPE may be acquired in exchange for a non-monetary asset or for a combination of monetary and non-monetary assets and is measured at fair value unless;

- the exchange transaction lacks commercial substance; or
- the fair value of neither the assets received nor the assets given up can be measured reliably.

The acquired item is measured in this way even if the Company and the Group cannot immediately derecognise the assets given up. If the acquired item cannot be reliably measured at fair value, its cost is measured at the carrying amount of the asset given up.

(c) Repairs and maintenance

Repairs and maintenance are charged to the profit or loss in the statement of comprehensive income during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Company and the Group. This cost is depreciated over the remaining useful life of the related asset.

2.5 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included under intangible assets. Goodwill acquired in a business combination is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and carried at less than costs less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. Each CGU or a group of CGUs represents the lowest level within the Group at which goodwill is monitored for internal management purposes and which are expected to benefit from the synergies of the combination.

(b) Licenses

Separately acquired licenses are shown at historical cost. Licenses acquired in a business combination are recognised at fair value at the acquisition date. Licenses have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives which is between 10 to 15 years.

(c) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of 2 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. These directly attributable costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed 2 years.

Costs relating to development of software are carried in capital work in progress until the software is available for use.

Other development expenditures that do not meet the above criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(d) Other intangibles

Costs incurred to acquire the indefeasible right of use of SEA-ME-WE under sea cable, is recognised at cost and amortised over its useful life of 15 years.

2.6 Investments

In the Company's separate financial statement, investments in subsidiaries and associates are stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(a) Classification

The Company and the Group classify its financial assets in the following categories: at fair value through profit or loss ('FvTPL'), loans and receivables, available-for-sale ('AFS') and held-to-maturity ('HTM'). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at FvTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve (12) months after the end of the reporting period. These are classified as non-current assets.

2 Summary of significant accounting policies contd.

2.8 Financial assets contd.

(iii) AFS financial assets

AFS financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve (12) months from the end of the reporting period.

(iv) HTM financial assets

HTM financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's and the Group's management have the positive intention and ability to hold to maturity. If the Company and the Group were to sell other than an insignificant amount of HTM financial assets, the whole category would be tainted and reclassified as AFS. HTM financial assets are included in non-current assets, except for those with maturities less than twelve (12) months from the end of the reporting period, which are classified as current assets.

(b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company and the Group commit to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at FvTPL. Financial assets carried at FvTPL are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income.

(c) Subsequent measurement - gains and losses

AFS financial assets and financial assets at FvTPL are subsequently carried at fair value. Loans and receivables and HTM financial assets are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at FvTPL, including the effects of currency translation are recognised in the statement of comprehensive income in the period in which the changes arise.

(d) Subsequent measurement - Impairment of financial assets

(i) Assets carried at amortised cost

The Company and the Group assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company and the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

(ii) Assets classified as AFS

The Company and the Group assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Company and the Group use criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

In the case of equity securities classified as AFS, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the statement of comprehensive income. The amount of cumulative loss that is reclassified to the statement of comprehensive income is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as AFS are not reversed through the statement of comprehensive income.

(e) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company and the Group have transferred substantially all risks and rewards of ownership.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company and the Group designate certain derivatives as either:

(i) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
(ii) Hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
(iii) Hedges of a net investment in a foreign operation (net investment hedge).

2 Summary of significant accounting policies contd.

2.8 Financial assets contd.

(g) Derivative financial instruments and hedging activities contd.

The Company and the Group document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company and the Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of comprehensive income within 'Net finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) – net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the statement of comprehensive income within 'Net finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the statement of comprehensive income over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified to the statement of comprehensive income in the periods when the hedged item affects statement of comprehensive income. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the statement of comprehensive income within 'Net finance cost'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of PPE.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income within 'other gains/(losses) – net'.

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.
Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in statement of comprehensive income within 'other comprehensive income'. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income within 'other gains/(losses) – net'. Gains and losses accumulated in equity are included in the statement of comprehensive income when the foreign operation is partially disposed of or sold.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and comprises all expenses incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. In arriving at the net realisable value, due allowance is made for all obsolete and slow moving items.

2.10 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less accumulated impairment losses.

2.11 Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three month or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

2.12 Stated capital

(a) Classification

Ordinary shares with discretionary dividends are classified as equity. Other shares are classified as equity or liability according to the economic substance of the particular instrument. Distribution to holders of a financial instrument classified as an equity instrument is charged directly to equity.

(b) Share issue expenses

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

(c) Dividend to shareholders of the Company

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's and the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.13 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one (1) year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2 Summary of significant accounting policies contd.

2.13 Trade and other payables contd.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings.

Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the statement of comprehensive income.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the statement of comprehensive income as finance cost.

Borrowings are classified as current liabilities unless the Company and the Group have an unconditional right to defer settlement of the liability for at least twelve (12) months after the date of statement of financial position.

Identifiable interest costs on borrowing to finance the construction of PPE are capitalised during the period of time that is required to complete and prepare the asset for its intended use.

2.15 Current and deferred taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is recognised in equity. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.16 Employee benefits

(a) Defined benefit plan - Gratuity

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation. The defined benefit plan comprises the gratuity provided under the Act, No 12 of 1983.

The liability recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the date of the statement of financial position together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using appropriate interest rates by the actuarial valuer.

Past-service costs are recognised immediately in statement of comprehensive income, unless the changes to the defined benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the statement of comprehensive income.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 24 to the financial statements.

(b) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company and the Group contribute 12% or 15% and 3% respectively, of the employees' basic or consolidated wage or salary. The Company and the Group have no further payment obligation once the contributions have been paid. The Company and the employees are members of these defined contribution plans.

(c) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company and the Group.

(d) Termination benefits

Termination benefits are payable whenever an employee's service is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company and the Group recognise termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(e) Share-based compensation

The Company and the Group operate an equity-settled, share-based compensation plan for its employees termed Employees' Share options Scheme ("ESOS"). Employee services received in exchange for the grant of the share options are recognised as an expense in the statement of comprehensive income over the vesting period of the grant, with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted:

- including any market performance conditions
- excluding the impact of any service and non-market performance vesting conditions
- excluding the impact of any non-vesting conditions

2 Summary of significant accounting policies contd.

2.13 Trade and other payables contd.

(e) Share-based compensation contd.

Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. At the date of statement of financial position, the Company and the Group revise its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Deferred revenue

Deferred revenue comprises of, the unutilised balance of call time, telecast time and downloadable quota in respect of prepaid cards and services sold to customers. Such revenue amounts are recognised as revenue upon subsequant utilisation of call time, telecast time and downloadable quota by the customer or when the credit expires.

2.18 Subscriber acquisition costs

Subscriber acquisition costs comprise handset and other subsidies offered under usage contracts in excess of one (1) year. Subscriber acquisition costs are amortised over the contract period and reviewed annually for impairment. Other subscriber acquisition costs under usage contracts less than one (1) year are recognised as an expense in the statement of comprehensive income as incurred.

2.19 Provisions

Provisions are recognised when the Company and the Group have a present legal or constructive obligation as a result of past events when it is more probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

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

Provisions for asset retirement obligations are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

2.20 Contingent liabilities and contingent assets

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

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Company and the Group. The Company and the Group do not recognise a contingent asset but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

In the acquisition of subsidiaries by the Group under a business combination, the contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The Group recognises separately the contingent liabilities of the acquiree's as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions.

2.21 Government grants

The Company and the Group are entitled to claim certain qualifying expenses in relation to Telecommunication Development Charge (TDC) from the Telecommunications Regulatory Commission of Sri Lanka (TRC). The TDC refund is recognised as government grant and is accounted for where there is reasonable assurance that the grant will be received and the Company and the Group will comply with all attached conditions. Government grants in respect of TDC refund is recognised in the statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate. TDC refund received is deferred and credited to the statement of comprehensive income on straight line basis over the expected useful lives of the related assets.

2.22 Accounting for leases where the Company and the Group are the lessee

(a) Finance leases

Leases of PPE where the Company and the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance lease is charged to the statement of comprehensive income as finance cost over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

PPE acquired under finance leases are depreciated over the estimated useful life of the asset in accordance with the annual rates stated in note 2.4 to the financial statements as mentioned above. Where there is no reasonable certainty that the ownership will be transferred to the Company and the Group, the asset is depreciated over the shorter of the lease term or its estimated useful life.

(b) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged as an expense to the statement of comprehensive income on a straight-line basis over the period of the lease.

2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Company's and the Group's activities. Revenue is stated net of all applicable taxes and levies, returns, rebates and discounts. The Group revenue is subject to elimination of sales within the Group.

The Company and the Group recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's and the Group's activities as described below. The Company and the Group base its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. The revenue is recognised as follows:

2 Summary of significant accounting policies contd.

2.23 Revenue recognition contd.

(a) Domestic and international service revenue and rental income

Revenue from telecommunications comprises amounts charged to customers in respect of monthly access charges, call time usage, messaging, the provision of other telecommunications services, including data services and information provision, fees for connecting users of other fixed lines and mobile networks to the the Company's and Group's network.

Revenue from Pay TV comprises amounts charged to customers in respect of monthly subscription revenue and connection fees.

Access charges and airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as revenue over the related access period, with unbilled revenue resulting from services already provided from the billing cycle date to the end of each period accrued. The customers are charged Government taxes at the applicable rates and the revenue is recognised net of such taxes.

Revenue from the sale of prepaid card on Mobile, CDMA, Broadband and Pay TV are deferred until such time the customer uses the call time, downloadable quota, telecast time or when credit expires.

(b) Revenue from other network operators and international settlements

The revenue from other network operators, local and international, for the use of the Company's and the Group's telecommunication network for completing call connections is recognised, net of taxes, based on traffic minutes/per second rates stipulated in the relevant agreements and regulations.

(c) Connection fees

Connection fees are recognised as revenue over the subscriber churn period.

(d) Lease of passive infrastructure

Income from lease of passive infrastructure is recognised on an accrual basis based on prices agreed with customers upon completion of service.

(e) Equipment revenue

Revenue from equipment sales is recognised when the equipment is delivered to the end customer and the sale is considered complete. For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the device are transferred to the intermediary and the intermediary has no legal right to return.

(f) Award credits

Award credits are separately identifiable component of the sales transaction in which they are granted. The fair value of the consideration received or receivable in respect of the initial sale are allocated between the award credits and the other components of the sale.

(g) Interest income

Interest income is recognised using the effective interest method. When a loan granted or a receivable is impaired, the Company and the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

(h) Dividend income

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

2.24 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The adjustments made to comparative figures are given in Note 33 to the financial statements.

3 Financial risk management

Financial risk factors

The Company's and the Group's activities exposed to variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company's and the Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company and the Group. Financial risk management is carried out through risk reviews, internal control systems, insurance programmes and adherence to the Company's and the Group's financial risk management policies. The Board of Directors regularly reviews these risks and approves the risk management policies, which covers the management of these risks. Hedging transactions are determined in the light of commercial commitments. Derivative financial instruments are used only to hedge underlying commercial exposures and are not held for speculative purposes.

Market risk consists of:

(i) foreign currency exchange risk – risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

(ii) fair value interest rate risk – risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

(iii) cash flow interest rate risk – risk that future cash flows associated with a financial instrument will fluctuate. In the case of a floating rate debt instrument, such fluctuations result in a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value.

(iv) price risk – risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instrument traded in the market.

Credit risk – risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

3 Financial risk management contd.

3.1 Foreign exchange risk

The Company and the Group operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As at 31 December 2012, if LKR has weakened by 1% against USD with all other variables held constant, this will result in net foreign exchange losses of Rs 176 million in the Group, on translation of USD balances.

3.2 Cash flow and fair value interest rate risk

The Company and the Group has cash and bank balances including deposits placed with creditworthy licensed banks and financial institutions. The Company and the Group manage its interest rate risk by actively monitoring the yield curve trend and interest rate movement for the various cash and bank balances.

The Company's and the Group's borrowings comprise borrowings from financial and non-financial institutions and Preference Shares. The Company's and the Group's interest rate risk objective is to manage an acceptable level of rate fluctuation on the interest expense. In order to achieve this objective, the Company and the Group target a composition of fixed and floating borrowings based on assessment of its existing exposure and desirable interest rate profile. The Company and the Group analyses its interest rate exposure on a dynamic basis.

3.3 Credit risk

Credit risk is managed on Company and the Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables (net of deposits held). Individual risk limits are set, based on internal or external ratings. The utilisation of credit limits is regularly monitored.

The Company and the Group place its cash and cash equivalents with a number of creditworthy financial institutions. The Company's and the Group's policy limits the concentration of financial exposure to any single financial institution. The maximum credit risk exposure of the financial assets of the Company and the Group are approximately their carrying amounts as at statement of financial position date.

3.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquid funds to meet its financial obligations.

In the management of liquidity risk, the Company and the Group monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Company's and the Group's operations and to mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Company and the Group aim at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available.

The table below analyses the Group's and the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

Group

	Less than 3 months	Between 3 months and Year 1	Between year 1 and Year 2	Between year 2 and Year 5	Over Year 5
At 31 December 2012					
Borrowings	4,037,135	8,795,440	11,066,514	1,027,807	Nil
Trade and other payables	13,115,395	13,048,215	Nil	Nil	Nil
At 31 December 2011					
Borrowings	1,981,038	4,073,636	15,886,181	1,131,775	Nil
Trade and other payables	2,373,829	13,463,097	Nil	Nil	Nil

Company

	Less than 3 months	Between 3 months and Year 1	Between year 1 and Year 2	Between year 2 and Year 5	Over Year 5
At 31 December 2012					
Borrowings	3,743,848	8,795,439	11,066,514	1,027,807	Nil
Trade and other payables	9,969,590	8,218,282	Nil	Nil	Nil
At 31 December 2011					
Borrowings	1,905,761	4,073,636	15,886,181	1,131,775	Nil
Trade and other payables	3,655,452	10,624,630	Nil	Nil	Nil

Capital expenditure and working capital expenditure requirements of the Group are financed through internally generated cash flows as well as external financing arrangements. Management has arranged financial facilities with several financial institutions to support future financial requirements. Further, the Board has duly approved a proposed establishment of a Malaysian Ringgit denominated Islamic medium term note programme up to Malaysian Ringgit 1.2 billion in nominal value with a tenure of 15 years in Malaysia.

4 Capital management risk

The primary objective of the Company's and the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company and the Group manage its capital structure and make adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company and the Group may or may not make dividend payments to shareholders, return capital to shareholders or issue new shares or other instruments.

Consistent with others in the industry, the Company and the Group monitor capital on the basis of the gearing ratio. This ratio is calculated as total borrowings by total equity. Total borrowings including non-current and current borrowings as shown in the statements of financial position. Total equity is calculated as 'Total equity' in the statements of financial position.

4 Capital management risk contd.

The gearing ratio as at 31 December were as follows:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Borrowings (Note 22)	**24,926,896**	23,072,630	25,535,437	**24,633,608**	22,997,353	25,334,922
Total equity	**37,181,545**	33,193,921	29,902,474	**46,393,240**	42,199,496	37,955,732
Gearing ratio	**0.67**	0.70	0.85	**0.53**	0.54	0.67

5 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical accounting estimates and assumptions

The Company and the Group make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment assessment of goodwill

The Group tests goodwill for impairment annually in accordance with its accounting policy stated in note 2.5 and whenever events or change in circumstances indicate that this is necessary within the financial year. The recoverable amounts of cash-generating units have been determined based on value-in-use (VIU) calculations. These calculations require the use of estimates and are disclosed in note 9.

(b) Estimated useful lives of PPE

The Company and the Group reviews annually the estimated useful lives of PPE based on factors such as business plan and strategies, expected level of usage and future technological developments. Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of PPE would increase the recorded depreciation charge and decrease the PPE carrying value.

(c) Taxation

(i) Income taxes

Judgment is involved in determining the Company and the Group provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company and the Group recognise liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred tax provisions in the period in which such determination is made.

(ii) Deferred tax

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. This involves judgment regarding future financial performance of a particular entity in which the deferred tax asset has been recognised.

(d) Fair value of derivatives and other financial instruments

Certain financial instruments such as investments, derivative financial instruments and certain elements of borrowings are carried on the statement of financial position at fair value, with changes in fair value reflected in the statement of comprehensive income.

Fair values are estimated by reference in part to published price quotations and in part by using valuation techniques. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company and the Group use its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each financial reporting period.

(e) Impairment of non-current assets

The Company and the Group test annually the indicators to ascertain whether non-current assets (including intangibles) have suffered any impairment, in accordance with the accounting policy stated in note 2.4 and 2.5. These calculations require the use of estimates.

(f) Defined benefit plan - Gratuity

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate, future salary increase rate, mortality rate, withdrawal and disability rates and retirement age. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company and the Group determine the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows, expected to be required to settle the defined benefit plan. In determining the appropriate discount rate, the Company and the Group consider the interest yield of long term government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit plan. Other key assumptions for defined benefit plan are based in part on current market conditions (Note 24)

(g) Asset retirement obligations (ARO)

ARO applies when there is a legal or constructive obligation associated with the retirement of a tangible long-lived assets, and the liability can be reasonably estimated. The assumptions used in determining the ARO include the discount rate, inflation rate and the period after which the liability is expected to crystallize.

(h) Provisions

The Company and the Group recognise provisions when they have a present legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. The recording of provisions requires the application of judgments about the ultimate resolution of these obligations. As a result, provisions are reviewed at each statement of financial position date and adjusted to reflect the Company's and the Group's current best estimate.

(i) Contingent liabilities

Determination of the treatment of contingent liabilities in the financial statements is based on the management's view of the expected outcome of the applicable contingency. The Company and the Group consult with legal counsel on matters related to litigation and other experts both within and outside the Company and the Group with respect to matters in the ordinary course of business.

5 Critical accounting estimates and judgments contd.

5.1 Critical accounting estimates and assumptions contd.

(j) Impairment of trade receivables

The Company and the Group assesses at the date of statement of financial position whether there is objective evidence that trade receivables have been impaired. Impairment loss is calculated based on a review of the current status of existing receivables and historical collections experience. Such provisions are adjusted periodically to reflect the actual and anticipated impairment.

6 Explanation of transition to SLFRSs

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended 31 December 2012 together with comparative information for the year ended 31 December 2011, and opening SLFRS statement of financial position as at 1 January 2011 being the transition date of SLFRSs for the Company and the Group.

In preparing SLFRS statement of financial position for previously reported financial periods, required adjustments have been made in accordance with respective SLFRSs. The effect of the transition from SLASs to SLFRSs has been illustrated in the reconciliation statements and accompanying notes to the reconciliations.

Set out below are the applicable exemptions and exceptions under SLFRS 1 applied by the Company and the Group in transition to SLFRSs.

Exemptions

Following voluntary exemptions have been applied by the Company and the Group:

Exemption for business combinations

SLFRS 1 provides the option to apply SLFRS 3,'Business combinations', prospectively from the transition date or from a specific date prior to the transition date. This provides relief from full retrospective application that would require restatement of all business combinations prior to the transition date. The Company and the Group elected to apply SLFRS 3 prospectively to business combinations occurring after its transition date. Business combinations occurring prior to the transition date have not been restated.

Following voluntary exemptions have been applied by the Company and the Group (Contd):

Exemption for revaluation as deemed cost

The Company and the Group elected to measure land and buildings at deemed cost as at 1 January 2011.

The following voluntary exemptions have not been applied by the Company and the Group:

- Investments in subsidiaries, jointly controlled entities and associates.

The remaining voluntary exemptions do not apply to the Company and the Group:

- LKAS 23 - Borrowing cost, as the policy adopted under previous GAAP (SLASs) was inline with LKAS 23.
- SLFRS 2 - Share-based payments, as such scheme was not vested as at the date of transition to SLFRSs.
- SLFRS 4 - Insurance contracts, as this is not relevant to the Company's and the Group's operations.
- LKAS 21 - Foreign operations, as the Group does not have any foreign operations as defined in LKAS 21.

- IFRIC 4 - Arrangements contains a lease, IFRIC 18 - Transfers of assets from customers, as the Company and the Group have not entered into these types of arrangements at the date of transition.

- LKAS 19 - Employee benefits, as the policy adopted under previous GAAP (SLASs) was inline with LKAS 19.

- Assets and liabilities of subsidiaries, associates and joint ventures under SLFRS 1, as the subsidiaries and the associate in the Group have transited from SLASs to SLFRSs simultaneously.

- Designation of previously recognized financial instruments under LKAS 39 as available-for-sale or fair value through profit or loss before the Company's and the Group's transition date, as Company and the Group have not designated any financial instrument either as available-for-sale or fair value through profit or loss before the transition date.

- IFRIC 1 - Decommissioning liabilities included in the cost of property, plant and equipment, as the accounting treatment applied by the Company and the Group for changes in existing decommissioning liabilities are aligned with IFRIC 1.

- IFRIC 12 - Service Concession Arrangements, as the Company and the Group have not entered into agreement within the scope of IFRIC 12.

- IFRIC 19 - Extinguishing financial liabilities with equity instruments, the Company and the Group do not have these types of financial instruments as at the date of transition.

- LKAS 29 Financial reporting in hyperinflationary economies, as the Company and the Group do not operate in a hyperinflationary economy.

Exceptions

Set out below are the applicable mandatory exceptions in SLFRS 1 applied in the convergence from SLASs to SLFRSs.

Exception for estimates

SLFRS estimates as at 1 January 2011 are consistent with the estimates as at the same date made in conformity with SLASs.

The other compulsory exceptions of SLFRS 1 have not been applied as these are not relevant to the Company and the Group.

- Derecognition of financial assets and financial liabilities.
- Hedge accounting
- Non-controlling interests

6 Explanation of transition to SLFRSs contd.

6.1 Reconciliations of SLAS to SLFRS

6.1.1 Reconciliation of shareholders equity

a) Group

	Note	Under SLAS 31 December 2011	Transitional adjustments	Under SLFRS 31 December 2011	Under SLAS 1 January 2011	Transitional adjustments	Under SLFRS 1 January 2011
ASSETS							
Non-current assets							
Property, plant and equipment		51,127,539	Nil	51,127,539	53,014,351	Nil	53,014,351
Intangible assets		3,869,456	Nil	3,869,456	3,757,193	Nil	3,757,193
Investment in subsidiaries		Nil	Nil	Nil	Nil	Nil	Nil
Investment in associates	a	37,100	8,008	45,108	Nil	Nil	Nil
Available-for-sale financial asset	f	30,596	Nil	30,596	30,596	Nil	30,596
Amounts due from related companies	c	12,505	(960)	11,545	19,630	(1,913)	17,717
		55,077,196	7,048	55,084,244	56,821,770	(1,913)	56,819,857
Current assets							
Inventories		409,157	Nil	409,157	271,184	Nil	271,184
Trade and other receivables	c	10,282,047	(548)	10,281,499	9,635,566	(667)	9,634,899
Cash and cash equivalents		10,452,379	Nil	10,452,379	5,433,770	Nil	5,433,770
		21,143,583	(548)	21,143,035	15,340,520	(667)	15,339,853
Total assets		76,220,779	6,500	76,227,279	72,162,290	(2,580)	72,159,710
EQUITY							
Capital and reserves attributable to equity holders							
Stated capital	h	28,056,113	47,800	28,103,913	28,056,113	47,800	28,103,913
Shares in ESOS Trust		(1,990,921)	Nil	(1,990,921)	(1,990,921)	Nil	(1,990,921)
Dividend reserve - ESOS Trust		291,781	Nil	291,781	260,067	Nil	260,067
Revaluation reserve	d	128,469	(128,469)	Nil	131,713	(131,713)	Nil
Retained earnings	g	6,233,535	555,613	6,789,148	2,656,318	873,097	3,529,415
Total equity		32,718,977	474,944	33,193,921	29,113,290	789,184	29,902,474
LIABILITIES							
Non - current liabilities							
Borrowings	b	17,488,097	(470,141)	17,017,956	21,372,753	(700,876)	20,671,877
Deferred tax liabilities	d	2,013,771	(40,838)	1,972,933	1,612,510	(41,660)	1,570,850
Retirement benefit obligation		443,731	Nil	443,731	390,635	Nil	390,635
Provision for other liabilities		586,660	Nil	586,660	619,876	Nil	619,876
Deferred revenue		1,056,654	Nil	1,056,654	285,766	Nil	285,766
		21,588,913	(510,979)	21,077,934	24,281,540	(742,536)	23,539,004
Current liabilities							
Trade and other payables		15,836,926	Nil	15,836,926	13,840,521	Nil	13,840,521
Current income tax liabilities		63,824	Nil	63,824	14,151	Nil	14,151
Borrowings	b	6,012,139	42,535	6,054,674	4,912,788	(49,228)	4,863,560
		21,912,889	42,535	21,955,424	18,767,460	(49,228)	18,718,232
Total liabilities		43,501,802	(468,444)	43,033,358	43,049,000	(791,764)	42,257,236
Total equity and liabilities		76,220,779	6,500	76,227,279	72,162,290	(2,580)	72,159,710

b) Company

	Note	Under SLAS 31 December 2011	Transitional adjustments	Under SLFRS 31 December 2011	Under SLAS 1 January 2011	Transitional adjustments	Under SLFRS 1 January 2011
ASSETS							
Non-current assets							
Property, plant and equipment		41,212,795	Nil	41,212,795	44,348,523	Nil	44,348,523
Intangible assets		1,619,582	Nil	1,619,582	1,397,140	Nil	1,397,140
Investment in subsidiaries		10,326,010	Nil	10,326,010	10,326,010	Nil	10,326,010
Investment in associates		27,742	Nil	27,742	Nil	Nil	Nil
Available-for-sale financial asset	f	30,596	Nil	30,596	30,596	Nil	30,596
Amounts due from related companies	c	14,008,395	(960)	14,007,435	8,791,622	(1,913)	8,789,709
		67,225,120	(960)	67,224,160	64,893,891	(1,913)	64,891,978
Current assets							
Inventories		395,515	Nil	395,515	266,159	Nil	266,159
Trade and other receivables	c	9,023,952	(548)	9,023,404	8,078,154	(667)	8,077,487
Cash and cash equivalents		6,900,163	Nil	6,900,163	5,079,135	Nil	5,079,135
		16,319,630	(548)	16,319,082	13,423,448	(667)	13,422,781
Total assets		83,544,750	(1,508)	83,543,242	78,317,339	(2,580)	78,314,759
EQUITY							
Capital and reserves attributable to equity holders							
Stated capital	h	28,056,113	47,800	28,103,913	28,056,113	47,800	28,103,913
Shares in ESOS Trust		(1,990,921)	Nil	(1,990,921)	(1,990,921)	Nil	(1,990,921)
Dividend reserve - ESOS Trust		291,781	Nil	291,781	260,067	Nil	260,067
Revaluation reserve	d	93,798	(93,798)	Nil	96,820	(96,820)	Nil
Retained earnings	g	15,281,789	512,934	15,794,723	10,744,469	838,204	11,582,673
Total equity		41,732,560	466,936	42,199,496	37,166,548	789,184	37,955,732
LIABILITIES							
Non - current liabilities							
Borrowings	b	17,488,097	(470,141)	17,017,956	21,372,753	(700,876)	20,671,877
Deferred tax liabilities	d	2,013,771	(40,838)	1,972,933	1,612,510	(41,660)	1,570,850
Retirement benefit obligation		403,482	Nil	403,482	358,854	Nil	358,854
Provision for other liabilities		574,054	Nil	574,054	607,794	Nil	607,794
Deferred revenue		1,055,174	Nil	1,055,174	285,766	Nil	285,766
		21,534,578	(510,979)	21,023,599	24,237,677	(742,536)	23,495,141
Current liabilities							
Trade and other payables		14,280,082	Nil	14,280,082	12,189,944	Nil	12,189,944
Current income tax liabilities		60,668	Nil	60,668	10,897	Nil	10,897
Borrowings	b	5,936,862	42,535	5,979,397	4,712,273	(49,228)	4,663,045
		20,277,612	42,535	20,320,147	16,913,114	(49,228)	16,863,886
Total liabilities		41,812,190	(468,444)	41,343,746	41,150,791	(791,764)	40,359,027
Total equity and liabilities		83,544,750	(1,508)	83,543,242	78,317,339	(2,580)	78,314,759

6 Explanation of transition to SLFRSs contd.

6.1.2 Reconciliation of comprehensive income

		Group			Company		
		Year ended 31 December 2011			Year ended 31 December 2011		
	Note	Under SLAS 31 December 2011	Transitional adjustments	Under SLFRS 31 December 2011	Under SLAS 31 December 2011	Transitional adjustments	Under SLFRS 31 December 2011
Revenue		45,412,002	Nil	45,412,002	41,729,199	Nil	41,729,199
Direct costs		(24,949,185)	Nil	(24,949,185)	(22,494,294)	Nil	(22,494,294)
Gross margin		20,462,817	Nil	20,462,817	19,234,905	Nil	19,234,905
Distribution costs		(6,265,252)	Nil	(6,265,252)	(5,858,998)	Nil	(5,858,998)
Administrative costs		(8,054,621)	(18,927)	(8,073,548)	(6,260,281)	(17,748)	(6,278,029)
Other income	a	75,068	8,008	83,076	69,961	Nil	69,961
Operating profit		6,218,012	(10,919)	6,207,093	7,185,587	(17,748)	7,167,839
Finance costs - net	b	(447,129)	(321,426)	(768,555)	(457,117)	(321,426)	(778,543)
Share of profit from associate - net of tax		9,681	Nil	9,681	Nil	Nil	Nil
Profit before tax		5,780,564	(332,345)	5,448,219	6,728,470	(339,174)	6,389,296
Income tax		(578,657)	Nil	(578,657)	(566,238)	Nil	(566,238)
Profit for the year		5,201,907	(332,345)	4,869,562	6,162,232	(339,174)	5,823,058
Other comprehensive income							
Actuarial gains - from retirement benefit obligation - net of tax	e	Nil	18,927	18,927	Nil	17,748	17,748
Total comprehensive income for the year		5,201,907	(313,418)	4,888,489	6,162,232	(321,426)	5,840,806

6.1.3 Reconciliation of cash flow statement

There is no material differences between the Company and Group statements of cash flows presented under SLFRSs and the statements of cash flows presented under SLASs.

6.1.4 Notes to the reconciliation of SLAS to SLFRS

(a) Investment in associate

The adjustment to the investment in associate of Rs. 8,008,000 recognizes 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 corresponding adjustment is made as gain on disposal of subsidiary and is classified under other income.

(b) Borrowings

Under the requirements of LKAS 39 borrowings are initially recognised at fair value whereas under the previous GAAP it was recognised at cost. The financial statements were adjusted to incorporate relevant changes. Trasactions costs amounting to Rs. 47,800,000 incurred on issuance of preference shares previously included under stated capital were credited to stated capital and debited to borrowings. The impact of initial fair valuation amounting to Rs. 1,218,960,920 was credited to the statement of comprehensive income under finance cost and debited to borrowings on 1 January 2011. The adjustment for subsequent accounting for amortised cost amounting to Rs. 791,355,458 was debited to statement of comprehensive income under finance cost and credited to borrowings on 31 December 2011. The impact on finance cost and borrowings is as follows.

Net finance cost

	Group		Company	
	2012	2011	**2012**	2011
Finance income	**305,847**	423,855	**269,140**	408,860
Finance cost	**(2,786,753)**	(719,269)	**(2,735,783)**	(714,262)
Reclassification - Dividend on preference shares	**(54,483)**	(151,715)	**(54,483)**	(151,715)
Impact from subsequent recognition at amortised cost	**(191,723)**	(321,426)	**(191,825)**	(321,426)
	(2,727,112)	(768,555)	**(2,712,951)**	(778,543)

Borrowings

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Carrying value -Non current and current	**25,175,394**	22,250,236	23,785,541	**24,882,106**	22,174,959	23,585,026
Reclassification -preference shares	**Nil**	1,250,000	2,500,000	**Nil**	1,250,000	2,500,000
Impact from initial fair value recognition and subsequent measurement at amortised cost	**(248,498)**	(427,606)	(750,104)	**(248,498)**	(427,606)	(750,104)
	24,926,896	23,072,630	25,535,437	**24,633,608**	22,997,353	25,334,922

The fair values of non-current and current borrowings are based on cash flows discounted using interest rates which ranges from 2.06 % to 11.56 % for floating and 4.05% to 15% for fixed rates of interest (2011: 2.22 % to12.58 % for floating and 4.05 % to 15 % for fixed).

6 Explanation of transition to SLFRSs contd.

6.1.4 Notes to the reconciliation of SLAS to SLFRS contd.

(c) Trade and other receivables

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Trade and other receivables						
Carrying value	**12,022,398**	10,282,047	9,635,566	**9,378,583**	9,023,952	8,078,154
Fair valuation impact	**(422)**	(548)	(667)	**(422)**	(548)	(667)
	12,021,976	10,281,499	9,634,899	**9,378,161**	9,023,404	8,077,487
Amount due from related companies						
Carrying value	**5,381**	12,505	19,630	**9,560,019**	14,008,395	8,791,622
Fair valuation (impact)	**(290)**	(960)	(1,913)	**(290)**	(960)	(1,913)
	5,091	11,545	17,717	**9,559,729**	14,007,435	8,789,709

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

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 statement of comprehensive income under finance costs and credited to the respective loan on 1 January 2011. The adjustment for subsequent accounting for amortised cost amounting to Rs. 1,072,338 was credited to statement of comprehensive income under finance costs and debited to respective loan on 31 December 2011.

(d) In accordance with provisions of SLFRS 1, the Company and the Group elected the exemption to measure land and buildings recognised previously at revalued amounts as deemed cost as at 1 January 2011. Accordingly, the total revaluation reserve amounting to Rs. 96,819,753 and Rs. 131,712,570 was transferred to retained earnings by the Company and the Group respectively.

	Group 2011	Company 2011
Revaluation reserve as reported under SLASs	128,469	93,798
Transferred to retained earnings	(128,469)	(93,798)
Revaluation reserve as reported under SLFRSs	Nil	Nil

(e) Actuarial gains / (losses) on retirement benefit obligation previously included in administrative costs are now presented under other comprehensive income based on the requirements of LKAS 19 - Employee Benefits.

(f) 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.

(g) Retained earnings

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

	Group 2011	Company 2011
Retained earnings as reported under SLASs	6,274,373	15,322,627
Investment in associate	8,008	Nil
Borrowings	427,606	427,606
Receivables	(1,508)	(1,508)
Transaction cost - preference shares	(47,800)	(47,800)
Revaluation reserve	128,469	93,798
Retained earnings as reported under SLFRSs	6,789,148	15,794,723

(h) Stated capital

	Group 2011	Company 2011
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
Stated capital as reported under SLFRSs	28,103,913	28,103,913

7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions. The revenue, cost, depreciation, amortization, impairment, total assets, total liabilities and capital expenditure have been allocated to the respective segments based on the internal reporting basis under the below stated segments.

The reportable segments derive their revenue primarily from the provision of mobile services, data services, international direct dialing services, leasing of passive infrastructure, provision of interconnect services,pay television transmission services and provision of other data services.

7 Segment reporting contd.

At 31 December 2012, the Group is organised into three main business segments :

- Mobile operations
- Fixed broadband operations
- Television operations

Primary reporting format - business segments

- The segment results for the year ended 31 December 2012 are as follows:

	Mobile Operations	Fixed Broadband Operations	Television Operations	Elimination / Adjustment	Group
Total segmental revenue	49,802,752	5,044,171	2,992,654	Nil	57,839,577
Inter-segment revenue	(679,266)	(797,893)	(16,960)	Nil	(1,494,119)
Revenue from external customers	49,123,486	4,246,278	2,975,694	Nil	56,345,458
Operating profit / (loss) or segment results	6,929,706	(135,350)	58,208	(51,387)	6,801,177
Finance costs - net					(2,727,112)
Share of loss from associate - net of tax					(8,539)
Profit before tax					4,065,526
Taxation					1,964,661
Profit for the year					6,030,187

- 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	9,004,359	1,913,640	587,945	50,287	11,556,231

- The segment assets and liabilities at 31 December 2012 and capital expenditure for the year then ended are as follows:

	Mobile Operations	Fixed Broadband Operations	Television Operations	Elimination / Adjustment	Group
Assets	91,238,008	16,165,163	3,580,638	(10,519,783)	100,464,026
Inter -segment assets	(9,545,524)	(238,222)	Nil	Nil	(9,783,746)
Total assets					90,680,280
Liabilities	44,844,768	16,062,391	2,792,863	Nil	63,700,022
Inter- segment liabilities	(356,812)	(7,934,486)	(1,909,989)	Nil	(10,201,287)
Total liability					53,498,735
Capital expenditure	12,356,597	4,115,481	936,593	Nil	17,408,671

- The segment results for the year ended 31 December 2011 are as follows:

	Mobile Operations	Fixed Broadband Operations	Television Operations	Elimination / Adjustment	Group
Total segmental revenue	41,729,199	2,238,478	2,361,439	39,784	46,368,900
Inter-segment revenue	(447,081)	(453,716)	(16,715)	(39,386)	(956,898)
Revenue from external customers	41,282,118	1,784,762	2,344,724	398	45,412,002
Operating profit / (loss) or segment results	7,167,839	(943,746)	26,165	(43,165)	6,207,093
Finance costs - net					(768,555)
Share of profit from associate - net of tax					9,681
Profit before tax					5,448,219
Taxation					(578,657)
Profit for the year					4,869,562

7 Segment reporting contd.

- 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	8,092,473	1,611,901	548,309	52,044	10,304,727

- 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	83,543,242	12,730,168	3,271,278	(9,314,880)	90,229,808
Inter -segment assets	(13,986,531)	(16,008)	10	Nil	(14,002,529)
Total assets					76,227,279
Liabilities	41,343,746	13,616,694	2,494,624	Nil	57,455,064
Inter- segment liabilities	(134,326)	(12,708,505)	(1,578,875)	Nil	(14,421,706)
Total liability					43,033,358
Capital expenditure	6,762,427	1,458,870	498,023	Nil	8,719,320

- The segment assets and liabilities at 1 January 2011:

	Mobile Operations	Fixed Broadband Operations	Television Operations	Elimination / Adjustment	Group
Assets	78,314,759	8,487,674	3,408,441	(9,272,604)	80,938,270
Inter -segment assets	(8,769,992)	(8,278)	(290)	Nil	(8,778,560)
Total assets					72,159,710
Liabilities	40,359,027	8,429,555	2,657,593	Nil	51,446,175
Inter- segment liabilities	(23,146)	(7,583,078)	(1,582,715)	Nil	(9,188,939)
Total liability					42,257,236

8 Property, plant and equipment

(a) Group

	Land and buildings	Computer systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Assets in the course of construction (CWIP)	Total
At 1 January 2011						
Cost	1,385,284	74,958,195	3,336,681	482,827	10,115,972	90,278,959
Accumulated depreciation / provision for impairment	(423,456)	(32,077,023)	(2,008,495)	(412,934)	(2,342,700)	(37,264,608)
Net book amount	961,828	42,881,172	1,328,186	69,893	7,773,272	53,014,351
Year ended 31 December 2011						
Opening net book amount	961,828	42,881,172	1,328,186	69,893	7,773,272	53,014,351
Additions	Nil	163,682	6,877	Nil	8,308,643	8,479,202
Transferred from CWIP	9,083	10,901,897	528,921	27,619	(11,467,520)	Nil
Transferred to intangible assets (Note 9)	Nil	Nil	Nil	Nil	(332,034)	(332,034)
Acquisition of subsidiary	13,851	30,386	16,676	Nil	Nil	60,913
Disposal of subsidiary	(13,497)	(29,405)	(16,275)	Nil	Nil	(59,177)
Disposals	(19,801)	(40,552)	(21,999)	(133)	Nil	(82,485)
Adjustments	Nil	(14,437)	(13,117)	Nil	(35,517)	(63,071)
Impairment reversal / (provision)	Nil	37,393	Nil	Nil	(117,293)	(79,900)
Reclassification to trading inventory	Nil	Nil	Nil	Nil	(187,144)	(187,144)
Depreciation	(104,654)	(8,827,889)	(643,443)	(47,130)	Nil	(9,623,116)
Closing net book amount	846,810	45,102,247	1,185,826	50,249	3,942,407	51,127,539
At 31 December 2011						
Cost	1,329,674	83,580,043	3,793,089	506,360	6,675,177	95,884,343
Accumulated depreciation / provision for impairment	(482,864)	(38,477,796)	(2,607,263)	(456,111)	(2,732,770)	(44,756,804)
Net book amount	846,810	45,102,247	1,185,826	50,249	3,942,407	51,127,539
Year ended 31 December 2012						
Opening net book amount	846,810	45,102,247	1,185,826	50,249	3,942,407	51,127,539
Additions	Nil	277,188	18,479	Nil	17,289,919	17,585,586
Transferred from CWIP	16,611	11,818,087	765,772	144	(12,600,614)	Nil
Transferred to intangible assets (Note 9)	Nil	Nil	Nil	Nil	(460,550)	(460,550)
Acquisition through business combination (Note 36)	22,707	1,902,301	9,707	1,740	105,291	2,041,746
Disposals	Nil	(6,665)	(4,934)	(205)	Nil	(11,804)
Adjustments	(9,276)	(197,380)	(3,584)	Nil	(225,277)	(435,517)
Impairment provision	Nil	(547,611)	(86,131)	Nil	(151,637)	(785,379)
Reclassification from trading inventory	Nil	Nil	Nil	Nil	100,071	100,071
Depreciation	(75,850)	(9,402,147)	(589,201)	(30,819)	Nil	(10,098,017)
Closing net book amount	801,002	48,946,020	1,295,934	21,109	7,999,610	59,063,675
At 31 December 2012						
Cost	1,351,560	111,037,104	4,855,373	502,773	10,471,204	128,218,014
Accumulated depreciation / provision for impairment	(550,558)	(62,091,084)	(3,559,439)	(481,664)	(2,471,594)	(69,154,339)
Net book amount	801,002	48,946,020	1,295,934	21,109	7,999,610	59,063,675

8 Property, plant and equipment contd.

(b) Company

	Land and buildings	Computer systems and telecom equipment	Furniture, fittings and other equipment	Motor vehicles	Assets in the course of construction (CWIP)	Total
At 1 January 2011						
Cost	1,182,717	66,736,969	1,230,105	386,504	6,069,428	75,605,723
Accumulated depreciation / provision for impairment	(421,411)	(27,809,197)	(839,476)	(332,898)	(1,854,218)	(31,257,200)
Net book amount	761,306	38,927,772	390,629	53,606	4,215,210	44,348,523
Year ended 31 December 2011						
Opening net book amount	761,306	38,927,772	390,629	53,606	4,215,210	44,348,523
Additions	Nil	161,049	6,706	Nil	6,370,659	6,538,414
Transferred from CWIP	9,083	6,909,874	17,422	27,619	(6,963,998)	Nil
Transferred to intangible assets (Note 9)	Nil	Nil	Nil	Nil	(330,735)	(330,735)
Disposals	(19,801)	(40,378)	(21,999)	(128)	Nil	(82,306)
Assets transfers to DBN	Nil	(1,499,951)	Nil	Nil	(48,235)	(1,548,186)
Adjustments	Nil	72,432	Nil	Nil	4,059	76,491
Impairment reversal / (provision)	Nil	23,587	Nil	Nil	(18,552)	5,035
Reclassification to trading inventory	Nil	Nil	Nil	Nil	(187,144)	(187,144)
Depreciation	(103,455)	(7,311,052)	(158,247)	(34,543)	Nil	(7,607,297)
Closing net book amount	647,133	37,243,333	234,511	46,554	3,041,264	41,212,795
At 31 December 2011						
Cost	1,127,107	69,866,589	1,174,848	410,099	5,145,354	77,723,997
Accumulated depreciation / provision for impairment	(479,974)	(32,623,256)	(940,337)	(363,545)	(2,104,090)	(36,511,202)
Net book amount	647,133	37,243,333	234,511	46,554	3,041,264	41,212,795
Year ended 31 December 2012						
Opening net book amount	647,133	37,243,333	234,511	46,554	3,041,264	41,212,795
Additions	Nil	226,451	15,156	Nil	12,404,169	12,645,776
Transferred from CWIP	16,611	9,288,058	22,486	144	(9,327,299)	Nil
Transferred to intangible assets (Note 9)	Nil	Nil	Nil	Nil	(391,480)	(391,480)
Disposals	Nil	(6,651)	(4,934)	Nil	Nil	(11,585)
Adjustments	(9,276)	(178,507)	781	Nil	(153,231)	(340,233)
Impairment provision	Nil	(702,826)	Nil	Nil	(9,508)	(712,334)
Reclassification to trading inventory	Nil	Nil	Nil	Nil	100,071	100,071
Depreciation	(75,117)	(7,542,254)	(114,898)	(26,505)	Nil	(7,758,774)
Closing net book amount	579,351	38,327,604	153,102	20,193	5,663,986	44,744,236
At 31 December 2012						
Cost	1,126,286	78,570,579	1,170,313	410,243	7,454,705	88,732,126
Accumulated depreciation / provision for impairment	(546,935)	(40,242,975)	(1,017,211)	(390,050)	(1,790,719)	(43,987,890)
Net book amount	579,351	38,327,604	153,102	20,193	5,663,986	44,744,236

(c) The market value and the historical cost of land and buildings as at 31 December 2012 of the Company and the Group was as follows:

	Group		Company	
	2012	2011	**2012**	2011
Market value	917,482	877,157	650,274	674,590
Cost	826,372	803,059	621,403	620,797

The market value was determined by means of a valuation by Mr P.M.B Edmund, an independent valuer, in reference to market based evidence.

(d) Assets in the course of construction as at 31 December 2012 and 2011 mainly comprise network related assets.

(e) Property, plant and equipment include motor vehicles acquired under finance leases, the net book value of which is made up as follows:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Cost - capitalised finance leases	**36,529**	128,920	190,567	**Nil**	108,334	109,491
Accumulated depreciation	**(36,529)**	(128,920)	(171,426)	**Nil**	(108,334)	(106,254)
Net book value	**Nil**	Nil	19,141	**Nil**	Nil	3,237

The Group leases vehicles under non cancellable finance lease agreements with repayment terms of four to five years.

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

	Group		Company	
	2012	2011	**2012**	2011
Expenses categories:				
Direct costs	**8,846,012**	8,004,890	**7,431,682**	7,159,962
Administrative costs	**1,252,005**	1,618,226	**327,092**	447,335
	10,098,017	9,623,116	**7,758,774**	7,607,297

(g) Impairment provisions/(reversals) have been charged under following expenses categories:

	Group		Company	
	2012	2011	**2012**	2011
Direct costs	**29,402**	6,393	**Nil**	Nil
Administrative costs	**755,977**	73,507	**712,334**	(5,035)
	785,379	79,900	**712,334**	(5,035)

(h) At 31 December 2012, property, plant and equipment includes fully depreciated assets which are still in use, the cost of which amounted to Rs. 9,915,002,899 (2011 - Rs. 8,504,570,460) and Rs. 26,207,302,887 (2011 - Rs. 11,664,971,726), for the Company and the Group respectively.

(i) No borrowing costs were capitalised during the years 2012 and 2011.

(j) None of the land and buildings are secured against bank borrowings.

9 Intangible assets

(a) Group

	Goodwill	Licenses	Computer software	Others	Total
At 1 January 2011					
Cost	1,894,312	1,561,671	2,334,865	1,128,500	6,919,348
Accumulated amortisation	Nil	(781,707)	(2,148,468)	(231,980)	(3,162,155)
Net book amount	1,894,312	779,964	186,397	896,520	3,757,193
Year ended 31 December 2011					
Opening net book amount	1,894,312	779,964	186,397	896,520	3,757,193
Additions	Nil	317,670	66,944	Nil	384,614
Acquisition of subsidiary	Nil	Nil	51	Nil	51
Disposal of subsidiary	Nil	Nil	(29)	Nil	(29)
Transferred from CWIP (Note 8)	Nil	Nil	269,599	62,435	332,034
Amortisation charge	Nil	(236,518)	(281,651)	(83,542)	(601,711)
Disposals	Nil	Nil	(2,696)	Nil	(2,696)
Closing net book amount	1,894,312	861,116	238,615	875,413	3,869,456
At 31 December 2011					
Cost	1,894,312	1,879,341	2,624,811	1,190,935	7,589,399
Accumulated amortisation	Nil	(1,018,225)	(2,386,196)	(315,522)	(3,719,943)
Net book amount	1,894,312	861,116	238,615	875,413	3,869,456
Year ended 31 December 2012					
Opening net book amount	1,894,312	861,116	238,615	875,413	3,869,456
Additions	6,353,391	153,061	7,893	Nil	6,514,345
Acquisition through business combination (Note 36)	Nil	202,934	11,202	Nil	214,136
Transferred from CWIP (Note 8)	Nil	Nil	453,048	7,502	460,550
Amortisation charge	Nil	(207,062)	(377,805)	(87,968)	(672,835)
Closing net book amount	8,247,703	1,010,049	332,953	794,947	10,385,652
At 31 December 2012					
Cost	8,247,703	2,235,336	3,096,954	1,198,437	14,778,430
Accumulated amortisation	Nil	(1,225,287)	(2,764,001)	(403,490)	(4,392,778)
Net book amount	8,247,703	1,010,049	332,953	794,947	10,385,652

(b) **Company**

	Licenses	Computer software	Others	Total
At 1 January 2011				
Cost	627,147	2,188,005	1,128,500	3,943,652
Accumulated amortisation	(295,224)	(2,019,309)	(231,979)	(2,546,512)
Net book amount	331,923	168,696	896,521	1,397,140
Year ended 31 December 2011				
Opening net book amount	331,923	168,696	896,521	1,397,140
Additions	317,671	66,943	Nil	384,614
Transferred from CWIP (Note 8)	Nil	268,300	62,435	330,735
Amortisation charge	(143,958)	(262,711)	(83,542)	(490,211)
Disposals	Nil	(2,696)	Nil	(2,696)
Closing net book amount	505,636	238,532	875,414	1,619,582
At 31 December 2011				
Cost	944,818	2,476,652	1,190,935	4,612,405
Accumulated amortisation	(439,182)	(2,238,120)	(315,521)	(2,992,823)
Net book amount	505,636	238,532	875,414	1,619,582
Year ended 31 December 2012				
Opening net book amount	505,636	238,532	875,414	1,619,582
Additions	Nil	7,502	Nil	7,502
Transferred from CWIP (Note 8)	Nil	383,978	7,502	391,480
Amortisation charge	(93,127)	(352,156)	(87,968)	(533,251)
Closing net book amount	412,509	277,856	794,948	1,485,313
At 31 December 2012				
Cost	944,818	2,868,132	1,198,437	5,011,387
Accumulated amortisation	(532,309)	(2,590,276)	(403,489)	(3,526,074)
Net book amount	412,509	277,856	794,948	1,485,313

Other intangible assets include costs incurred to acquire the indefeasible right of use of SEA-ME-WE under sea cable.

Amortisation has been charged under following expenses categories:

	Group		Company	
	2012	2011	**2012**	2011
Expenses categories:				
Direct cost	**244,255**	269,775	**181,095**	227,501
Administrative costs	**428,580**	331,936	**352,156**	262,710
	672,835	601,711	**533,251**	490,211

9 Intangible assets contd.

(c) Impairment tests for goodwill

The Group undertakes an annual test for impairment of its Cash-Generating Units ('CGUs').

The following CGUs, being the lowest level of assets for which there are separately identifiable cash flows, have carrying amounts of goodwill that are considered for the impairment test.

	2012	2011	1 Jan 2011
Television operations	**1,504,455**	1,504,455	1,504,455
Fixed telephony, data & infrastructure	**6,743,248**	389,857	389,857
	8,247,703	1,894,312	1,894,312

The recoverable amount of the CGU is determined based on the Value In Use (VIU) calculations.

The VIU calculations apply Discounted Cash Flow Model using cash flow projections based on the forecasts and projections approved by the management covering a ten year period. Cash flows beyond the ten year period are extrapolated using the estimated growth rates as stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGUs operates.

In the Discounted Cash Flow (DCF) model, the free cash flows have been discounted by the pre-tax discount rate.

These forecasts and projections reflect management expectations of revenue growth, operating costs and margins for each CGU based on past experience and future plans and strategies.

The following assumptions were applied in the value in use computation.

1 EBIDTA margin

Projected EBIDTA margin is determined based on expected growth potential in fixed telephony/broadband and pay TV business tapping further in to developing markets.

2 Free cash flow (FCF) growth rate

FCF growth projections are based on expected growth in EBITDA coupled with stabilizing capex to revenue.

3 Pre-tax discount rate

Pre-tax discount rate of the Group is used as the discount rate for cash flow projections.

4 Terminal growth rate

Terminal growth reflects the management expectations on the fixed telephony, data & infrastructure and television operations segments' growth potential in Sri Lanka for the foreseeable future.

Given below are the projected variables used for the impairment test for 2012 and 2011:

	Fixed telephony, data & infrastructure		**Television operations**	
	2012	2011	**2012**	2011
EBIDTA margin (1)	**27%**	28%	**28%**	24%
Free cash flow growth rate (2)	**20%**	2%	**23%**	121%
Pre-tax discount rate (3)	**15%**	12%	**15%**	12%
Terminal growth rate (4)	**3%**	2%	**3%**	2%

Based on the impairment test performed, the recoverable amounts exceed the carrying value, hence no provision for impairment of goodwill was recognised as of 31 December 2012.

Impact of possible changes in key assumptions

The Group's review includes an impact assessment of change in key assumptions. Sensitivity analysis shows that no impairment loss is required for the carrying value of the goodwill, including where realistic variances are applied to key assumptions.

10 Investment in subsidiaries

	% Holding	**2012**	2011	1 Jan 2011
Dialog Television (Private) Limited	100	**3,864,746**	3,864,746	3,864,746
Dialog Broadband Networks (Private) Limited	100	**13,961,264**	6,461,264	6,461,264
		17,826,010	10,326,010	10,326,010

		2012	2011
At 1 January		10,326,010	10,326,010
Issuance of shares against shareholder's loan		7,500,000	Nil
Acquisition of Firstsource-Dialog Solutions (Private) Limited (formerly known as Dialog Business Services (Private) Limited)	100	Nil	62,700
Disposal of Firstsource-Dialog Solutions (Private) Limited (formerly known as Dialog Business Services (Private) Limited)	100	Nil	(62,700)
At 31 December		17,826,010	10,326,010

On 11 May 2012, DBN converted advances from the Company amounting to Rs. 7,500,000,000 in to ordinary shares at the price of Rs. 10 each.

10 Investment in subsidiaries contd.

Name of the subsidiary	Principal activities
Dialog Television (Private) Limited (DTV)	Television broadcasting generated services and direct-to-home satellite pay television service.
Dialog Broadband Networks (Private) Limited (DBN)	Data and backbone, fixed wireless and transmission infrastructure.

11 Investment in associates

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
At 1 January	**45,108**	Nil	Nil	**27,742**	Nil	Nil
Acquisition of associate	**205,604**	16,302	Nil	**205,604**	16,302	Nil
Additional investment	**Nil**	11,440	Nil	**Nil**	11,440	Nil
Share of (loss) / profit	**(8,539)**	9,681	Nil	**Nil**	Nil	Nil
Share of loss adjustment on disposal	**Nil**	7,685	Nil	**Nil**	Nil	Nil
At 31 December	**242,173**	45,108	Nil	**233,346**	27,742	Nil

Investment in associates represent the ownership of 26% of the stated capital of Firstsource-Dialog Solutions (Private) Limited and of Digital Commerce Lanka (Private) Limited which are entities, incorporated and domiciled in Sri Lanka.

The Group's share of the revenue and results of the associates are as follows:

	Group	
	2012	2011
Revenue	**132,384**	78,796
Other Income	**560**	78
Expenses	**(141,688)**	(68,973)
(Loss)/profit before tax	**(8,744)**	9,901
Taxation	**205**	(220)
(Loss)/profit after tax	**(8,539)**	9,681

The Group's share of the assets and liabilities of the associates are as follows:

	Group		
	2012	2011	1 Jan 2011
Non-current assets	**32,978**	19,702	Nil
Current assets	**31,504**	34,679	Nil
Current liabilities	**(27,576)**	(9,273)	Nil
Net assets	**36,906**	45,108	Nil
Goodwill	**205,267**	Nil	Nil
	242,173	45,108	Nil

12 (a) Financial instruments by category

Group

31 December 2012	Available-for-sale	Loans and receivables	Total
Assets as per the statement of financial position			
Available-for-sale financial asset (Note 13)	30,596	Nil	30,596
Trade and other receivables (excluding pre-payments)	Nil	10,089,164	10,089,164
Cash and cash equivalents (Note 16)	Nil	8,647,069	8,647,069
Total	30,596	18,736,233	18,766,829

	Other financial liabilities at amortised cost
Liabilities as per the statement of financial position	
Borrowings (excluding finance lease liabilities)	24,922,030
Finance lease liabilities	Nil
Trade and other payables excluding non-financial liabilities	26,163,610
Total	51,085,640

Company

31 December 2012	Available-for-sale	Loans and receivables	Total
Assets as per the statement of financial position			
Available-for-sale financial asset (Note 13)	30,596	Nil	30,596
Trade and other receivables (excluding pre-payments)	Nil	8,208,801	8,208,801
Cash and cash equivalents (Note 16)	Nil	7,767,439	7,767,439
Total	30,596	15,976,240	16,006,836

12 (a) Financial instruments by category contd.

	Other financial liabilities at amortised cost
Liabilities as per the statement of financial position	
Borrowings (excluding finance lease liabilities)	24,633,608
Finance lease liabilities	Nil
Trade and other payables excluding non-financial liabilities	18,187,874
Total	42,821,482

Group

31 December 2011	Available-for -sale	Loans and receivables	Total
Assets as per the statement of financial position			
Available-for-sale financial asset (Note 13)	30,596	Nil	30,596
Trade and other receivables (excluding pre-payments)	Nil	8,901,950	8,901,950
Cash and cash equivalents (Note 16)	Nil	10,452,379	10,452,379
Total	30,596	19,354,329	19,384,925

	Other financial liabilities at amortised cost
Liabilities as per the statement of financial position	
Borrowings (excluding finance lease liabilities)	23,072,630
Finance lease liabilities	Nil
Trade and other payables excluding non-financial liabilities	15,836,926
Total	38,909,556

Company

31 December 2011	Available-for -sale	Loans and receivables	Total
Assets as per the statement of financial position			
Available-for-sale financial asset (Note 13)	30,596	Nil	30,596
Trade and other receivables (excluding pre-payments)	Nil	7,904,458	7,904,458
Cash and cash equivalents (Note 16)	Nil	6,900,163	6,900,163
Total	30,596	14,804,621	14,835,217

	Other financial liabilities at amortised cost
Liabilities as per the statement of financial position	
Borrowings (excluding finance lease liabilities)	22,997,353
Finance lease liabilities	Nil
Trade and other payables excluding non-financial liabilities	14,280,081
Total	37,277,434

Group

1 January 2011	Available-for -sale	Loans and receivables	Total
Assets as per the statement of financial position			
Available-for-sale financial asset (Note 13)	30,596	Nil	30,596
Trade and other receivables (excluding pre-payments)	Nil	8,922,647	8,922,647
Cash and cash equivalents (Note 16)	Nil	5,433,770	5,433,770
Total	30,596	14,356,417	14,387,013

	Other financial liabilities at amortised cost
Liabilities as per the statement of financial position	
Borrowings (excluding finance lease liabilities)	25,528,024
Finance lease liabilities	7,413
Trade and other payables excluding non-financial liabilities	13,840,521
Total	39,375,958

Company

1 January 2011	Available-for -sale	Loans and receivables	Total
Assets as per the statement of financial position			
Available-for-sale financial asset (Note 13)	30,596	Nil	30,596
Trade and other receivables (excluding pre-payments)	Nil	7,670,920	7,670,920
Cash and cash equivalents (Note 16)	Nil	5,079,135	5,079,135
Total	30,596	12,750,055	12,780,651

12 (a) Financial instruments by category contd.

	Other financial liabilities at amortised cost
Liabilities as per the statement of financial position	
Borrowings (excluding finance lease liabilities)	25,334,908
Finance lease liabilities	14
Trade and other payables excluding non-financial liabilities	12,189,944
Total	37,524,866

The credit quality of financials assets that are past due nor impaired can be assessed by reference to historical information about counterparty default risk.

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Trade receivables						
Subscribers						
Individual	**1,117,836**	974,394	847,735	**836,375**	764,823	680,738
Corporate	**898,103**	574,340	518,373	**260,849**	238,337	235,829
Operators						
Domestic	**1,968,430**	1,343,730	1,960,035	**1,534,281**	1,209,939	1,736,377
International	**2,601,079**	2,492,863	1,851,076	**2,597,773**	2,492,863	1,851,076
Distributors	**589,436**	529,309	295,955	**556,542**	477,631	210,644
Total	**7,174,884**	5,914,636	5,473,174	**5,785,820**	5,183,593	4,714,664

12 (b) Credit quality of financial assets

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Cash at bank and short-term bank deposits						
AAA lka	**1,906,733**	5,313,000	1,002,720	**1,228,705**	1,939,040	767,291
AA+ lka	**226,610**	22,352	Nil	**202,457**	15,929	Nil
AA lka	**198,882**	333,598	150,480	**179,951**	273,909	99,384
AA- lka	**1,638,339**	1,748,561	424,641	**1,613,500**	1,744,808	407,791
A+lka to A-lka	**4,711,932**	2,533,187	3,459,842	**4,583,330**	2,425,932	3,416,155
Below A	**155,424**	345,268	277,533	**150,348**	344,133	269,961
Counterparties without external credit rating, Cash in hand and foreign currency translation balances	**(190,851)**	156,413	118,554	**(190,852)**	156,412	118,553
Total cash at bank and short-term bank deposits	**8,647,069**	10,452,379	5,433,770	**7,767,439**	6,900,163	5,079,135

The carrying amounts of Cash at bank and short-term bank deposits are denominated in following currencies:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Cash at bank and short-term bank deposits						
Cash at bank and in hand						
Sri Lankan rupees	**2,673,505**	4,658,135	2,663,711	**1,793,875**	1,105,919	2,310,922
United States dollars	**835,526**	513,925	227,610	**835,526**	513,925	225,764
	3,509,031	5,172,060	2,891,321	**2,629,401**	1,619,844	2,536,686
Short term bank deposits						
Sri Lankan rupees	**25,000**	4,802,295	2,507,624	**25,000**	4,802,295	2,507,624
United States dollars	**5,113,038**	478,024	34,825	**5,113,038**	478,024	34,825
	5,138,038	5,280,319	2,542,449	**5,138,038**	5,280,319	2,542,449

13 Available-for-sale financial asset

	Group / Company	
	2012	2011
At 1 January	**30,596**	30,596
Investment made during the year	**Nil**	Nil
	30,596	30,596
Provision for impairment	**Nil**	Nil
At 31 December	**30,596**	30,596

The Group has a 10% interest in Sri Lanka Institute of Nanotechnology (Private) Limited (formerly known as Nanco (Private) Limited), which is involved in carrying out research on technology developments.

Since the equity securities do not have a quoted market price in an active market, it is measured at cost in accordance with LKAS 39; Financial Instruments; Measurement and Recognition.

14 Trade and other receivables

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Current						
Trade receivables	**9,764,936**	7,200,290	6,628,280	**7,079,313**	6,191,969	5,628,868
Less: provision for impairment of trade receivables	**(2,590,052)**	(1,285,654)	(1,155,106)	**(1,293,493)**	(1,008,376)	(914,204)
Net trade receivables	**7,174,884**	5,914,636	5,473,174	**5,785,820**	5,183,593	4,714,664
Receivables from related companies [Note 37 (f)]	**108,557**	157,783	197,142	**108,557**	157,783	197,142
Prepayments	**1,932,812**	1,379,549	712,252	**1,169,360**	1,118,946	406,567
Other receivables	**2,805,723**	2,829,531	3,252,331	**2,314,424**	2,563,082	2,759,114
	12,021,976	10,281,499	9,634,899	**9,378,161**	9,023,404	8,077,487
Non Current						
Receivables from related companies [Note 37 (f)]	**5,091**	11,545	17,717	**9,559,729**	14,007,435	8,789,709
	5,091	11,545	17,717	**9,559,729**	14,007,435	8,789,709

Other receivables mainly consist of amounts advanced to vendors Rs. 832,887,411 (2011 Rs. 957,103,565) and Rs. 1,296,769,511 (2011- Rs. 1,104,524,815), Value Added Tax refunds due from the Department of Inland Revenue amounting to Rs. 592,664,849 (2011 - Rs. 1,048,832,272) and Rs. 669,073,796 (2011 - Rs. 1,053,126,721) and ESC tax credits amounting to Rs. 343,503,504 (2011- Rs. 418,914,576) and Rs. 385,206,146 (2011- Rs. 487,230,734) of the Company and the Group respectively.

(a) The fair values of trade and other receivables are as follows:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Trade receivables	**7,174,884**	5,914,636	5,473,174	**5,785,820**	5,183,593	4,714,664
Receivables from related companies	**108,557**	157,783	197,142	**108,557**	157,783	197,142
Other receivables excluding non-financial assets	**2,805,723**	2,829,531	3,252,331	**2,314,424**	2,563,082	2,759,114
	10,089,164	8,901,950	8,922,647	**8,208,801**	7,904,458	7,670,920

The fair values of loans to related companies are based on the cash flows discounted using a rate based on the borrowings rate of 4.05 % (2011 - 4.05 %).The discount rate equals to the market borrowing rate of the Company which comprise LIBOR plus a premium attributed to appropriate credit rating.

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

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Neither past due nor impaired	**2,821,054**	2,434,050	2,764,037	**2,327,644**	2,189,031	2,265,011
Past due but not impaired	**4,353,830**	3,480,586	2,709,137	**3,458,176**	2,994,562	2,449,653
Impaired	**2,590,052**	1,285,654	1,155,106	**1,293,493**	1,008,376	914,204
	9,764,936	7,200,290	6,628,280	**7,079,313**	6,191,969	5,628,868

Past due but not impaired balances include trade receivable balance with a carrying amount of Rs. 3,458,176,292 (2011- Rs. 2,994,561,771) and Rs. 4,353,829,632. (2011 - Rs. 3,480,585,473), which are past due at the end of the reporting period but which Company and the Group have not impaired as there has not been a significant change in credit quality and the Directors believe that overdue amounts are fully recoverable.

(c) The aging of trade receivables that are past due but not impaired are as follows:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Amount overdue:						
1 month to 6 months	**3,939,325**	2,924,477	2,289,746	**3,204,283**	2,608,060	2,151,831
6 months to 1 year	**265,525**	221,489	77,497	**192,066**	146,739	39,869
More than 1 year	**148,980**	334,620	341,894	**61,827**	239,763	257,953
	4,353,830	3,480,586	2,709,137	**3,458,176**	2,994,562	2,449,653

14 Trade and other receivables contd.

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

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
At 1 January	**1,285,654**	1,155,106	2,072,535	**1,008,376**	914,204	1,552,827
Provision for receivables impairment	**1,443,852**	808,993	853,937	**306,472**	591,549	603,415
Receivables written off during the year as uncollectable	**Nil**	(413,367)	(1,493,124)	**Nil**	(233,054)	(985,231)
Unused amount reversed	**(139,454)**	(265,078)	(278,242)	**(21,355)**	(264,323)	(256,807)
	2,590,052	1,285,654	1,155,106	**1,293,493**	1,008,376	914,204

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

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Sri Lankan rupees	**4,401,013**	3,130,557	3,622,098	**3,015,966**	2,399,515	2,863,589
United States dollars	**2,773,871**	2,784,079	1,851,076	**2,769,854**	2,784,078	1,851,075
	7,174,884	5,914,636	5,473,174	**5,785,820**	5,183,593	4,714,664

15 Inventories

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Phone stock	**115,650**	128,945	117,978	**115,650**	128,945	117,978
Accessories and consumables	**443,217**	460,269	256,926	**365,189**	411,717	248,421
Goods in transit	**2,899**	15,638	19,703	**2,899**	15,638	19,703
Provision for slow moving inventory	**(277,718)**	(195,695)	(123,423)	**(270,560)**	(160,785)	(119,943)
	284,048	409,157	271,184	**213,178**	395,515	266,159

The cost of inventories recognised as an expense and included in 'cost of sales' under direct costs by the Company and the Group amounted to Rs. 757,450,441 (2011 - Rs. 679,101,713) and Rs. 767,366,879 (2011 - Rs. 682,970,403) respectively.

16 Cash and cash equivalents

	Group			Company		
	2012	2011	1 Jan 2011	2012	2011	1 Jan 2011
Cash at bank and in hand	**3,509,031**	5,172,060	2,890,681	**2,629,401**	1,619,844	2,536,439
Short term bank deposits	**5,138,038**	5,280,319	2,543,089	**5,138,038**	5,280,319	2,542,696
	8,647,069	10,452,379	5,433,770	**7,767,439**	6,900,163	5,079,135

Cash and cash equivalents include the following for the purposes of statement of cash flows:

	Group			Company		
	2012	2011	1 Jan 2011	2012	2011	1 Jan 2011
Cash and bank balances	**8,647,071**	10,452,379	5,433,770	**7,767,441**	6,900,163	5,079,135
Bank overdrafts (Note 22)	**(1,278,950)**	(1,046,305)	(958,032)	**(990,528)**	(971,028)	(764,916)
	7,368,121	9,406,074	4,475,738	**6,776,913**	5,929,135	4,314,219

Cash and cash equivalents as at 31 December 2012 of the Group include a restricted amount of 522,760,000 deposited at Standard Chartered Bank (Sri Lankan Branch) who acted as the escrow agent for the purpose of purchasing shares of Suntel Limited.

17 Stated capital

(a)

	Ordinary shares	Stated capital	Shares in ESOS Trust	Stated capital less shares in ESOS Trust
At 1 January 2011	28,103,913	28,103,913	(1,990,921)	26,112,992
Issue of shares	Nil	Nil	Nil	Nil
At 31 December 2011	28,103,913	28,103,913	(1,990,921)	26,112,992
At 1 January 2012	28,103,913	28,103,913	(1,990,921)	26,112,992
Issue of shares	Nil	Nil	Nil	Nil
At 31 December 2012	28,103,913	28,103,913	(1,990,921)	26,112,992

17 Stated capital contd.

(b) Movement in shares

	Number of ordinary shares	Number of shares in ESOS Trust	Total number of Shares less shares in ESOS Trust
At 1 January 2011	8,143,778,405	(158,572,462)	7,985,205,943
Issue of shares	Nil	Nil	Nil
At 31 December 2011	8,143,778,405	(158,572,462)	7,985,205,943
At 1 January 2012	8,143,778,405	(158,572,462)	7,985,205,943
Issue of shares	Nil	Nil	Nil
At 31 December 2012	8,143,778,405	(158,572,462)	7,985,205,943

Employee Share Option Scheme [ESOS]

The Board of Directors of the Company established an Employee Share Option Scheme (ESOS), in 2005, immediately preceding the Initial Public Offering ('IPO') of the Company, in order to align the interest of the employees of the Company with those of the shareholders, and further created the ESOS Trust to administer the ESOS. Accordingly, the Board resolved and issued 199,892,741 ordinary shares of the Company at the IPO price of Rs. 12 each to the Trust, representing 2.7% of the ordinary share capital of the Company at that time. Further, pursuant to the Rights Issue in 2007, the ESOS Trust sold 5,668,600 shares out of its entitlement of 15,452,020 shares in the stock market and thereafter upon the Trustees' approval, accepted and exercised the remaining rights entitlement amounting to 9,783,420 shares.

The Trustees of the ESOS Trust as at 31 December 2012 were as follows:
Datuk Azzat Kamaludin – Chairman
Mr. Moksevi Prelis
Mr. Arittha Wikramanayake
Mr. Darke Mohamed Sani - appointed on 19 November 2012

Out of the shares which were issued to the ESOS Trust, 88,841,218 shares (44.44%) were allocated to Tranche 0, and the balance 111,051,523 shares (56.6%) were set aside for future allocation to employees as an ongoing performance incentive.

88,649,900 options were granted in June 2005 under Tranche 0 to eligible employees at Rs. 12 each. The exercise price of the options granted was based on the five (5) days weighted average market price of the Company's shares immediately preceding the offer date for the options, with the ESOS committee having the discretion to set an exercise price up to 10% lower than that of the derived weighted average market price. Eligibility was determined upon an employee satisfying the following:

- attainment of the age of eighteen (18) years;
- been in the full-time employment by and on the payroll of the Company within the Group; and
- been in the employment of the Group for a period of at least one (1) year of continuous service as of the offer date, including service during the probation period.

As at 31 December 2012, out of the total number of share options granted under Tranche 0, 51,103,699 options have been exercised and a total of 11,172,801 options have been forfeited to date. No options have been exercised by the employees during the financial year. Thus, 26,373,400 share options remain unexercised and are exercisable before October 2014.

	2012		2011	
	Average exercise price in Rs. per share	**Options (thousands)**	Average exercise price in Rs.	Options (thousands) per share
As at 1 January	**12**	**28,030**	12	28,335
Options forfeited during the year	**12**	**(1,466)**	12	(305)
Options exercised during the year		**Nil**		Nil
		26,564		28,030
Unallocated shares in Tranche 0		**(191)**		(191)
Number of unexercised options as at 31 December		**26,373**		27,839
Number of options forfeited to date		**11,173**		9,707
Unallocated shares remaining in the Trust		**111,052**		111,052
Unallocated shares in Tranche 0		**191**		191
Shares allotted to the ESOS Trust via the rights issue		**9,783**		9,783
Total number of shares remaining in the ESOS Trust as at 31 December		**158,572**		158,572

18 Retained earnings

	Group		Company	
	2012	2011	**2012**	2011
At 1 January	**6,789,148**	3,529,415	**15,794,723**	11,582,673
Total comprehensive income for the year	**6,021,425**	4,888,489	**6,190,045**	5,840,806
Direct cost on share Issue	**(37,500)**	Nil	**Nil**	Nil
Dividend to equity holders	**(2,035,945)**	(1,628,756)	**(2,035,945)**	(1,628,756)
At 31 December	**10,737,128**	6,789,148	**19,948,823**	15,794,723

19 Dividend reserve

	Group		Company	
	2012	2011	**2012**	2011
At 1 January	**291,781**	260,067	**291,781**	260,067
Dividend received by ESOS Trust	**39,644**	31,714	**39,644**	31,714
At 31 December	**331,425**	291,781	**331,425**	291,781

20 Trade and other payables

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Trade payables	**4,894,891**	2,184,355	2,849,359	**2,759,388**	1,609,967	2,433,688
Amount due to ultimate Parent Company [Note 37 (g)]	**902,808**	308,113	362,244	**902,808**	308,113	362,244
Amounts due to related companies [Note 37 (g)]	**343,485**	874,442	703,856	**700,299**	1,008,768	727,002
Deferred revenue (Note 21)	**2,289,221**	2,124,148	1,479,391	**1,983,327**	1,961,235	1,329,409
Accrued expenses	**5,791,182**	4,201,367	2,534,320	**4,398,678**	3,478,855	3,091,994
Customer deposits	**1,264,518**	1,219,892	1,235,588	**1,172,811**	1,141,915	1,155,630
Other payables	**10,677,505**	4,924,609	4,675,763	**6,270,561**	4,771,229	3,089,977
	26,163,610	15,836,926	13,840,521	**18,187,872**	14,280,082	12,189,944

Other payables of the Group include a provision made as a matter of prudence for 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 [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, and is now awaiting the determination of its appeal.

21 Deferred revenue

	Group		Company	
	2012	2011	2012	2011
At 1 January	**3,180,802**	1,765,157	**3,016,409**	1,615,175
Pre-paid revenue	**19,705,571**	16,444,030	**18,693,492**	15,630,393
Pre-paid revenue acquired through business combination (Note 36)	**201,746**	Nil	**Nil**	Nil
TDC disbursement received	**Nil**	1,650,244	**Nil**	1,646,941
TDC disbursement acquired through business combination (Note 36)	**191,434**	Nil	**Nil**	Nil
Release of pre-paid revenue to statement of comprehensive income	**(19,788,786)**	(15,927,105)	**(18,671,398)**	(15,126,133)
Released of TDC disbursements to statement of comprehensive income	**(218,273)**	(751,524)	**(192,175)**	(749,967)
At 31 December	**3,272,494**	3,180,802	**2,846,328**	3,016,409

	Group			Company		
	2012	2011	1 Jan 2011	2012	2011	1 Jan 2011
Current (Note 20)	**2,289,221**	2,124,148	1,479,391	**1,983,327**	1,961,235	1,329,409
Non-current	**983,273**	1,056,654	285,766	**863,001**	1,055,174	285,766
	3,272,494	3,180,802	1,765,157	**2,846,328**	3,016,409	1,615,175

Deferred revenue comprises prepaid call time and the amounts disbursed by Telecommunication Regulatory Commission of Sri Lanka (TRC) on account of the disbursement of 2/3rd of Telecommunication Development Charge (TDC) with respect to periods 2003, 2004 , 2005, 2006, 2007 and 2008.

TDC refunds relating to capital expenditure is released to the statement of comprehensive income over the remaining useful lives of related assets.

22 Borrowings

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Current						
Bank overdrafts (Note 16)	**1,278,950**	1,046,305	958,032	**990,528**	971,028	764,916
Rated cumulative redeemable preference shares	**Nil**	1,250,578	1,222,615	**Nil**	1,250,578	1,222,615
Bank borrowings	**7,534,697**	3,757,791	2,675,500	**7,534,697**	3,757,791	2,675,500
Finance lease liabilities	**4,866**	Nil	7,413	**Nil**	Nil	14
Loan from Parent Company [Note 37(e)]	**4,014,062**	Nil	Nil	**4,014,062**	Nil	Nil
	12,832,575	6,054,674	4,863,560	**12,539,287**	5,979,397	4,663,045
Non current						
Bank borrowings	**7,878,320**	9,507,750	12,142,406	**7,878,320**	9,507,750	12,142,406
Rated cumulative redeemable preference shares	**Nil**	Nil	1,222,615	**Nil**	Nil	1,222,615
Loan from Parent Company [Note 37(e)]	**4,216,001**	7,510,206	7,306,856	**4,216,001**	7,510,206	7,306,856
	12,094,321	17,017,956	20,671,877	**12,094,321**	17,017,956	20,671,877

(a) Bank borrowings

The Company obtained a term loan facility of USD 100 million from a foreign bank, for the purposes of capital expenditure and general working capital requirements of the Company and the Group. The loan was drawn in full in March 2009. An additional term loan facility amounting to USD 100 million was offered by the bank, of which the Company drew USD 25 million in December 2009, USD 10 million in May 2010, USD 10 million in June 2011 and USD 37.5 million in December 2012. Both term loans are secured by a Corporate Guarantee given by Axiata Group Berhad. Term loan 1 matures in January 2015 and term loan 2 matures in April 2015 and bear an average interest rate of 2.22% annually (2011 – 1.96%).

(b) Rated cumulative redeemable preference shares

The Rated Cumulative Redeemable Preference Shares (RCRPS) of Rs. 1 each issued by the Company during 2007 were mandatorily redeemable prior to 31 May 2012 at Rs. 1 per share. The RCRPS dividend was payable semi annually on 31 March and 30 September each year, at an Average Weighted Prime Lending Rate (AWPLR) minus 0.9% per annum.

The RCRPS were fully redeemed on 31 May 2012.

(c) Loan from parent company

Axiata Investments (Labuan) Limited has provided advances amounting to USD 47.5 million and LKR 3.7 billion, during the years of 2008 and 2009, to meet expenditures relating to telecommunication expansion, launch of CDMA and Pay TV services. Out of USD 47.5 million advanced, the Company repaid USD 10 million in December 2010. For the purpose of determining the amortised cost, a repayment period upto quarter 1 of 2014 has been considered.

The effective interest rate on loans from parent Company was 0.5% p.a (2011 - 0.5% p.a).

(d) Finance lease liabilities

Gross finance lease liabilities - minimum lease payment:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Not later than 1 year	**4,866**	Nil	7,644	**Nil**	Nil	14
Future finance charges on finance leases	**Nil**	Nil	(231)	**Nil**	Nil	Nil
Present value of finance lease liabilities	**4,866**	Nil	7,413	**Nil**	Nil	14

The present value of finance lease liabilities is as follows:						
Not later than 1 year	**4,866**	Nil	7,413	**Nil**	Nil	14
	4,866	Nil	7,413	**Nil**	Nil	14

(e) The exposure of the bank borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period are as follows:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Fixed rate						
3 months or less	**4,037,135**	1,981,038	894,077	**3,743,848**	1,905,761	700,975
3 - 6 months	**2,765,375**	882,282	1,388,882	**2,765,375**	882,282	1,381,469
6 - 12 months	**6,030,065**	3,191,354	2,580,601	**6,030,064**	3,191,354	2,580,601
1 - 5 years	**12,094,321**	17,017,956	20,671,877	**12,094,321**	17,017,956	20,671,877
Over 5 years	**Nil**	Nil	Nil	**Nil**	Nil	Nil
	24,926,896	23,072,630	25,535,437	**24,633,608**	22,997,353	25,334,922

22 Borrowings contd.

(f) The carrying amounts of the Company's and the Group's borrowing are denominated in following currencies;

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Sri Lankan rupees	**4,784,459**	5,658,812	6,639,386	**4,491,171**	5,583,535	6,438,871
United States dollars	**20,142,437**	17,413,818	18,896,051	**20,142,437**	17,413,818	18,896,051
	24,926,896	23,072,630	25,535,437	**24,633,608**	22,997,353	25,334,922

(g) The carrying amounts and fair value of non-current borrowings are as follows:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Bank borrowings	**7,878,320**	9,507,750	12,142,406	**7,878,320**	9,507,750	12,142,406
Rated cumulative redeemable preference shares	**Nil**	Nil	1,222,615	**Nil**	Nil	1,222,615
Loan from parent company	**4,216,001**	7,510,206	7,306,856	**4,216,001**	7,510,206	7,306,856
	12,094,321	17,017,956	20,671,877	**12,094,321**	17,017,956	20,671,877

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair value of non current borrowings are based on cash flows discounted using a rate based on the effective interest rates of between 1.98% - 2.45% floating and 4.05% fixed (2011 2.45% -2.47% floating and 4.05% fixed).

23 Deferred tax liabilities

Deferred taxes are calculated on all temporary differences under the liability method using the applicable tax rates as at the date of the statement of financial position.

(a) The movement on the deferred tax account is as follows:

	Group		Company	
	2012	2011	**2012**	2011
At 1 January	**1,972,933**	1,570,850	**1,972,933**	1,570,850
Charged to statement of comprehensive income	**304,084**	402,083	**304,084**	402,083
Credited to statement of comprehensive income	**(2,277,017)**	Nil	**(2,277,017)**	Nil
At 31 December	**Nil**	1,972,933	**Nil**	1,972,933

(b) Deferred tax liability and the deferred income tax charge in the statement of comprehensive income are attributable to accelerated tax depreciation and provision for defined benefit obligation, to the extent that they are likely to result in an actual liability or an asset in the foreseeable future.

(c) Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The unrecognise deferred income tax assets in respect of losses can be carried forward against future taxable income.

(d) 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.

24 Retirement benefit obligation

The movement in the retirement benefit obligation over the year is as follows:

	Group		Company	
	2012	2011	**2012**	2011
At 1 January	**443,731**	390,635	**403,482**	358,854
Current service cost	**71,609**	58,709	**57,100**	51,052
Interest cost	**48,183**	40,263	**44,383**	37,680
Charged to profit and loss of the statement of comprehensive income	**119,792**	98,972	**101,483**	88,732
Actuarial losses / (gains)	**8,762**	(18,927)	**219**	(17,748)
Charged to other comprehensive income of the statement of comprehensive income	**8,762**	(18,927)	**219**	(17,748)
Acquisition through business combination (Note 36)	**94,476**	Nil	**Nil**	Nil
Transfers to associate	**Nil**	(6,885)	**Nil**	(6,885)
Benefits paid	**(79,731)**	(20,064)	**(23,799)**	(19,471)
At 31 December	**587,030**	443,731	**481,385**	403,482

This obligation is not externally funded.

The gratuity liability of the Company is based on the actuarial valuation performed in December 2012 by Actuaries, Messrs Actuarial & Management Consultants (Private) Limited. The principal actuarial valuation assumptions used were as follows:

24 Retirement benefit obligation contd.

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Discount rate	**12.67%**	11.00%	10.50%	**12.67%**	11.00%	10.50%
Future salary increase rate	**14.00%**	12.00%	12.00%	**14.00%**	12.00%	12.00%

In addition to the above, demographic assumptions such as mortality, withdrawal and disability, and retirement age were considered for the actuarial valuation. The 2007 mortality table issued by the London Institute of Actuaries (A 67 / 70 mortality table) has also been used in the valuation.

25 Provision for other liabilities

Provision for other liabilities comprises the amounts provided for asset retirement obligations (ARO).

	Group		Company	
	2012	2011	**2012**	2011
At 1 January	**586,660**	619,876	**574,054**	607,794
Amounts capitalised	**265,707**	160,601	**224,519**	160,601
Adjustment for fully depreciated ARO assets	**(226,287)**	19,743	**(198,072)**	19,743
Acquisition through business combination (Note 36)	**123,522**	Nil	**Nil**	Nil
Charged / (credited) to profit or loss (Note 28)	**64,272**	(213,560)	**62,866**	(214,084)
At 31 December	**813,874**	586,660	**663,367**	574,054

	Group		Company	
	2012	2011	**2012**	2011
The principal assumptions used to determine the ARO were as follows:				
Inflation	**9.5%**	7%	**9.5%**	7%
Discount rate	**13.9%**	11.1%	**13.9%**	11.1%

26 Expenses by nature

	Group		Company	
	2012	2011	2012	2011
Directors' fees	**72,608**	30,531	**72,608**	30,531
Independent auditor's remuneration				
- statutory audit	**10,828**	9,730	**6,642**	6,552
- other permitted services	**7,671**	5,181	**6,775**	3,852
Fees for other professional services	**202,104**	222,388	**142,650**	218,994
Depreciation, impairment and amortisation	**11,556,231**	10,304,727	**9,004,359**	8,092,473
Domestic interconnection and international origination cost	**5,376,212**	5,014,856	**5,293,169**	4,999,383
Marketing, advertising and promotion	**7,312,378**	5,859,060	**6,884,042**	5,620,779
Staff costs (Note 27)	**4,272,122**	3,257,630	**3,635,306**	2,992,271
Other operating costs	**20,872,273**	14,583,882	**17,947,132**	12,666,486
Total direct costs, administrative costs and distribution costs	**49,682,427**	39,287,985	**42,992,683**	34,631,321

27 Employee benefit expenses

	Group		Company	
	2012	2011	2012	2011
Wages and salaries	**2,203,403**	1,877,058	**1,875,908**	1,744,441
Social security costs	**1,568,457**	969,781	**1,338,020**	876,971
Pension costs - defined contribution plans	**380,470**	311,819	**319,895**	282,127
Pension costs - defined benefit plan (Note 24)	**119,792**	98,972	**101,483**	88,732
	4,272,122	3,257,630	**3,635,306**	2,992,271
Number of persons employed as at 31 December:				
- full time	**2,993**	2,544	**2,234**	2,146
- part time	**Nil**	Nil	**Nil**	Nil
	2,993	2,544	**2,234**	2,146

28 Finance income and costs

	Group		Company	
	2012	2011	2012	2011
Interest income on deposits	**307,022**	424,927	**270,214**	409,932
Finance income	**307,022**	424,927	**270,214**	409,932
Interest expenses on:				
- bank overdrafts	**(137)**	(59)	**(41)**	(106)
- term loans	**(247,865)**	(469,174)	**(247,865)**	(469,171)
- loans from parent company	**(241,892)**	(224,016)	**(241,892)**	(224,016)
- finance cost on asset retirement obligations (ARO) (Note 25)	**(64,272)**	213,560	**(62,866)**	214,084
- finance lease	**(3,670)**	(328)	**Nil**	Nil
- dividend on cumulative redeemable preference shares	**(53,904)**	(207,063)	**(53,904)**	(207,063)
Net foreign exchange loss on foreign currency transactions / balances	**(2,422,394)**	(506,402)	**(2,376,597)**	(502,203)
Finance costs	**(3,034,134)**	(1,193,482)	**(2,983,165)**	(1,188,475)
Finance costs – net	**(2,727,112)**	(768,555)	**(2,712,951)**	(778,543)

29 Income tax

(a)

	Group		Company	
	2012	2011	2012	2011
Current tax	**5,956**	51,393	**(2,892)**	49,770
Economic service charge	**2,316**	125,181	**2,316**	114,385
Deferred tax charged to statement of comprehensive income (Note 23)	**304,084**	402,083	**304,084**	402,083
Deferred tax credited to statement of comprehensive income (Note 23)	**(2,277,017)**	Nil	**(2,277,017)**	Nil
	(1,964,661)	578,657	**(1,973,509)**	566,238

(b) Under the agreement entered into between the Company and the Board of Investment of Sri Lanka (BOI), the main source of income of the Company is exempt from income tax for fifteen years (initial tax exemption period of seven years was extended to fifteen years as per the amendment made to BOI agreement on 17 April 2003) commencing either from the year in which it first makes a profit, or in the fifth year subsequent to the start of commercial operations, whichever is earlier. The Company commenced commercial operations during 1995 and profits were first recorded during the year ended 31 December 1998. Accordingly, the tax exemption period commenced from 1 January 1998 and ended on 31 December 2012.

The Company is currently liable to pay income tax at standard rates on interest income earned in Sri Lankan rupees.

In accordance with terms of the investment agreement with BOI, the Company opted for 2% revenue based tax with effect from the year 2013 at the expiration of 15 year tax holiday period. 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.

(c) Under the agreement entered into between DBN and BOI of Sri Lanka and in accordance with Section 17 of BOI Law No. 4 of 1978, DBN has been granted a seven-year tax holiday period commencing from the year of assessment 1999/2000 and ended in the year of assessment 2005/2006. Further the additional tax exemption period of 5 years was granted subsequently, which commenced from year of assessment 2005/ 2006 and ended in 2010/2011. After the expiration of the additional tax exemption period, the profits and income of DBN shall, for any year of assessment, be charged at the rate of fifteen per centum (15%).

(d) Under the agreement entered into between DTV and the BOI, the main source of income of the DTV is exempt from income tax for a period of three years from the year of assessment, commencing either from the year in which it first makes a profit, or any year of assessment no later than two years from the date of commencement of commercial operations whichever is earlier. DTV commenced commercial operations during the year 2007. Upon expiry of the exemption period, DTV's profits and income will be subject to a corporate tax of 10 per cent for a period of two years immediately succeeding the last date of the exemption period. After the expiration of the aforesaid concessionary tax rate of 10%, the profits and income of the enterprise shall be charged at the rate of 20% for any year of assessment.

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

	Group		Company	
	2012	2011	**2012**	2011
Profit before tax	**4,065,526**	5,448,219	**4,216,755**	6,389,296
Add:				
Amortisation of increase in fair value of licenses	**50,286**	50,286	**Nil**	Nil
Other consolidation adjustments	**9,640**	(8,794)	**Nil**	Nil
	4,125,452	5,489,711	**4,216,755**	6,389,296
Tax at the applicable rate	**1,155,127**	1,537,119	**1,180,691**	1,789,003
Tax effects of:				
- Income not subject to tax	**(850,359)**	(802,004)	**(624,650)**	(1,279,833)
- Associates results reported net of tax	**2,391**	(2,711)	**Nil**	Nil
- Expenses not deductible for tax purposes	**581,162**	1,093,447	**512,601**	416,487
- Unrecognised differed tax	**(835,656)**	(1,343,921)	**(1,011,545)**	(447,925)
- ESC write off	**4,311**	125,181	**(41,653)**	114,385
- Utilisation of previously unrecognised tax losses	**(38,229)**	(16,210)	**(18,336)**	(15,072)
- Over provision of tax	**(10,475)**	(12,244)	**2,316**	(10,807)
- Net reversal of deferred tax	**(1,972,933)**	Nil	**(1,972,933)**	Nil
	(1,964,661)	578,657	**(1,973,509)**	566,238

The applicable tax rate for the Group and the Company was 28% (2011 - 28%).

29 Income tax contd.

(f) Tax losses available for the Company carry forward to the year of assessment 2012/13 amount to Rs. 783,872,655. 35% of the statutory income of any year of assessment excluding income that does not form a part of the assessable income can be set off from the aforementioned brought forward losses. Any losses not utilised over the current period could be carried forward to future years.

30 Earnings per share

(a) Basic

Basic earnings per share is calculated dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held by the ESOS Trust (Note 17).

	Group		Company	
	2012	2011	**2012**	2011
Total comprehensive income for the year	**6,021,425**	4,888,489	**6,190,045**	5,840,806
Attributable to ordinary shareholders	**6,021,425**	4,888,489	**6,190,045**	5,840,806
Weighted average number of ordinary shares in issue (thousands)	**7,985,206**	7,985,206	**7,985,206**	7,985,206
Earnings per share (Rs.)	**0.75**	0.61	**0.78**	0.73

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. The Company has share options (ESOS) which has potential for dilution. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares),based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share price.

	Group		Company	
	2012	2011	**2012**	2011
Total comprehensive income for the year	**6,021,425**	4,888,489	**6,190,045**	5,840,806
Attributable to ordinary shareholders	**6,021,425**	4,888,489	**6,190,045**	5,840,806
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**7,985,206**	7,985,206	**7,985,206**	7,985,206
Diluted earnings per share (Rs.)	**0.75**	0.61	**0.78**	0.73

31 Dividends

The Directors have recommended a withholding tax free final dividend of Rs. 0.33 (2011 - Rs.0.25) per share amounting to Rs. 2,687,446,874 (2011 - Rs. 2,035,944,601) for the financial year 2012 subject to the approval of the shareholders at the Annual General Meeting.

32 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2012	2011	**2012**	2011
Profit before tax	**4,065,526**	5,448,219	**4,216,755**	6,389,296
Adjustments for:				
Unrealised exchange losses	**2,075,961**	334,693	**2,122,342**	336,755
Provision for doubtful debts	**454,224**	508,123	**291,029**	327,226
Bad debts written back	**(196,870)**	(233,055)	**(154,688)**	(233,055)
Profit on sale of property, plant and equipment	**(94,291)**	7,818	**(85,738)**	10,736
Profit on disposal on investment	**Nil**	(30,477)	**Nil**	(22,792)
Interest expense	**547,468**	900,640	**543,702**	900,356
Finance cost / (income) on asset retirement obligations (Note 28)	**64,272**	(213,560)	**62,866**	(214,084)
Interest income (Note 28)	**(307,022)**	(424,927)	**(270,214)**	(409,932)
Amortisation (Note 9)	**672,835**	601,711	**533,251**	490,211
Depreciation (Note 8)	**10,098,017**	9,623,116	**7,758,774**	7,607,297
Adjustments	**67,127**	26,951	**3,237**	Nil
Impairment and provisions				
- Impairment provision / (reversal) (Note 8)	**785,379**	79,900	**712,334**	(5,035)
Amounts released from deferred revenue (Note 21)	**(218,273)**	(751,524)	**(192,175)**	(749,967)
Retirement benefit obligation	**119,792**	98,972	**101,483**	88,732
Provision for slow moving inventory	**22,725**	76,384	**18,461**	64,478
Share of associate loss /(profit) (Note 11)	**8,539**	(9,681)	**Nil**	Nil
Changes in working capital				
- trade and other receivables	**(1,108,517)**	(1,040,297)	**325,233**	(346,320)
- inventories	**8,969**	(229,408)	**70,562**	(193,938)
- payables	**4,661,216**	2,313,371	**3,997,718**	1,990,896
Cash generated from operations	**21,727,077**	17,086,969	**20,054,932**	16,030,860

Non-cash transactions

a) On 11 May 2012, DBN converted advances from the Company amounting to Rs. 7,500,000,000 in to ordinary shares at the price of Rs. 10 each.

33 Reclassification of comparatives

		As reported previously		Current presentation	
	Note reference	Group 2011	Company 2011	Group 2011	Company 2011
Revenue	a,c,d	45,637,211	41,776,308	45,412,002	41,729,199
Direct costs	c,d	(25,114,415)	(22,494,294)	(24,949,185)	(22,494,294)
Distribution costs	a	(6,325,231)	(5,906,107)	(6,265,252)	(5,858,998)
Net finance costs	b	(295,414)	(305,402)	(447,129)	(457,117)

(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 on principal agent relationship.

(d) Reimbursement of electricity from other operators in DBN previously classified under revenue are reclassified under direct cost to be in line with Group classifications.

34 Contingencies

(a) Pending litigations

The Group has contingent liabilities in respect of legal claims arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from such legal claims, except the claim involving Electroteks Network Services (Private) Limited, where as a matter of prudence a provision has been made in the financial statements, as disclosed in note 20.

(b) Assessment in respect of Value Added Tax (VAT)

Value Added Tax (VAT) assessment 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, it was concluded on 31st January 2012 that VAT refund of Rs. 928,127,301 is due to the Company, of which Rs. 304,606,824 was refunded on 28th August 2012.

Further, DIR has started full VAT audit for the years of assessment 2008 – 2010, based on the outcome so far, total VAT exposure on disallowable input credits is amounting to Rs. 104,000,000/- which is fully provided in the financial statements as at 31st December 2012.

(c) Inquiry by Sri Lanka Customs

In August 2008, Sri Lanka Customs (SLC) detained a shipment of CDMA Customer Premises Equipment (CPE), belonging DBN and commenced an investigation into the eligibility of these items falling under the duty exemptions granted under the terms and conditions of the agreement with the Board of Investment of Sri Lanka. The shipment was cleared by submitting bank guarantees and thereafter shipments of CPE were cleared by paying duty 'under protest'. The main contention of SLC was that the CDMA CPE could not be considered a fixed asset. Having completed the investigation, SLC commenced an inquiry into this matter on 30 January 2009 and this inquiry is still in progress.

No assessment has been made as at the date of the statement of financial position. The Directors are of the opinion that no material liability would result from the inquiry and accordingly no provision has been made in the financial statements.

(d) Guarantees

Guarantees given by the Company as at 31 December 2012 is amounting to Rs. 421,205,212.

35 Commitments

(a) Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred:

	Group		Company	
	2012	2011	**2012**	2011
Supply of telecommunication equipment	**10,861,284**	1,349,257	8,200,687	948,418

(b) Financial commitments

The Group has the following annual commitments;

	Currency	Amount ('000)
Annual fee to the Board of Investment of Sri Lanka	LKR	1,424
Site rental	LKR	2,020,916
Annual maintenance contracts	LKR	1,645,714
Rental to Axiata Lanka (Private) Limited	LKR	7,920

(c) Other commitments

There were no other material financial commitments outstanding at the end of the reporting period.

36 Business combinations

Acquisition of Suntel Limited

(a) 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. 4,057,918,108 which was fully settled as at 30 September 2012 in cash in accordance with Share Purchase Agreement . The resultant goodwill to the Group on the acquisition was Rs. 6,353,391,403.

(b) Suntel was amalgamated with DBN, in accordance with provisions of the Companies Act, No. 07 of 2007 (the "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 DBN in accordance with the Act.

(c) The following table summarises the consideration paid for Suntel Limited, the fair value of assets acquired,liabilites assumed at the acquisition date.

Consideration at 31 December 2012:	Amount ('000)
Cash	4,057,918
Total consideration transferred	4,057,918
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	228,527
Property, plant and equipment (Note 8)	2,041,746
Intangibles	214,136
Trade and other receivables	1,672,022
Trade and other payables	(5,770,565)
Provision for other liabilities	(123,522)
Pre-paid revenue	(201,746)
TDC disbursement	(191,434)
Retirement benefit obligation	(94,476)
Borrowings	(56,546)
Finance lease liabilities	(13,615)
Total net assets acquired	(2,295,473)
Goodwill	6,353,391
Total	6,353,391

(d) Goodwill primarily consist of expected growth potential of the combined operation.

(e) The amount of revenue and the net results of Suntel Limited has been reported together with DBN since Suntel was amalgamated with DBN as disclosed in (b) above.

(f) Acquisition related costs of Rs. 372,126,631 have been charged to administrative costs in the Group statement of comprehensive income during the year ended 31 December 2012.

Investment in Digital Commerce Lanka (Private) Limited

(g) On 9 December 2012, DAP entered in to an investment Agreement with Digital Commerce Lanka (Private) Limited ('DCL') to acquire an entry stake of 26% at a valuation of USD 1,590,000. The resultant goodwill on this acquisition amounted to Rs. 205,267,400 and is included in the carrying amount of the investment.

37 Related party transactions

(a) The Directors of the Company are also Directors of the following companies:

	Datuk Azzat Kamaludin	Dr Hansa Wijayasuriya	Mr. Moksevi Prelis	Dato' Sri Jamaludin Ibrahim	Mr. Jayantha Dhanapala	Mr. Mohd Khairil Kevin Loh Abdullah	Mr. James Maclaurin	Mr. Mohamed Muhsin
Association for Social Development	-	-	x	-	-	-	-	-
Axiata Group Bhd	x	-	-	x	-	-	-	-
Axiata Investments (Indonesia) Sdn Bhd	-	-	-	-	-	-	x	-
Axiata Investments (Labuan) Limited	-	-	-	-	-	-	x	-
Axiata Investments (Singapore) Limited	-	-	-	-	-	-	x	-
Axiata Investments 1 (India) Limited	-	x	-	-	-	-	-	-
Axiata Investments 2 (India) Limited	-	x	-	-	-	-	-	-
Axiata Lanka (Private) Limited	-	x	-	-	-	-	x	-
Axiata Management Services Sdn Bhd	-	-	-	-	-	-	x	-
Axiata SPV1 (Labuan) Limited	-	-	-	-	-	-	x	-
Axiata SPV 2 Bhd	-	-	-	x	-	-	x	-
Axiata SPV 3 Sdn Bhd	-	-	-	x	-	-	x	-
Boustead Heavy Industries Corp. Bhd	x	-	-	-	-	-	-	-
Boustead Holdings Bhd	x	-	-	-	-	-	-	-
Capital Trust Asset Management (Private) Limited	-	-	x	-	-	-	-	-
Capital Trust Corporate Solutions (Private) Limited	-	-	x	-	-	-	-	-
Capital Trust Financial (Private) Limited	-	-	x	-	-	-	-	-
Capital Trust Securities (Private) Limited	-	-	x	-	-	-	-	-
Capital Trust Treasuries (Private) Limited	-	-	x	-	-	-	-	-
Cargills (Ceylon) PLC	-	-	-	-	x	-	-	-
Celcom Axiata Bhd	-	-	-	x	-	-	x	-
Celcom Mobile Sdn. Bhd	x	-	-	-	-	-	-	-
Ceylon Petroleum Corporation	-	x	-	-	-	-	-	-
Colombo Stock Exchange Limited	-	-	x	-	-	-	-	-
Communiq Broadband Network (Private) Limited	-	x	x	-	-	-	-	-

37 Related party transactions contd.

	Datuk Azzat Kamaludin	Dr Hansa Wijayasuriya	Mr. Moksevi Prelis	Dato' Sri Jamaludin Ibrahim	Mr. Jayantha Dhanapala	Mr. Mohd Khairil Kevin Loh Abdullah	Mr. James Maclaurin	Mr. Mohamed Muhsin
Dialog Axiata Employee Share Option Trust	Trustee	-	Trustee	-	-	-	-	-
Dialog Broadband Networks (Private) Limited	-	x	x	-	-	-	-	-
Digital Commerce Lanka (Private) Limited	-	x	x	-	-	-	-	-
Dialog Foundation	Trustee	Trustee	-	-	Trustee	-	-	-
Dialog Television (Private) Limited	-	x	x	-	-	-	-	-
Dialog Television Trading (Private) Limited (Formely known as CBN Sat (Private) Limited)	-	x	x	-	-	-	-	-
Firstsource-Dialog Solutions (Private) Limited	-	x	-	-	-	-	-	-
GSM Association	-	-	-	Board Member	-	-	-	-
Hello Axiata Company Limited	-	-	-	-	-	-	x	-
Idea Cellular Limited (India)	-	x	-	-	-	-	-	-
KPJ Healthcare Bhd	x	-	-	-	-	-	-	-
Malaysian Directors Academy	x	-	-	-	-	-	-	-
M1 Limited	-	-	-	x	-	-	-	-
Sri Lanka Institute of Nanotechnology (Private) Limited	-	x	-	-	-	-	-	-
National Research Council of Sri Lanka	-	-	x	-	-	-	-	-
PT XL Axiata Tbk	-	-	-	Commissioner	-	-	Commissioner	-
Rego Multi-Trades Sdn Bhd	x	-	-	-	-	-	-	-
Robi Axiata Limited	-	-	-	-	-	-	x	-
Sigiriya Leisure (Private) Limited	-	x	-	-	-	-	-	-
Sinwa Holdings Limited	-	-	x	-	-	-	-	-
Tangalle Leisure (Private) Limited	-	x	-	-	-	-	-	-
Technology Resources Industries Limited	x	-	-	-	-	-	-	-
Visdynamics Holdings Bhd	x	-	-	-	-	-	-	-

As at 31 December 2012, the Group Chief Executive Officer, Dr Hansa Wijayasuriya held options to purchase 5,424,400 ordinary shares under the ESOS. No share options have been granted to the Non-Executive Directors under the ESOS.

The Company invested in Sri Lanka Institute of Nanotechnology (Private) Limited (Formerly known as Nanco (Private) Limited) ; a company set up for carrying out research on technology developments. The carrying value of the investment as at 31 December 2012 is Rs. 30,595,773 (Note 13).

(b) Axiata Investments (Labuan) Limited owns 83.32% of the total number of shares in issue of the Company. The remaining 16.68% of the shares are widely held. The ultimate parent of the Company is Axiata Group Berhad.

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

		Company 2012	Company 2011
Sale of Service:			
i)	Axiata Lanka (Private) Limited		
	- Rendering of management services	**2,700**	2,700
ii)	Dialog Broadband Networks (Private) Limited		
	- Site sharing revenue	**221,456**	202,705
	- International bandwidth revenue	**Nil**	Nil
	- IPLC and satellite bandwidth revenue	**181,588**	103,503
	- Market development, work-shop revenue, origination and others	**164,559**	94,724
	- Local Interconnection SMS	**90,261**	37,567
	- Revenue from call centre	**Nil**	513
	- Local call revenue	**Nil**	377
iii)	Dialog Television (Private) Limited		
	- Revenue from call centre agent fee	**Nil**	1,913
	- Satellite bandwidth service	**5,623**	5,623
	- Local call revenue	**Nil**	357
iv)	Telekom Malaysia Berhad		
	- IPLC revenue	**19,386**	21,993
	- Interconnection revenue	**387,820**	199,454
v)	Multinet Pakistan (Private) Limited		
	- Interconnection revenue	**25,174**	153,894
vi)	Idea Cellular Limited		
	- Interconnection revenue	**119,006**	448,211
vii)	M1 Limited (Singapore)		
	- Interconnection revenue	**17,325**	6,294
viii)	Celcom Mobile Sdn Bhd		
	- Inbound roaming	**2,396**	2,823
ix)	PT XL Axiata Tbk		
	- Inbound roaming	**607**	464
	- Axiata roaming services	**6,231**	3,597
x)	Telekom Malaysia (USA) Inc		
	- Interconnection revenue	**1,651**	6,752
xi)	Hello Axiata Company Limited		
	- Interconnection revenue	**20,333**	4,679
xii)	Celcom Axiata Berhad		
	- Interconnection revenue	**1,108,693**	380,681
	- Other Revenue	**7,883**	4,573
xiii)	Robi Axiata Limited		
	- Share of Inbound roaming revenue	**Nil**	539
	- Axiata roaming services	**6,231**	3,597
		2,388,923	1,687,533

37 Related party transactions contd.

		Company	
		2012	2011
i)	Axiata Lanka (Private) Limited		
	- Rental charges	**7,920**	7,920
ii)	Dialog Broadband Networks (Private) Limited		
	- Lease circuit rental and electricity	**150,811**	150,767
	- Computer HW & SW maintenance	**67,769**	58,126
	- BTS site sharing cost	**86,907**	49,451
	- Last mile and field service	**19,229**	12,565
	- Telephone charges and D Net	**9,568**	6,286
	- ILAC,OLAC and IC	**346,123**	136,181
	- Interconnection Charges	**67,126**	35,882
iii)	Telekom Malaysia Berhad		
	- Lease rental	**80,248**	29,152
	- TMCH charges	**56,873**	54,787
	- Operation & maintenance charges	**42,782**	41,662
	- Local access charges	**12,645**	43,839
	- Port & internet charges	**890**	2,615
	- Restoration charges	**23,175**	26,023
	- Voice interconnection charges	**3,862**	3,319
iv)	Dialog Television (Private) Limited		
	- Cost on initial connection given to DAP staff	**2,120**	1,170
	- Cost on subscription fees on connection given to DAP staff	**13,779**	14,509
	- Advertising expenses	**Nil**	Nil
v)	Multinet Pakistan (Private) Limited		
	- Origination cost	**50,344**	548,536
vi)	Idea Cellular Limited		
	- Origination cost	**14,381**	6,595
vii)	M1 Limited (Singapore)		
	- Origination cost	**1,578**	1,397
viii)	Celcom Mobile Sdn Bhd		
	- Outbound roaming	**9,642**	7,536

			Company	
			2012	2011
ix)	PT XL Axiata Tbk			
	-	Outbound roaming	**2,312**	1,572
x)	Telekom Malaysia (USA) Inc			
	-	Local access charges / port and internet charges	**Nil**	1,845
xi)	Telekom Malaysia (UK) Limited			
	-	Local access charges	**16,980**	58,460
	-	Interconnection charges	**2,094**	1,553
	-	Port and internet charges	**Nil**	Nil
xii)	Hello Axiata Company Limited			
	-	Origination cost	**26**	33
xiii)	Celcom Axiata Berhad			
	-	Origination cost	**35,556**	30,152
xiv)	Telekom Malaysia (HK) Limited			
	-	Local access charges	**Nil**	12,308
xv)	Firstsource-Dialog Solutions (Private) Limited			
	-	Call center charges	**488,638**	312,180
			1,613,378	1,656,421

	Company		
	2012	2011	1 Jan 2011
Funds made available to subsidiaries:			
Dialog Broadband Networks (Private) Limited	**3,383,532**	4,148,813	2,413,604
Dialog Television (Private) Limited	**536,050**	60,000	585,020
	3,919,582	4,208,813	2,998,624

(d) Key management personnel include members of the Group senior management of Dialog Axiata PLC and its subsidiary companies.

	2012	2011
Salaries and short-term employee benefits	**343,698**	291,290
Post employment benefits	**76,831**	69,361
	420,529	360,651

37 Related party transactions contd.

(e) Axiata Investment (Labuan) Limited

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Borrowings - Non Current Liability (Note 22)	**4,216,001**	7,510,206	7,306,856	**4,216,001**	7,510,206	7,306,856
Borrowings - Current Liability (Note 22)	**4,014,062**	Nil	Nil	**4,014,062**	Nil	Nil
Interest payable	**44,566**	20,666	Nil	**44,566**	20,666	Nil

The loans consist of USD 37.5 million which carries interest of 0.5% p.a (2011 - 0.5%) and balance LKR 3.7 billion which is interest free and repayable in the ordinary course of business. The fair values and the effective interest rates of the loans are disclosed in note 22.

(f) Outstanding receivable balances arising from inter-company transactions:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Non - current receivables (Note 14)						
- Dialog Broadband Networks (Private) Limited	**Nil**	Nil	Nil	**8,073,482**	12,843,786	7,608,766
- Dialog Television (Private) Limited	**Nil**	Nil	Nil	**1,481,156**	1,152,104	1,163,226
- Axiata Lanka (Private) Limited	**5,091**	11,545	17,717	**5,091**	11,545	17,717
	5,091	11,545	17,717	**9,559,729**	14,007,435	8,789,709
Current receivables (Note 14)						
- Change Trust Fund	**Nil**	269	(149)	**Nil**	269	(149)
- Multinet Pakistan (Private) Limited	**2,841**	Nil	39,575	**2,841**	Nil	39,575
- M1 Limited (Singapore)	**717**	836	1,822	**717**	836	1,822
- Idea Cellular Limited	**32,914**	36,814	88,141	**32,914**	36,814	88,141
- Celcom Axiata Berhad	**47,652**	110,339	61,380	**47,652**	110,339	61,380
- Telekom Malaysia (USA) Inc	**334**	456	32	**334**	456	32
- Hello Axiata Company Limited	**16,334**	2,068	160	**16,334**	2,068	160
- PT XL Axiata Tbk	**351**	424	Nil	**351**	424	Nil
- Axiata Lanka (Private) Limited	**7,414**	6,577	6,181	**7,414**	6,577	6,181
	108,557	157,783	197,142	**108,557**	157,783	197,142

The current receivable from related companies are settled in the ordinary course of the business.

(g) Outstanding payable balances arising from related company transactions:

	Group			Company		
	2012	2011	1 Jan 2011	**2012**	2011	1 Jan 2011
Amount due to ultimate Parent Company (Note 20)						
- Axiata Group Berhad	**902,808**	308,113	362,244	**902,808**	308,113	362,244
Amounts due to related companies (Note 20)						
- Axiata Lanka (Private) Limited	**30,149**	32,053	35,087	**30,149**	32,053	35,087
- Telekom Malaysia Berhad	**180,664**	638,334	568,329	**180,664**	638,334	568,329
- Multinet Pakistan (Private) Limited	**Nil**	68,704	Nil	**Nil**	68,704	Nil
- Telekom Malaysia (USA) Inc	**28**	1,065	1,843	**28**	1,065	1,843
- Telekom Malaysia (UK) Limited	**141**	16,134	26,537	**141**	16,134	26,537
- PT XL Axiata Tbk	**Nil**	Nil	213	**Nil**	Nil	213
- Telekom Malaysia (HK) Limited	**Nil**	3,082	4,281	**Nil**	3,082	4,281
- Robi Axiata Limited	**74,560**	69,271	67,566	**74,560**	69,271	67,566
- Firstsource-Dialog Solutions (Private) Limited	**57,943**	45,799	Nil	**57,943**	45,799	Nil
- Dialog Broadband Networks (Private) Limited	**Nil**	Nil	Nil	**356,814**	134,326	23,146
	343,485	874,442	703,856	**700,299**	1,008,768	727,002

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

The Directors have disclosed the nature of their interests in contracts at meetings of Directors, which are entered in the register maintained by the Company.

There were no other related party transactions other than those disclosed above.

38 Parent company

Axiata Investments (Labuan) Limited is the parent company. Axiata Group Berhad is the Parent Company of Axiata Investments (Labuan) Limited. Accordingly the ultimate Parent Company of Dialog Axiata PLC is Axiata Group Berhad.

39 Events after the reporting period

The Board of Directors has recommended a tax-free final dividend of Rs. 0.33 per share amounting to Rs. 2,687,446,874 for the financial year 2012, subject to the approval of the shareholders at the Annual General Meeting.

Except as disclosed above, no other circumstances have arisen since the statement of financial position date which require adjustments to, or disclosure in the financial statements.

US Dollar Financial Statements

Statements of financial position

For Information Purpose Only	Group			Company		
	31 Dec 2012 USD '000	31 Dec 2011 USD '000	1 Jan 2011 USD '000	**31 Dec 2012 USD '000**	31 Dec 2011 USD '000	1 Jan 2011 USD '000
ASSETS						
Non-current assets						
Property, plant and equipment	**464,374**	449,473	478,901	**351,791**	362,310	400,619
Intangible assets	**81,655**	34,017	33,940	**11,678**	14,238	12,621
Investment in subsidiaries	**Nil**	Nil	Nil	**140,153**	90,778	93,279
Investment in associates	**1,904**	397	Nil	**1,835**	244	Nil
Available-for-sale financial asset	**241**	269	276	**241**	269	276
Amounts due from related companies	**40**	101	160	**75,161**	123,142	79,401
	548,214	484,257	513,277	**580,859**	590,981	586,196
Current assets						
Inventories	**2,233**	3,597	2,450	**1,676**	3,477	2,404
Trade and other receivables	**94,520**	90,387	87,037	**73,733**	79,327	72,967
Cash and cash equivalents	**67,985**	91,889	49,086	**61,070**	60,661	45,882
	164,738	185,873	138,573	**136,479**	143,465	121,253
Total assets	**712,952**	670,130	651,850	**717,338**	734,446	707,449
EQUITY						
Capital and reserves attributable to equity holders						
Stated capital	**220,960**	247,067	253,875	**220,960**	247,067	253,875
Shares in ESOS Trust	**(15,653)**	(17,503)	(17,985)	**(15,653)**	(17,503)	(17,985)
Dividend reserve - ESOS Trust	**2,606**	2,565	2,349	**2,606**	2,565	2,349
Retained earnings	**84,418**	59,685	31,883	**156,843**	138,855	104,631
Total equity	**292,331**	291,814	270,122	**364,756**	370,984	342,870
LIABILITIES						
Non - current liabilities						
Borrowings	**95,089**	149,608	186,738	**95,089**	149,608	186,738
Deferred tax liabilities	**Nil**	17,344	14,190	**Nil**	17,344	14,190
Retirement benefit obligation	**4,615**	3,901	3,529	**3,785**	3,547	3,242
Provision for other liabilities	**6,399**	5,157	5,600	**5,216**	5,047	5,490
Deferred revenue	**7,731**	9,289	2,581	**6,785**	9,276	2,581
	113,834	185,299	212,638	**110,875**	184,822	212,241
Current liabilities						
Trade and other payables	**205,705**	139,228	125,027	**142,998**	125,540	110,117
Current income tax liabilities	**189**	561	128	**122**	533	98
Borrowings	**100,893**	53,228	43,935	**98,587**	52,567	42,123
	306,787	193,017	169,090	**241,707**	178,640	152,338
Total liabilities	**420,621**	378,316	381,728	**352,582**	363,462	364,579
Total equity and liabilities	**712,952**	670,130	651,850	**717,338**	734,446	707,449
Exchange Rates	**127.19**	113.75	110.70	**127.19**	113.75	110.70

Statements of comprehensive income

For Information Purpose Only	**Group**		**Group**	
	31 December		**31 December**	
	2012	**2011**	**2012**	**2011**
	USD '000	**USD '000**	**USD '000**	**USD '000**
Revenue	**443,002**	399,226	391,562	366,850
Direct costs	**(253,291)**	(219,333)	(218,237)	(197,752)
Gross margin	**189,711**	179,893	173,325	169,098
Other operating income	**1,086**	730	941	615
Administrative costs	**(77,564)**	(70,976)	(64,586)	(55,191)
Distribution costs	**(59,761)**	(55,079)	(55,196)	(51,508)
Operating profit	**53,473**	54,568	54,483	63,014
Finance (costs) / income - net	**(21,441)**	(6,757)	(21,330)	(6,844)
Share of (loss) / profit from associate	**(67)**	85	Nil	Nil
Profit before tax	**31,964**	47,896	33,153	56,170
Taxation	**15,447**	(5,087)	15,516	(4,978)
Profit for the year	**47,411**	42,809	48,669	51,192
Other comprehensive income				
Actuarial (loss) / gains from retirement benefit obligation - net of tax	**(69)**	166	(2)	156
Total comprehensive income for the year	**47,342**	42,975	48,667	51,348
Exchange Rates	**127.19**	113.75	127.19	113.75

This information does not constitute a full set of financial statements in compliance with Sri Lanka Financials Reporting Standards. The financial statements should be read together with the Independent Auditor's Report and financial statements from pages 51 to 129.

Exchange rates prevailing at each year end have been used to convert the statement of financial position and statement of comprehensive income.

Group Value Added Statement

For the year ended 31st December	2012	2011
Value added		
Revenue	**56,345,458**	45,412,002
Other operating income	**138,146**	83,076
Interest income	**307,022**	424,927
	56,790,626	45,920,005
Cost of materials and services bought in	**(20,341,965)**	(15,050,703)
	36,448,661	30,869,302
Distribution of value added to implyees		
Salaries and other benefits	**4,272,122**	3,257,630
To government		
Taxes	**14,297,488**	10,754,827
To lenders of capital		
Interest on borrowings	**547,468**	900,640
	547,468	900,640
To shareholders as dividends		
Dividend to shareholders	**2,035,945**	1,628,756
	2,035,945	1,628,756
Retained in the business		
Profit retained	**4,524,786**	4,102,622
Depreciation and amortisation	**10,770,852**	10,224,827
	15,295,638	14,327,449
	36,448,661	30,869,302
Distribution of value added		
To employees	**12%**	11%
Retained in the business	**42%**	46%
To lenders of capital	**2%**	3%
To government	**39%**	35%
To shareholders as dividends	**6%**	5%

Five Year Summary

	GROUP				
31st December	2012	2011	2010*	2009**	2008**
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
OPERATING RESULTS					
Turnover	**56,345,458**	45,412,002	41,170,572	36,001,878	36,130,756
EBIT	**6,801,177**	6,207,093	5,413,302	(10,032,558)	(368,512)
Finance (cost)/ income	**(2,727,112)**	(768,555)	(168,262)	(2,606,342)	(2,717,970)
Share of (loss)/profit from associate	**(8,539)**	9,681			
Profit/(loss) before tax	**4,065,526**	5,448,219	5,245,040	(12,638,900)	(3,086,482)
Profit/(loss) after tax	**6,030,187**	4,869,562	4,754,667	(13,066,982)	(3,593,550)
Total comprehensive income/expense	**6,021,425**	4,888,489	4,754,667	(13,066,982)	(3,593,550)
CAPITAL EMPLOYED					
Stated capital	**28,103,913**	28,103,913	28,103,913	28,103,913	28,103,913
ESOS trust shares	**(1,990,921)**	(1,990,921)	(1,990,921)	(1,990,921)	(1,990,921)
Dividend reserve -ESOS	**331,425**	291,781	260,067	260,067	260,067
Revaluation reserve	**Nil**	Nil	Nil	136,471	19,913
Retained earnings	**10,737,128**	6,789,148	3,529,415	(2,150,201)	10,916,318
Share holders fund	**37,181,545**	33,193,921	29,902,474	24,359,329	37,309,290
Total debt	**24,926,896**	23,072,630	25,535,437	34,418,878	26,335,566
	62,108,441	56,266,551	55,437,911	58,778,207	63,644,856
ASSETS EMPLOYED					
Property, plant & equipment	**59,063,675**	51,127,539	53,014,351	55,979,991	64,698,584
Other non current assets	**10,663,512**	3,956,705	3,805,506	3,876,177	3,917,887
Current assets	**20,953,093**	21,143,035	15,339,853	15,136,068	12,821,020
Liabilities net of debt	**(28,571,839)**	(19,960,728)	(16,721,799)	(16,214,029)	(17,792,635)
	62,108,441	56,266,551	55,437,911	58,778,207	63,644,856
CASH FLOW					
Net cash generated from operating activities	**21,582,901**	18,639,876	14,746,176	6,105,637	5,366,694
Net cash used in investing activities	**(20,864,463)**	(8,651,365)	(6,748,217)	(9,703,630)	(23,025,988)
Net cash(used)/generated from financing activities	**(2,409,089)**	(5,095,146)	(6,488,379)	7,557,962	10,519,696
Net increase / (decrease) in Cash and Cash Equivalents	**(1,690,651)**	4,893,365	1,509,580	3,959,969	(7,139,598)
KEY INDICATORS					
Basic Earnings per Share (Rs.)	**0.75**	0.61	0.59	(1.64)	(0.45)
Diluted Earnings per Share (Rs.)	**0.75**	0.61	0.59	(1.65)	(0.45)
Interest Cover (No. of times)	**28.29**	13.05	6.51	(4.15)	(0.20)
Net Asset per Share (Rs.)	**4.57**	4.08	3.67	2.99	4.58
Current Ratio (No. of Times)	**0.54**	0.96	0.82	0.76	0.51
Price Earnings Ratio (Times)***	**11.07**	12.79	20.00	NM	NM
Dividend Per Share (Rs.)	**0.33**	0.25	0.20	Nil	Nil
Dividend Yeild (%)	**4.0%**	3.21%	1.69%	Nil	Nil
Market Price Per Share (Rs.)	**8.30**	7.80	11.80	7.25	6.00

NM - Not meaningful
* Operating results are not SLFRS compliant
** Audited figures have been restated to ensure comparability with the current period and are not SLFRS compliant
*** Market price per share over diluted earnings per share

Group Real Estate Portfolio

Owning Company and location	Buildings in Sq feet	Land in Acres Freehold	Net Book value 2012 Rs.'000	Net Book value 2011 Rs.'000
Properties in Colombo				
Dialog Axiata PLC				
No. 475, Union Place, Colombo 02	74,250		**381,435**	392,235
No.25, Samarakoon Mawatha, Thumbowila, Piliyandala	22,106		**43,877**	44,186
Dialog Broadband Networks(Private) Limited				
Kaluandura,Puwakkpitiya,Avissawella		0.660	**931**	931
15th lane, Talangama, Battaramulla		0.063	**1,680**	Nil
No.24,Foster Lane, Union place, Colombo 02		0.240	**129,998**	129,998
Imbaulakannda, Gamunu Road, Homagama		0.094	**779**	Nil
No.55/2C ,Old Avissawella Road, Kotikawatta	12,360	0.478	**38,244**	38,977
Alubogahawatte, Rukmale, Kottawa		0.131	**2,212**	Nil
Properties outside Colombo				
Dialog Broadband Networks (Private) Limited				
Saliya Mawatha, Anuradhapura		1.919	**7,778**	7,778
Punachchiminal Road, Ward 40, Batticaloa		0.250	**4,131**	4,131
Ekala, Gampaha		0.125	**1,100**	Nil
Gonawala, Gampaha		0.120	**609**	Nil
Ganemulla ragama, Gampaha		0.134	**400**	Nil
Kendaliyaddapaluwa Ragama, Gampaha		0.069	**531**	Nil
Pitigala, Galle		0.063	**200**	Nil
Seeduwa, Gampaha		0.130	**1,000**	Nil
Ambalankanda, Horana.		0.125	**400**	400
Hanthana, Kandy		0.250	**2,133**	Nil
Katugasthota, Kandy		0.080	**1,413**	Nil
Meekanuwa, Kandy		0.181	**1,403**	Nil
Pitakanda, Kandy		0.542	**3,500**	Nil
Thambakanda, Kochchikade		0.797	**1,275**	1,275
Kotakanda, Kuda Bingiriya, Madampe		0.704	**1,477**	1,477
Walagamageatta ,Browns Hill, Matara		0.225	**7,088**	7,088
Bolawalana, Negombo		0.100	**1,950**	Nil
Kattuwa, Negombo		0.094	**657**	Nil
Kurana, Negombo		0.115	**1,380**	Nil
Ketakelahahawatta, Panadura		0.110	**1,760**	Nil
Anuradhapura Road, Baristapura, Puttalam		2.319	**7,624**	7,624
Furnishing and fixtures on leasehold building			**154,037**	210,710
Total Land and building			**801,002**	846,810

Notice of Annual General Meeting

DIALOG AXIATA PLC (PQ 38)

NOTICE IS HEREBY GIVEN THAT THE SIXTEENTH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON WEDNESDAY, 8TH MAY 2013 AT 03:30 PM AT THE SRI LANKA EXHIBITION & CONVENTION CENTRE, NO 12, D.R WIJEWARDANA MAWATHA, COLOMBO 10.

AS ORDINARY BUSINESS:

1. Ordinary Resolution 1

To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31st December 2012 and the Auditors' Report thereon.

2. Ordinary Resolution 2

To declare a final dividend as recommended by the Board of Directors.

3. Ordinary Resolution 3

To re-elect as a Director, Dato' Sri Jamaludin Ibrahim, who retires by rotation pursuant to Article 102 of the Articles of Association of the Company.

4. Ordinary Resolution 4

To re-elect as a Director, Mr. Mohd Khairil Abdullah who was appointed to the Board since the last Annual General Meeting pursuant to Article 109 of the Articles of Association of the Company.

5. Ordinary Resolution 5

To re-elect as a Director, Mr. Moksevi Rasingh Prelis, who attained the age of 76 years on 2nd July 2012 and retires pursuant to Section 210 of the Companies Act, No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Moksevi Rasingh Prelis.

6. Ordinary Resolution 6

To re-elect as a Director, Mr. Jayantha Cudah Bandara Dhanapala, who attained the age of 74 years on 30th December 2012 and retires pursuant to Section 210 of the Companies Act No. 07 of 2007 and to resolve that the age limit of 70 years referred to in Section 210 of the Companies Act No. 07 of 2007 shall not be applicable to Mr. Jayantha Cudah Bandara Dhanapala.

7. Ordinary Resolution 7

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

8. Ordinary Resolution 8

To authorise the Directors to determine and make donations.

AS SPECIAL BUSINESS

9. To consider and, if thought fit to pass the following Special / Ordinary Resolutions:-

(I) PROPOSED LONG TERM INCENTIVE PLAN FOR EMPLOYEES

AS SPECIAL RESOLUTIONS

a) Special Resolution 1

THAT the Long Term Incentive Plan ("LTIP") as described in the Circular to Shareholders dated 30th March 2013 be established by the Company, subject to the terms and conditions stated therein and the Rules attached to the Circular.

b) Special Resolution 2

THAT the Company shall, notwithstanding the provisions of Article 09 of the Articles of Association of the Company, issue up to a maximum of 407,188,920 ordinary shares to eligible employees under the aforesaid LTIP, in accordance with and subject to the terms and conditions set out in the aforesaid Circular to Shareholders dated 30th March 2013, without first offering the said shares to the existing shareholders of the Company at the time of such offer/issue and allotment and that these new shares shall, upon allotment and issuance, rank pari passu in all respects with the existing issued ordinary shares of the Company.

AS AN ORDINARY RESOLUTION:

c) Ordinary Resolution 9

THAT the Board of Directors of the Company be and are hereby authorised to;

i) implement, administer and give effect to the LTIP in accordance with its Rules;
ii) allot and issue from time to time, such number of new ordinary shares in such amounts as may be determined by it to eligible employees of the Group (including executive directors) under the LTIP on terms and conditions set out in the Circular to Shareholders and the Rules attached thereto.
iii) do or procure to be done, all acts, deeds and things, and to take all such decisions, as they may be in their discretion deem fit, necessary, expedient and/or appropriate, and in the best interests of the Company to facilitate the implementation of the above LTIP.

AS OTHER BUSINESS

10. To consider any other business of which due notice has been given.

By Order of the Board

Ms. Viranthi Attygalle
Company Secretary

30th March, 2013
Colombo

Notes:

i) Only persons who are shareholders of the Company and whose names appear on the Share Register as at the AGM date will be entitled to attend the above meeting.
ii) A shareholder entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his/her place by completing the Form of Proxy enclosed herewith.
iii) A proxy need not be a shareholder of the Company. However the proxy must be above 18 years of age.
iv) Shareholders / Proxy holders are kindly advised to bring along with them their National Identity Card or a similar form of acceptable identity when attending the meeting.
v) For more information, please refer Administrative Details enclosed herewith.

Administrative Details for the 16th Annual General Meeting

DATE : Wednesday, 8 May 2013
TIME : 03:30 PM
VENUE : Sri Lanka Exhibition & Convention Centre, No 12, D.R Wijewardane Mawatha, Colombo 10.

REGISTRATION

1. Registration will be from 2.00 p.m. to 3.30 p.m.
2. Please produce your National Identity Card (NIC) to the registration staff for verification.
3. Upon verification, you are required to write your name and sign on the Attendance List placed on the registration table.
4. You will be given an identification wristband and it will be mandatory that it is worn throughout the event, as no person will be allowed to enter the meeting hall or refreshments area without the wristband. There will be no replacement in the event that you lose or misplace the identification wristband.
5. If you are attending the meeting as a shareholder as well as a proxy for another, you will be given only one identification wristband.
6. After registration, please leave the registration area immediately and proceed to the meeting hall.7. The registration counters will handle only verification of identity and registration.

HELP DESK

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

ENTITLEMENT TO ATTEND AND VOTE

10. Only persons who are shareholders of the Company and whose names appear on the Share Register as at the AGM date will be entitled to attend the above meeting.

PROXY

11. A shareholder entitled, as set out above, to attend and vote at the meeting but is unable to attend the meeting, is entitled to appoint a proxy to attend and vote at the AGM instead of him/her by completing the Form of Proxy enclosed herewith.
12. The Form of Proxy should only be used for the purpose of appointing a proxy to attend and vote on your behalf at the meeting in the event you are unable to attend the meeting, and should not be used to confirm participation at the AGM.
13. If you have submitted your Form of Proxy prior to the meeting and subsequently decide to attend the meeting yourself, please proceed to the Help Desk to revoke the appointment of your proxy. You will not be allowed to attend the meeting together with a proxy appointed by you.
14. In order to be valid, the Form of Proxy must be duly completed and forwarded to the Company Secretary, Dialog Axiata PLC, No. 475, Union Place, Colombo 2, and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 03:30 p.m. on 6 May 2013.

ENQUIRY

15. If you have general queries prior to the meeting, you may contact us on our Shareholder Helpline on +94 773 908 929 or contact the following persons during working hours on the numbers given below -
    - Ms. Lakshitha Gunawardena +94 777 087 564
    - Ms. Anushka Lewke +94 777 088 900

Notes

Form of Proxy

I/We (name of shareholder/s) ....

(Holder of NIC / Passport /Company Registration No./s...)

of (address of shareholder/s) ....

being a shareholder/s of **Dialog Axiata PLC**, hereby appoint :

☐ (Name of proxy) ....

(Holder of NIC/Passport No/s ....) of (address

of proxy) ....

OR failing him/her

☐ Datuk Azzat Kamaludin (Chairman of the Company) or, failing him, one of the Directors of the Company

as my/our proxy to represent me/us and vote on my/our behalf in accordance with the preference as indicated below at the Sixteenth Annual General Meeting of the Company to be held on 08th May 2013 at 03.30 PM and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

RESOLUTIONS	FOR	AGAINST
Ordinary Business:		
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		
Ordinary Resolution 4		
Ordinary Resolution 5		
Ordinary Resolution 6		
Ordinary Resolution 7		
Ordinary Resolution 8		
Special Business:		
Special Resolution 1		
Special Resolution 2		
Ordinary Resolution 9		

(Please indicate with a 'X' in the space provided how your proxy is to vote on each resolution.
If you do not do so, the proxy will vote or abstain from voting at his discretion.)

Signature(s) of Shareholder(s)	Contact No. of Shareholder/s	Date

NOTE:
Instructions as to completion of the Form of Proxy are noted on the reverse hereof.

Notes and Instructions as to completion of Form of Proxy

1. A shareholder entitled to attend and vote at the meeting but is unable to attend the meeting, can appoint not more than one proxy to attend and vote at the AGM instead of him/her, by completing the Form of Proxy.

2. Please complete the Form of Proxy by filling in legibly, your full name, address and contact number and thereafter date and sign in the space provided.

3. In order to be valid, the Form of Proxy must be duly completed and forwarded to the Company Secretary, Dialog Axiata PLC, No. 475, Union Place, Colombo 2, and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 03:30 PM on 6th May 2013.

4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.

5. If the appointer is a Company or Corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the Company or Corporation in accordance with its Articles of Association or Constitution.

6. The Form of Proxy should only be used for the purpose of appointing a proxy to attend and vote on your behalf at the meeting in the event you are unable to attend the meeting, and should not be used to confirm participation at the AGM.

7. If a shareholder has submitted a Form of Proxy prior to the meeting and subsequently decides to attend the meeting him/herself, he/she should take immediate steps to revoke the appointment of proxy.

Corporate Information

Name of Company
Dialog Axiata PLC

Company Registration No.
PQ 38

Registered Address
475, Union Place
Colombo 02
Sri Lanka
Telephone : +94 777 678 700
Website : www.dialog.lk

Legal Form
A public quoted company with limited liability.
Incorporated as a private limited liability company on 27th August 1993 and subsequently converted to a public limited liability company on 26th May 2005. Listed on the Colombo Stock Exchange in July 2005.

Stock Exchange Listing
The Ordinary Shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka.

Board of Directors
Datuk Azzat Kamaludin - Chairman
Dr. Hans Wijayasuriya - Group Chief Executive
Mr. Moksevi Prelis
Mr. Mohamed Muhsin
Mr. Jayantha Dhanapala
Dato' Sri Jamaludin Ibrahim
Mr. James Maclaurin
Mr. Mohd Khairil Abdullah

Board Audit Committee
Mr. Mohamed Muhsin - Chairman
Mr. Moksevi Prelis
Mr. Jayantha Dhanapala
Mr. James Maclaurin
Mr. Mohd Khairil Abdullah

Nominating & Remuneration Committee
Datuk Azzat Kamaludin - Chairman
Mr. Moksevi Prelis
Mr. Mohamed Muhsin

Company Secretary
Ms. Viranthi Attygalle

Auditors
Messrs. PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place
Colombo 02, Sri Lanka

Contact for Shareholder Services
Group Corporate Services
3rd Floor, 57, Dharmapala Mawatha, Colombo 3
Telephone: +94 773 908 929
Fax: +94 117 694 350
E-mail: cosecunit@dialog.lk

Contact for Investor Relations
Group Investor Relations
Telephone: +94 777 080 140
E-mail: ir@dialog.lk

Contact for Media
Group Corporate Communications
Telephone: +94 777 080 221; +94 777 088 412
E-mail: corporate.communications@dialog.lk

Subsidiary Companies
1. Dialog Broadband Networks (Private) Limited - 100%
2. Dialog Television (Private) Limited - 100%
   - ▲ Dialog Television Trading (Private) Limited - 100%
   - ▲ Communiq Broadband Network (Private) Limited - 100%

Associate Companies
1. Firstsource-Dialog Solutions (Private) Limited - 26%
2. Digital Commerce Lanka (Private) Limited - 26%

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Dialog

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