

DIALOG AXIATA PLC  
PQ 38

CIRCULAR TO SHAREHOLDERS

Dear Valued Shareholder,

LONG TERM INCENTIVE PLAN FOR EMPLOYEES OF DIALOG AXIATA PLC

The Board of Directors of Dialog Axiata PLC (the "Company") resolved on 19 March 2013 to establish a Long Term Incentive Plan ("LTIP") with the objective of rewarding the employees of the Company and its subsidiaries (the "Group") with shares, contingent upon achievement of certain long term goals and subject to the terms and conditions of the proposed LTIP.

The approval of the shareholders of the Company is sought in relation to the proposed LTIP as well as the issues of shares to be made to employees of the Group thereunder, as set out in the attached Notice convening an Extraordinary General Meeting of the Company.

**1.0 BACKGROUND AND RATIONALE FOR PROPOSED LTIP**

- 1.1 In 2005 immediately preceding the Initial Public Offering ("IPO") of the Company, the Board of Directors of the Company established an Employee Share Option Scheme (ESOS) in order to align the interest of the employees of the Company with those of the shareholders and further created the ESOS Trust ("Trust") to administer the ESOS. Accordingly the Board resolved and issued 199,892,741 ordinary shares of the Company at the IPO price of LKR 12/- each to the Trust, being 2.7% of the ordinary share capital of the Company at that time.
- 1.2 Out of the shares which were issued to the Trust, 44% were utilized to grant options under Tranche 0 in June 2005 to eligible employees at LKR 12/- each. As of to date, 27,398,700 options remain unexercised in Tranche 0, and is due to expire as at 25 October 2014.
- 1.3 As at to date a total of 131,173,762 shares which are unallocated/forfeited remain in the Trust and the Trust will not grant further Tranches to employees, given that an alternative scheme is proposed to be implemented.
- 1.5 The Company now proposes to implement a LTIP, which is independent of the aforementioned ESOS and is aligned to international best practices in employee equity participation and the shareholders' interest. The proposed LTIP is essentially an equity linked compensation plan for employees of the Group which has been designed to reward and retain high performing eligible employees and to drive employee performance as well as to attract new talents in the future. Performance tests built into the scheme at grant and vesting are designed to reward performance while the long vesting period built-in will serve as a retention tool thereby aligning the interest of eligible employees to drive longer term shareholder value enhancement.
- 1.6 In accordance with the generally accepted accounting principles currently in force the cost of the shares which are granted to eligible employees under the proposed LTIP will be expensed evenly over the period of vesting.

**2.0 SALIENT FEATURES OF THE PROPOSED LTIP**

- 2.1 **Maximum number of shares to be granted under the proposed LTIP and the maximum allowable allotment**
  - a) The maximum number of shares which may be allocated under the proposed LTIP shall be 407,188,920 shares (inclusive of the 27,398,700 unexercised options

under the current ESOS), which constitutes 5% of the total shares currently in issue in the Company.

Subject to the succeeding paragraph, the total number of new shares which may be issued by the Company under the proposed LTIP shall be 379,790,220 ordinary new shares of the Company.

Provided that the Company may however issue additional new shares under the proposed LTIP equivalent to the number of options which remain unexercised and forfeited under Tranche 0 of the ESOS on the expiry thereof (i.e. on 25 October 2014).

As such, the shares which may be allocated under the proposed LTIP, together with the shares under the ESOS referred to above, in respect of which options have been granted but ownership of shares have not been transferred to employees, shall not exceed 5% of the total number of shares in issue of the Company at any time during the duration of the LTIP.

- b) Furthermore, there will be a restriction that not more than 81,437,784 ordinary shares may be issued on an annual basis under the proposed LTIP, which constitutes 1% of the total shares currently in issue in the Company (the current total shares in issue being 8,143,778,405).
- c) The LTIP has company based performance criteria, employee based performance criteria and continued service as preconditions for the shares to be issued to the employees and hence the maximum number of shares mentioned in the paragraph set out above may not get issued due to the above criteria not being satisfied.
- d) The limits on the number of shares to be issued under the LTIP would be revised proportionately in a manner which is not detrimental to the benefits that existing shareholders may receive, in the event of there being an increase or decrease in the share capital of the Company by reason of a share split, consolidation of shares or a bonus issue/ capitalization of reserves.

## 2.2 Duration of the proposed LTIP

The proposed LTIP shall be in force for period of eight years from the date of first offer under the LTIP. The Company contemplates that the first and the final share grants under the proposed LTIP shall take place in or around 2013 and 2017 respectively.

## 2.3 Eligibility

- a) All employees of the Group (including executive directors) who meet the performance criteria to be determined by the Board will be eligible to participate in the proposed LTIP.
- b) Non-executive or independent directors of the Company will not be eligible under the proposed LTIP.
- c) Employees will be granted ordinary shares in the Company based on both the individual performance of the relevant employee and the performance of the Company over the course of three years.

Please refer attached Rules for further details on eligibility.

Furthermore, in the event the Company reports a loss in a given financial year as per the audited financial statements of the Company for such year, no grants under the proposed LTIP shall be made in the subsequent financial year.



## 2.4 Vesting Period & Conditions

- a) The shares so granted would vest with employees only if the employee maintains a minimum level of individual performance over a three (03) year period and the Company achieves a set performance criteria during the period.
- b) The Board shall have the discretion to amend the grant conditions, vesting conditions and to extend the vesting period based on the performance of the Company subject to the provisions in the LTIP Rules and the CSE listing rules.

Please refer attached Rules for further details on vesting conditions.

## 2.5 Pricing

- a) The shares are being granted to the employees in consideration of services provided by them to the Company or any of its subsidiaries, and as such, the price would be settled by way of non-cash consideration.
- b) There is no option to be exercised by the employees or any further payment being made by the employees and as such, the proposed LTIP can be differentiated from the general employee share option and employee share purchase schemes currently prevailing in other companies.
- c) The reference price at which the eligible employees shall be vested and allotted with new shares pursuant to the proposed LTIP, will be the volume weighted average price of the share on the day the shares are granted to the said employee.
- d) The Board of Directors have resolved that the price for which the shares are to be issued under the LTIP throughout the period during which the LTIP is in force, is fair and reasonable to the Company and to all shareholders, as required under the Companies Act No. 7 of 2007.

## 2.6 Cancellation of grants

The circumstances under which the shares which are granted but not allotted, may be cancelled are as follows :-

- a) ceasing to be an employee of the Group, due to resignation, termination or death during the vesting period.
- b) the subsidiary which employs the employee, ceases to be a subsidiary of the Company.

Please refer attached Rules for further details on cancellation of grants.

## 2.7 Ranking of new Company shares to be issued under the proposed LTIP

The new ordinary shares to be issued to eligible employees under the proposed LTIP will, upon allotment and issuance, rank *pari passu* in all respects with the existing issued ordinary shares of the Company.

## 3.0 DECLARATIONS IN RESPECT OF THE PROPOSED LTIP

- a) The proposed LTIP and the issue of shares to be made to the employees of the Company there under, is in compliance with the Listing Rules of the Colombo Stock Exchange (CSE) and has been approved in-principle by the CSE on 28 March 2013.
- b) The Board of Directors confirms that as the employees are fully settling the payment for the shares by way of non-cash consideration through services to the Company or any of its subsidiaries and that the Company or any of its subsidiaries will not, indirectly or directly, provide funds for the proposed LTIP.

- c) The Directors of the Company collectively and individually accept full responsibility for the accuracy of the information given and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief that there are no other facts, the omission of which would render any statement in the Circular misleading.

#### 4.0 APPROVALS REQUIRED

The proposed LTIP is subject to the following:

- a) approval of the Company's shareholders by way of a Special Resolution for the LTIP.  
b) waiver of pre-emptive rights by the shareholders of the Company by way of a Special Resolution for the issuance of new shares under the proposed LTIP.

In order to comply with the Rules of the Colombo Stock Exchange, any shares funded by the Company or any shares which have been issued to the Trust referred to in Section 1.0 above which have not been fully paid for by any employees to whom such shares have been granted shall not be entitled to vote on the aforesaid resolutions.

#### 5.0 DIRECTORS' RECOMMENDATION

The Board of Directors of the Company are of the opinion that the proposed LTIP is in the best interest of the Company and recommends to the shareholders the establishment of the proposed LTIP and the issue of shares to employees of the Group under the proposed LTIP as set out above.

#### 6.0 ANNUAL GENERAL MEETING

The Annual General Meeting (AGM), at which the Resolutions pertaining to the above proposal will be submitted for consideration under Special Business, will be held at the Sri Lanka Convention and Exhibition Centre on Wednesday, 08 May 2013 at 03:30PM. The Resolutions giving effect to the above proposal is given in the Notice of Meeting enclosed herewith.

If you are unable to attend the AGM in person, you are entitled to appoint a Proxy to attend the AGM and vote on your behalf. You are kindly requested to complete and return the enclosed Form of Proxy to the Company Secretary at the Registered Office of the Company at No. 475, Union Place, Colombo 02, not less than 48 hours before the meeting, so that your Proxy can exercise your vote in accordance with your directions.

Yours faithfully,

BY ORDER OF THE BOARD



Viranthi Attygalle  
Company Secretary  
DIALOG AXIATA PLC

Colombo, 30<sup>th</sup> March 2013