

**\* We Exist Because We**

1. Refine the portfolio mix of our business continuously
2. Create financial value
3. Earn the trust of customers and they keep coming back
4. Nurture people and they find it enjoyable and rewarding to work with us
5. Have great relationships with best-of-breed business partners
6. Play by the rules
7. Serve the community
8. Are friendly towards the environment

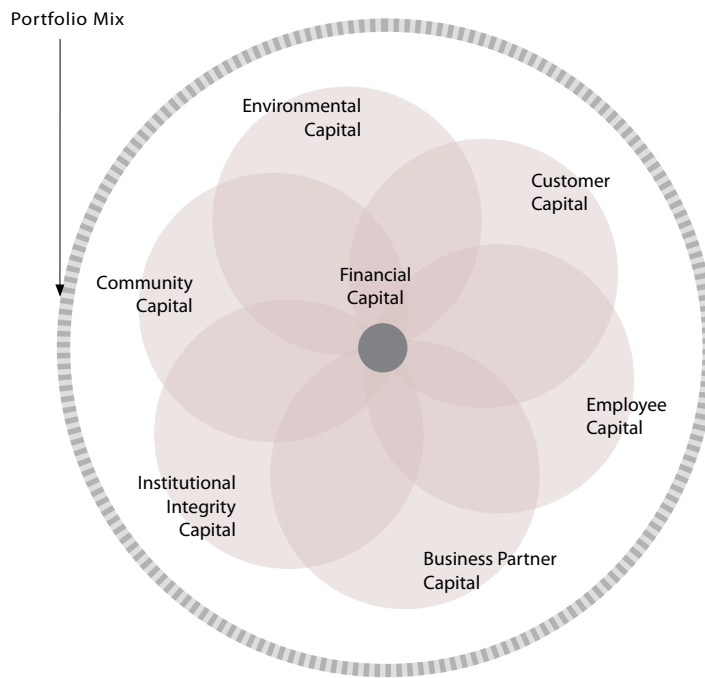
And these constitute our eight strategic imperatives.

**\* Our Overarching Strategy is Quite Simple**


We always and repeatedly ask ourselves what is next, and what do we have to do next, to hold true to our eight strategic imperatives.

**\* The Other Side of the Coin - Building Capital**

Holding true to our eight strategic imperatives builds capital; Financial Capital as well as non-financial capital. The latter is referred to by many terms but we like to refer to it as intellectual capital. Unfortunately, our intellectual capital is not reflected in our Balance Sheet. However, it is the dynamic interaction of our six forms of intellectual capital that creates financial capital as shown in the diagram below:







## CONTEXT / A 360 DEGREE VIEW OF HIGHLIGHTS OF THE YEAR

Key Performance Area	Metric	Achievement		Change	A Forward Looking Note
		2011/12	2010/11		
 <b>CREATING FINANCIAL VALUE</b>					
<b>Wealth creation</b>	Economic Value Added (Rs. mn)	1,905	1,762	8%	<p>Several investments are already underway to enhance capacity, competency and reach. These investments amounting to Rs. 5 bn during the three-year period ending 31st March 2014 are expected to support revenue growth from the ensuing year onwards. For details, refer column on outlook for 2012/13 given in inner front cover.</p> <p>Relentless focus on working capital management will continue. We will challenge the current market norms of 60-day credit periods and 60-day stock residence times and gradually set new standards for them.</p> <p>We are focused on improving gross profit margin by at least 2%, greater efficiencies in managing expenses, higher value addition and productivity improvement in order to improve profitability. Our budget for 2012/13 envisages a stable performance rather than a substantial growth in profits. We are confident of maintaining our record of creating positive EVAs.</p>
	Market Value Added (Rs. mn)	1,253	8,719	(86%)	
	Net Assets Value per Share (Rs.)	841	473	78%	
	Market Capitalisation (Rs. mn)	8,718	12,920	(33%)	
<b>Wealth distribution</b>	Employees (Rs. mn)	1,372	1,037	32%	
	Government (Rs. mn)	6,062	5,571	9%	
	Lenders (Rs. mn)	253	207	22%	
	Community (Rs. mn)	51	30	70%	
	Shareholders (Rs. mn)	554	122	354%	
<b>Shareholder return</b>	Return on Equity (%)	36.13	50.51	(28%)	
	Earnings per Share (Rs.)	303.87	239.03	27%	
	Price Earnings Ratio (times)	3.23	6.21	(48%)	
	Dividend per Share (Rs.)	40.00	61.00	(34%)	
	Shareholders' Funds (Rs. mn) - at the year end	7,465	4,201	78%	
<b>Profitability</b>	Gross Profit Ratio (%)	18.23	20.56	(11%)	
	Net Profit Ratio (%)	6.81	7.31	(7%)	
<b>Working capital management</b>	Current Ratio (times) - at the year end	1.55	1.27	22%	
	Quick Assets Ratio (times) - at the year end	0.34	0.84	(60%)	
<b>Asset utilisation</b>	Fixed Assets Turnover (times)	8.49	9.37	(9%)	
<b>Capital structure</b>	Debt/Equity (%) - at the year end	13.4	9.76	37%	
	Interest Cover (times)	15.64	17.35	(10%)	

## A 360 DEGREE VIEW OF HIGHLIGHTS OF THE YEAR / CONTEXT

Key Performance Area	Metric	Achievement		Change	A Forward Looking Note
		2011/12	2010/11		
 <b>EARNING THE TRUST OF CUSTOMERS SO THAT THEY KEEP COMING BACK</b>					
Customer service	Number of sales personnel	362	345	5%	<p>In the ensuing months we should see a change in the face of our customer relationship management (Refer pages 56 to 58 for details). Major investments and initiatives to improve customer service and customer convenience are underway. We are strengthening our island-wide presence at strategic locations. Several new investments in state-of-the-art facilities will set a new benchmark in the sectors that we operate in. While strengthening our existing customer portfolio, new customer segments will be attracted particularly owing to the Bosch Centre launched in the year under review which attracts all popular makes of vehicles and the expansion of our 'Tyre Plus' network that kicked off during the year under review.</p>
	Number of service personnel	481	442	9%	
	Training man hours -				
	Sales personnel	4,044	3,518	15%	
Customer convenience	Number of branches and customer interaction points	40	25	60%	
Customer satisfaction	Weighted average customer satisfaction index	89.2	85.6	4%	
	Number of complaints received	261	201	30%	
	Number of complaints resolved within 3 days in Vehicle Sales and Parts & Service Segments	128	48	167%	
 <b>NURTURING PEOPLE SO THAT THEY FIND IT ENJOYABLE AND REWARDING TO WORK WITH US</b>					
Team strength	Number of employees as at year end	1,339	1,019	31%	<p>Statistics suggest an increase in 'Y' generation employees. The human resources function is increasingly gearing itself to address their needs. We are on track towards increasing our percentage of female employees to 15% by 2014. We have budgeted to invest on at least 10 hours of training per employee per annum. We expect the employee satisfaction score to move further up from the current level of 62.6%. An upgrade of our current system for managing employee health and safety as well as OHSAS 18001 accreditation has been planned for the ensuing year.</p>
Gender distribution	% of female employees	11	10	10%	
Age distribution	% of employees below 40 years of age	81	76	7%	
Knowledge and skills development	Number of training man hours	18,106	11,105	63%	
Employee satisfaction	% of employees who participated in the voluntary employee satisfaction survey	86.4	54	60%	
	Employee satisfaction index (%)	62.6	55	14%	
Employee health & safety	Expenses incurred for employee health & safety (Rs. mn)	25.1	9.47	165%	
	Work-related fatalities	Nil	Nil	Nil	

**CONTEXT / A 360 DEGREE VIEW OF HIGHLIGHTS OF THE YEAR**

Key Performance Area	Metric	Achievement		Change	A Forward Looking Note
		2011/12	2010/11		
 <b>HAVING GREAT RELATIONSHIPS WITH BEST-OF-BREED BUSINESS PARTNERS</b>					
Relationship with Principals	Length of longest relationship (years)	73	72	1	Our focus will remain on nurturing the relationships with our existing Principals while seeking new relationships that represent a strategic fit.
	No. of relationships above 50 years	5	5	-	
	No. of relationships between 25 to 50 years	9	9	-	
	No. of relationships between 10 to 25 years	16	17	(1)	
	No. of relationships between 1 to 10 years	40	24	16	
	No. of new relationships commenced during the year	8	16	(8)	
 <b>PLAYING BY THE RULES</b>					
Contribution to Exchequer	Taxes paid (Rs. mn)	6,062	5,571	8.8%	Substantial amounts of duties/taxes will be paid. Refer pages 18 to 22 for macroeconomic scenario.
 <b>SERVING THE COMMUNITY</b>					
Development of youth	Number of students enrolled to Dimo Automobile Training School	36	32	12.5%	Our focus will remain on youth development.
	Number of vocational training students accommodated from the top vocational training institutes in Sri Lanka	168	148	13.5%	
 <b>BEING FRIENDLY TOWARDS THE ENVIRONMENT</b>					
Combating climate change	Carbon footprint. tCO <sub>2</sub> e per Rs. 1 mn of Group net turnover	0.1674	0.1064	57.3%	We are intent on reducing our greenhouse gas emissions for every Rs. 1 mn of Group net turnover by 5% and improving our ground water reuse percentage by 1% per annum.
	Energy consumption. Revenue per Megajoule of energy consumed (Rs.)	511	906	(43.6%)	
	Ground water recycled and reused as a percentage of total water consumption (%)	15	24	(37.5%)	

## REPORT PARAMETERS...THE BIG PICTURE / CONTEXT

**Overview** Departing from past practice, we introduced our first ever integrated annual report last year for the financial year ending 31st March 2011. We are adopting the same approach this year too, based on our eight strategic imperatives that builds capital, both financial as well as non-financial. The latter also known as intellectual capital, encompasses our customers, human resources, business partners, institutional integrity, community and environment, which taken together represent Dimo's drivers of sustainable value.

**Report Scope and Boundaries** Non-financial information in this Annual Report is aligned with the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines at a self-declared application level 'A+'. The GRI Index given on page 258 provides a complete list of indicators with cross references for details found elsewhere. The non-financial information has been subject to independent verification and an assurance is provided by Det Norske Veritas AS (DNV) as per AccountAbility Assurance Standard AA1000AS (2008). Financial information has been subject to the usual independent assurance and is fully dealt with in the Financial Reports section of this Annual Report.

This integrated annual report covers the activities of Diesel & Motor Engineering PLC and its subsidiaries (Dimo Group) over the 12-month period ended 31st March 2012 (also referred to as 'year under review' or 'current year'). There are no changes in the reporting scope and boundary from the previous report. Information in this report pertaining to the previous year has not been restated.

This report also serves as a progress report on Dimo's implementation of the ten principles of the UN Global Compact, and takes into consideration the Blueprint for Corporate Sustainability Leadership - an action plan initiated as part of the Global Compact Platform. The Global Compact Index on page 258 provides an overview of the topics covered.

As for future reporting, our objective is to increasingly align our external reporting with good-practice guidelines, such as the upcoming GRI G4 Guidelines, as well as Integrated Reporting. Dimo, along with about 65 global organisations, is presently participating in a Pilot Programme of the International Integrated Reporting Committee (IIRC) that will facilitate in the development of an International Integrated Reporting Framework. The Pilot Programme encourages experimentation and innovation among member companies through individual meetings, webinars, regional and sector networks, conferences and through a dedicated Pilot Programme community website. The Pilot Programme covers a two-year period ending October 2013, after which a draft Framework is expected to be published.

To support our ongoing activities as well as the above initiatives a Sustainability Committee was set up within Dimo during the last two years. It comprises senior management drawn from across our operations.