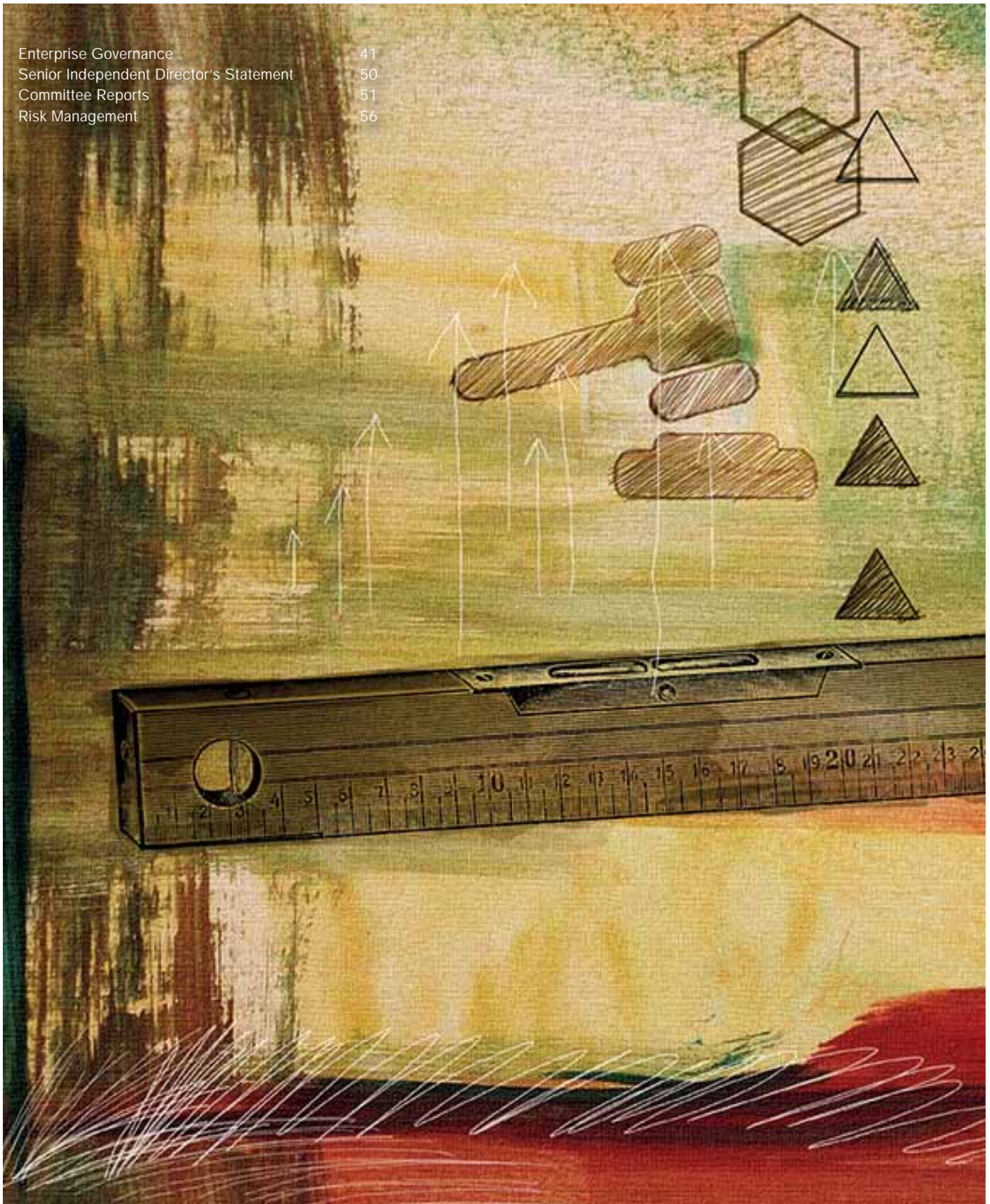


## Sustainability Performance Objectives 2016/17

Aspect	Term	Objective	Achievement			Remarks
			2016/17	2015/16	2014/15	
Monetised Capital	Long/Short	1 ROE to be more than Annual AWDR+ 3%	Not Achieved	Achieved	Not Achieved	The AWDR+ 3% as at year end was 10.66%. The ROE for the period was 6.46%
Customer	Long	2 To ensure continuity of a customer-centric Quality Management System with suitable accreditation	Achieved	Achieved	Achieved	DIMO's Quality Management System was accredited by the latest version (ISO 9001:2015)
	Short	3 Number of training hours for sales personnel to increase by 10% from previous year	Achieved	Not Achieved	Achieved	Training hours per sales personnel increased by 13% in 2016/17. Last year training hours per sales personnel decreased by 14%
	Short	4 To achieve a Weighted Average Customer Satisfaction Index Score of more than 85%	Achieved	Achieved	Achieved	The Weighted Average Customer satisfaction index score was 90% in 2016/17 (88% in 2015/16)
	Short	5 Each branch to have a customer interaction event each quarter	Achieved	Achieved	Achieved	Each branch achieved the required number of customer interaction events
Employee	Short	6 To achieve an employee satisfaction index score of more than 60%	Achieved	Achieved	Achieved	For the year 2016/17, employee satisfaction index score was 64.56% (62.03% in 2015/16)
	Short	7 Average training hours per employee per year to be more than 10 hours	Achieved	Achieved	Achieved	Average training hours per employee was 21.34 hours in 2016/17 (16.99 in 2015/16)
	Long	8 To maintain a ratio of female to male employees (excluding workshops and field sales) of more than 15%	Achieved	Achieved	Achieved	The ratio is 20.25% in 2016/17 which was 20% in the previous year
Business Partners	Short	9 To carry out a performance evaluation of ten foreign business partners at least once a year	Achieved	Achieved	Partially Achieved	Performance evaluation of ten business partners was carried out during the year
	Short	10 To obtain declarations from at least 50% of the current major local suppliers, that they will abide by the DIMO supplier code	Achieved	Achieved	Achieved	More than 50% declarations were received from the major local suppliers
Society	Short	11 Invest at least 0.05% of turnover on community development activities	Achieved	Achieved	Achieved	During the year DIMO invested 0.24% of turnover on community development activities. This was 0.18% in 2015/16
	Long/Short	12 The number of non-employees who are afforded training to be more than 5% of the number of employees	Achieved	Achieved	Achieved	The number of trainees enrolled as a percentage to the total number of employees was 27.65% in 2016/17 (25.56% in 2015/16)
	Short	13 100% compliance with Laws and Government regulations	Achieved	Achieved	Achieved	The Company's Code of Business Ethics require compliance with laws and regulations at all times. There were no non-compliances reported during the year
Environment	Long	14 To re-cycle and re-use at least 8% of the water used	Achieved	Not Achieved	Achieved	9.3% of water used was recycled and reused during the year
	Short	15 Waste segregated and handed over to selected third parties for recycling/ reuse to be more than 90% of total solid waste	Achieved	Achieved	Achieved	The Company maintains waste collection agreements with 3rd party waste management companies who are approved by Central Environment Authority. Waste managed by the above third parties exceeded the required percentage during the year
	Short	16 Carbon Foot Print for every Rs.1.0 million of turnover to reduce by 5%	Achieved	Achieved	Achieved	Carbon footprint for every Rs.1 million of turnover in 2016/17 was 0.1713 tCO <sub>2</sub> e. The corresponding figure for 2015/16 was 0.1917 tCO <sub>2</sub> e
Economic	Long/Short	17 Monetised Value Added to increase every year at a rate more than the rate of inflation +5%	Achieved	Achieved	Not Achieved	The Monetised Value added increased by 17.8% in 2016/17 (50.5% in 2015/16). This is well above the rate of inflation +5% which is 10.6%

# Enterprise Governance

Enterprise Governance	41
Senior Independent Director's Statement	50
Committee Reports	51
Risk Management	56

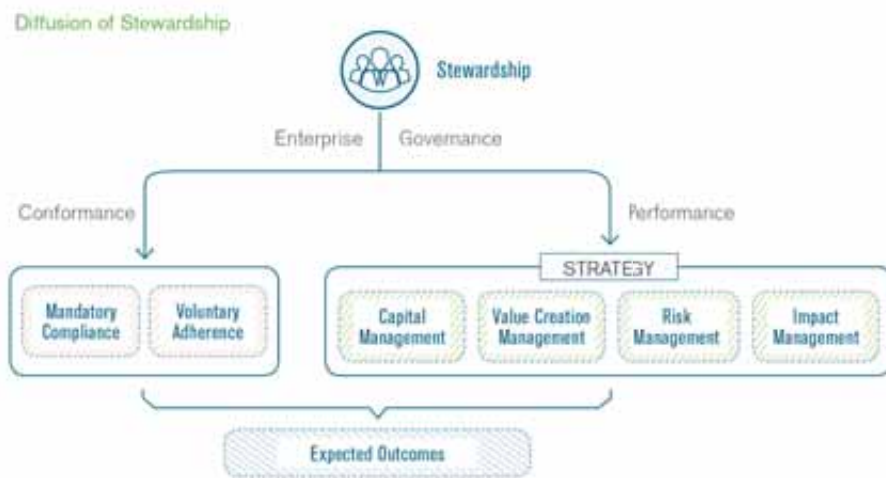


# Enterprise Governance

Enterprise Governance is at the heart of everything we do, because we know that the key ingredients for long term prosperity lie in its two dimensions of conformance and performance. Conformance ensures that DIMO is compliant with laws and regulations, transparent in its practices and ethical in its operations. Performance requires that we formulate strategy, deliver value consistently and manage our risk and impacts effectively.

## Stewardship to Value Creation

The role of stewardship that is bestowed upon the Board of Directors demands that the Board has in place the necessary mechanisms and processes required to deliver the value, outcomes and impacts expected by the stakeholders. The "Diffusion of Stewardship" shown below depicts the path mapped by the Board that will lead DIMO to the desired value creation, outcomes and impacts.



## Performance

### Strategy

The Board provides entrepreneurial leadership by ensuring the formulation and implementation of requisite strategies for the effective management of capitals, value creation activities, risks and impacts to achieve the desired outcomes and impacts.

### Capital Management

The capitals provide the key ingredients for value creation. Therefore, they need to be carefully managed. The material capitals involved in the value creation process are monetised, relationship, human and intellectual capitals. An overview and the management approach towards each capital, performance and impacts of the Company's activities on material capitals is discussed in the "Capitals Report", presented from pages 62 to 81.

### Value Creation Management

Value creation activities lead to creation of value, using capitals. These activities also give rise to economic, societal and environmental impacts. Therefore, the effective management of value creation activities is imperative to achieve the desired outcomes and managing impacts.

Sourcing, warehousing, customer engagement, solution mapping, engineering, delivery, aftercare and support services are the key value creation activities that create value and cause the impacts. The criticality of each value creation activity to each business segment and the criticality of each capital to each value creation activity is depicted in the illustration given on page 33. Mapping of this connectivity provides the basis for the effective utilisation of capitals and value creation management.

### Risk Management

The risk associated with the value creation activities of DIMO in the short, medium and the long term have to be prudently managed. Risks associated with capitals, business segments and impacts are monitored and managed. The table appearing on pages 58 to 61 presents such risks, our mitigation actions and the change in the risk profile over the past five years.

### Impact Management

Value creation activities lead to economic, societal and environmental impacts. The management of such impacts is imperative as the manner and the extent to which such impacts are managed will determine the level of corporate responsibility

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demonstrated by DIMO. While these impacts affect our stakeholders, it they will also have a bearing on the reputation of DIMO. Therefore, there is an element of risk management embedded in impact management. An overview of the management approach, initiatives and outcomes relating to impact management is given in the Impact Management Report from pages 94 to 111.

## Conformance

### The Role of Conformance

The conformance dimension of enterprise governance advocates compliant, responsible and transparent corporate behaviour.

DIMO regards effective conformance as a platform to create value in a responsible manner, not as a set of rules that stifle growth. Conformance is the bed rock upon which the performance dimension of enterprise governance is built. It provides the foundation for a robust organisational structure, a compliant work ethic and for decision making based on responsible corporate behaviour, which are pre- requisites for performance. Conformance requires a high level of commitment across the organisation.

### Commitment to Conformance

The Board has given leadership to a culture of conformance that provides the grounding for responsible value creation. An enabling

## STAYING IN LINE

### Enterprise Governance

conformance culture is created by generating awareness at all levels. All employees are required to respect conformance in achieving their own objectives and those of the Company.

#### A Framework to Translate Commitment into Practice

The Board of Directors bears overall responsibility for conformance, which is the basis for ensuring transparency and accountability to all stakeholders. Effective conformance also facilitates the achievement of strategic outcomes. The Board has created a conformance framework to execute its policies and monitor effectiveness to facilitate the fulfilment of these responsibilities and to facilitate achievement of desired outcomes. The conformance framework includes all aspects of compliance and adherence incorporating statutes, regulations, codes and management and control systems within a structure that includes the Board and Management Committees. The framework also has an assurance process that ensures independent assurance and internal audit.

#### Board of Directors

The Board bears overall responsibility for

enterprise governance and consequently, for conformance.

The Board itself is subject to certain regulations of conformance related to its composition and conduct. In addition, the Board is also responsible for conformance across the organisation and its value creation process. Board Committees serve as effective oversight mechanisms that assist the Board in monitoring the effectiveness of conformance and risk management, while the Management Committees oversee execution and performance.

The Directors possess diverse skills and bring a wide range of expertise and competencies that facilitate the effective discharge of Board responsibilities. A brief profile of the members of the Board is given on pages 26 to 27. The Board also enjoys the services of four qualified accountants who provide financial acumen and knowledge relating to matters of finance.

The Board ensures compliance with mandatory laws and regulations, and promotes voluntary

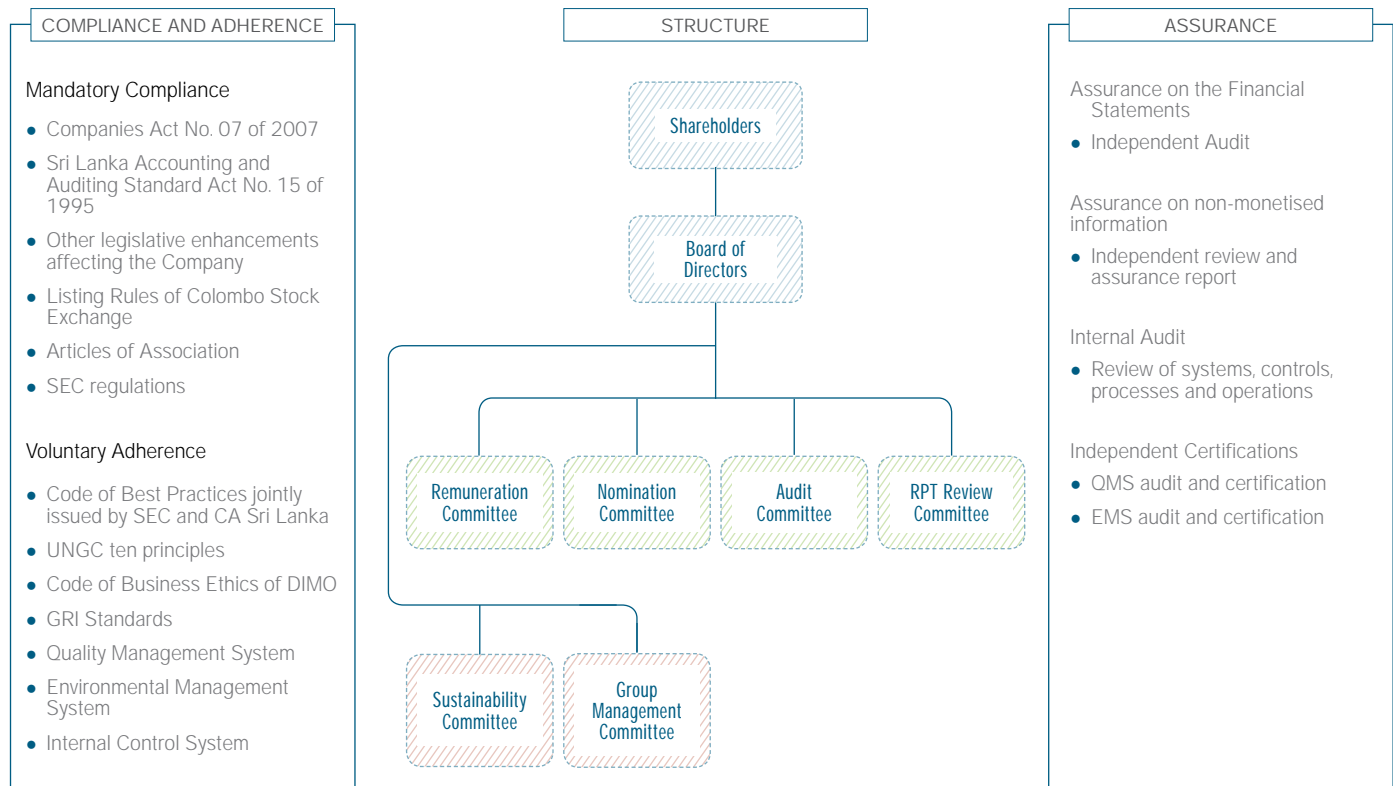
adherence to enhance transparency and accountability in value creation.

Board performance is appraised by the members of the Board, annually. The performance of the Chairman, who plays an executive role, is annually appraised by the Non-Executive Directors, annually.

Rule No. 7.10.3 of the listing rules of the Colombo Stock Exchange requires that an explanation be provided in the event that a Director is considered an Independent Director after serving the Board continuously for a period of more than nine years. Mr. R Seevaratnam and Dr. H Cabral whose tenures as Directors have exceeded nine years, continue to be considered as Independent Directors. The required explanation is given on pages 114 to 116 in the Annual Report of the Board of Directors.

The Board of Directors' statement on internal controls, as required by section D.1.3 of the Code of Best Practice on Corporate Governance jointly issued by The Institute of Chartered Accountants

#### Conformance Framework



## DIMO takes a two pronged approach to conformance: mandatory compliance and voluntary adherence. This is the path taken by the Board ensure transparency and accountability and to provide a strong platform for performance.

of Sri Lanka and Securities Exchange Commission, appears on page 118. The composition of the Board and number of the Independent Directors meet the criteria relating to Board composition laid down by the Colombo Stock Exchange listing rules. The Annual Report of the Board of Directors is available from pages 114 to 116.

There were four new appointments to the Board of Directors during the year, details of which is given in the Annual Report of the Board of Directors on page 114.

### Board Committees

Board Committees consist of the Audit Committee, Remuneration Committee, Nomination Committee and the Related Party Transaction Review Committee. All Board Committees, with the exception of the Nomination Committee, are mandated by the Listing Rules of the Colombo Stock Exchange and meet all the criteria prescribed by the said rules. All committees comprise of Non-Executive Directors except for the Nomination Committee, where the Chairman of the Board serves as a member. The first three committees mentioned above are also recommended by the Code of Best Practice on Corporate Governance jointly issued by The Instituted of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka. Each committee has its own terms of reference.

New appointments to the Board Committees and changes in the Chair of the Audit Committee and Related Party Transactions Review Committee occurred during the year. Details of these changes are given in the Annual Report of the Board of Directors on page 115.

The composition of the respective Board Committees are detailed on page 51, 52, 53 and 54.

The reports of the Audit Committee, Remuneration Committee, Nomination Committee and Related Party Transaction Review Committee are available on pages 51 to 55.

### Senior Independent Director

Mr. R. Seevaratnam functions as the Senior Independent Director. The presence of the Senior Independent Director provides a workable

mechanism to review the effectiveness of the Board in view of the executive role played by the Chairman.

### Chairman in an Executive Capacity

The Chairman, Mr. A.R. Pandithage, who is designated Chairman/Managing Director, plays an executive role in the Group and thereby holds the highest executive position. The Board is of the belief that the existing arrangement has been economically beneficial to shareholders so as to not warrant any change and that the dual role of Executive Chairman does not compromise the principles of good corporate governance. This is further ensured by the presence of the Independent Non-Executive Directors, including the Senior Independent Director.

The presence of the Senior Independent Director and the Independent Non-Executive Directors ensure that no single individual has unfettered powers of decision making, permitting independent judgement over good governance and conducting of business in the best interest of stakeholders. The presence of Board Committees chaired by the Independent Non-Executive Directors further strengthens good governance.

### Management Committees

The Group Management Committee (GMC) is a management committee appointed by the Board, entrusted with the execution of the performance and conformance aspects of Enterprise Governance. The GMC consists of Executive Directors and members of the senior management team. The Sustainability Committee, which is a management committee consisting of members

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of the management team including Executive Directors, holds the primary responsibility to oversee the Group's activities with regard to the identification and management of economic, social and environmental impacts and the achievement of sustainability objectives.

The composition of the Group Management Committee is available on pages 28 and 29.

### Statements of Responsibility

The Statement of Directors' Responsibility for Financial Statements as required by the Companies Act No. 07 of 2007 and the Responsibility Statement of the Chairman, Chief Executive Officer and Chief Financial Officer required by Circular number 09 of 2008 issued by Securities and Exchange Commission, are available on pages 119 and 55.

### Compliance and Adherence

DIMO takes a two pronged approach to conformance: mandatory compliance and voluntary adherence. This is the path taken by the Board to ensure transparency and accountability and to provide a strong platform for performance.

The Compliance and Adherence section on the left side of the conformance framework identifies the guidelines and systems to be followed by the Board, Board Committees, Management Committees and employees. As per the framework, statutes, statutory documents and regulations are classified into the "mandatory compliance" category and the codes, best practices, management systems and control systems are classified into the "voluntary adherence" category.

### Mandatory Compliance

The Companies Act No. 07 of 2007 and the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 are two key legislative enactments among many others, with which the Company is compliant. The Company is also compliant with the

regulations issued by the Securities and Exchange Commission and the Listing Rules of the Colombo Stock Exchange.

#### Voluntary Adherence

Voluntary adherence strengthens the conformance aspect of Enterprise Governance. It allows the Company to venture beyond mandatory compliance, which the Company considers the "base" for conformance. Voluntary adherence allows DIMO to expand conformance practices to different areas of the business, promoting responsible corporate behaviour, strengthening operations, addressing the expectations of various stakeholder groups and eventually supporting sustained performance.

Voluntary adherence to the Code of Best Practices jointly issued by the Securities and Exchange Commission of Sri Lanka and The Instituted of Chartered Accountants of Sri Lanka (the Code) enriches the practice of conformance within the Company. The manner in which the Company has adhered to the Code is available at <http://www.dimolanka.com/stewardship/>. Among others, matters relating to the Board, the Directors, the Chairman and the financial acumen of the Board, Board Meetings, Board balance, the supply of information to the Board, appointment and re-election of Directors, Appraisal of Board performance, information relating to Directors, appraisal of the Chief Executive's performance, remuneration of Directors and disclosures, Remuneration Committee, Audit Committee, shareholder/investor relations and communications, major and material transactions, financial reporting, internal control, code of business conduct & ethics, disclosures and sustainability reporting are covered in the Company's response to its adherence. Information on adherence is available in the Company's website and forms part of this Enterprise Governance Report.

The Company is also a signatory to the UN Global Compact which deals with concerns of human rights, labour, the environment and anti-corruption. The level of participation of DIMO in the Sustainable Development Goals (SDGs) pronounced by UN Global Compact is presented in the Impact Management Report from page 94 to 111.

DIMO's Code of Business Ethics promotes responsible corporate behaviour and is a voluntary initiative of the Company which all employees have signed and agreed to follow. More information on the code is available on page 107 in the section on Impact Management.

The "In accordance with the GRI Standards: Comprehensive Option" of the GRI standards followed by DIMO for sustainability reporting, promotes transparency with regard to the economic, societal and environmental impacts made by the Company. The GRI content index available from pages 169 to 174 provides more details on this.

The Quality Management System and Environmental Management System are accredited by ISO 9001:2015 and ISO 14001:2015 respectively.

#### Assurance

Assurance obtained for the Financial Statements and for non-financial information, Internal Audit and Independent Certifications are key sources of assurance and comfort available with regard to the integrity and the due functioning of the conformance framework. These sources of assurance and comfort are depicted in the conformance framework appearing on page 42.

Independent assurance on the Financial Statements is provided by an independent auditor. The independent assurance obtained as

at the year-end is supplemented by an interim audit carried out during the year. The internal audit function is headed by the Group Chief Internal Auditor and field work is delegated to a firm of Chartered Accountants identified for the purpose by the Audit Committee. Assurance/Certification on the quality management system, the environmental management system and on the non-financial information presented in this report is obtained from an independent licensed assurance provider.

#### Point of Reference

The main purpose of all the conformance activities is to ensure that conformance as envisioned by the Board is practiced and the desired results are achieved. The following table provides the links among the different aspects of the business such as the capitals and impacts and the strategic outcome expected from each aspect, linking each to the key conformance aspects that facilitate the achievement of the strategic outcome. It also shows the key conformance aspects and their corresponding points of reference. The points of reference refer to the mechanism in place to regulate or achieve the respective aspect of conformance. In order to ascertain the status or effectiveness of the point of reference, please read the table titled "Level of Compliance and Adherence" that follows the table given below.

#### Level of Compliance and Adherence

All the points of reference identified in the below table ensure better conformance through mandatory compliance and voluntary adherence. The following table elaborates those points of reference and their status of compliance during the year.

Conformance Aspects and Point of Reference

Capital / Activity	Expected Outcome	Key Conformance Aspect	Point of Reference
Monetised capital	Improved ROCE	Internal control	Audit Committee
		Internal audit	Audit Committee
		Uncertainty management	Risk Management Framework
		Assurance	Audit Committee Independent Auditors
Customers	Increased stakeholder satisfaction	Ethical marketing	Quality Management System
		Customer health and safety	Quality Management System
		Customer privacy	Quality Management System