

—○ Report Approach...Setting Tone and Tenor

Overview

We continue with the trend of integrated reporting as we have done in our last two Annual Reports. The value that the Company delivers to its constituent stakeholders and the value of those stakeholders to the Company in driving its future earnings are considered to be two sides of the same coin. While the former is the sustainability part of the story, the latter becomes the capital formation part of the story. Both financial capital and non-financial capital formation are considered along with their relationship to each other. Non-financial capital is referred to as intellectual capital and encompasses our customers, human resources, business partners, institutional integrity, community and environment.

Report Scope and Boundaries

The information contained in this report, as in the past, is in compliance with all applicable laws and regulations.

Following convergence with the International Financial Reporting Standards, Dimo adopted the new Sri Lanka Accounting Standards (known as SLFRSs and LKASs) from 1st April 2012. Financial Statements up to 31st March 2012 were prepared in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Accordingly, the Financial Statements for the previous year has been restated as per the new SLASs.

Further, we are in compliance with the laws and regulations of the Companies Act No. 07 of 2007 and subsequent amendments and the Listing Rules of the Colombo Stock Exchange (CSE). We continue to follow requirements of the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC). The Detailed Annual Report in our website provides the extent and manner in which we have complied with the code. The Detailed Annual Report also contains a Communication on Progress (COP) for United Nations Global Compacts' ten principles. As before, the various metrics regarding our performance on sustainability are aligned with the Global Reporting Initiative (GRI) G3.1 guidelines at an application level of 'A+'. We have used the Greenhouse Gas Protocol Corporate Standard to measure and report on our carbon footprint.



GRI Content Index

This Annual Report pertains to activities of Diesel and Motor Engineering PLC and its subsidiaries, collectively referred to as the Dimo Group, spanning a 12-month period ended 31st March 2013. There have been no changes in reporting scope and/or boundaries from the previous year. Non-financial information in this report pertaining to the previous year has not been restated, unless otherwise stated.

Dimo is one of the 85 organisations participating in a Pilot Programme of the International Integrated Reporting Council (IIRC) that seeks to develop an international integrated reporting framework.

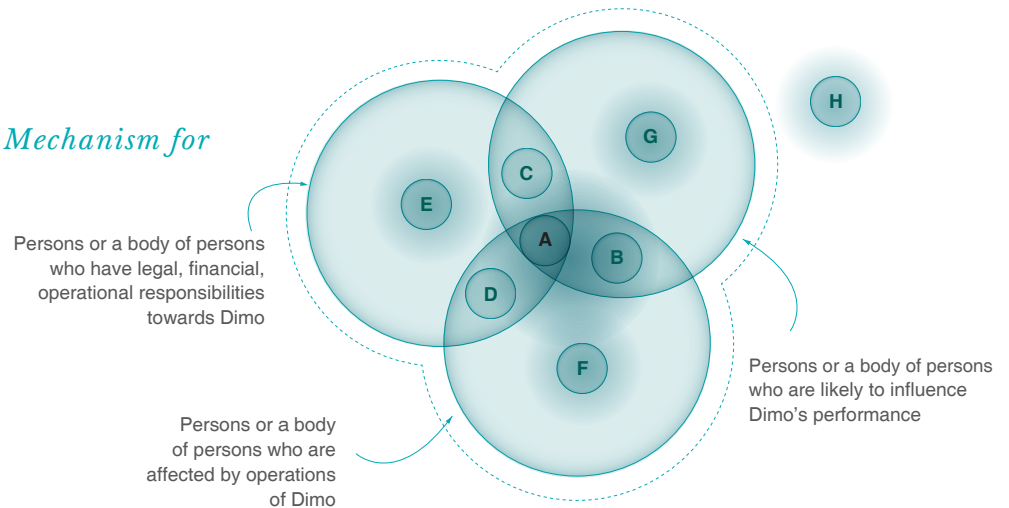
The Independent Auditors' opinion on the Financial Statements is available on page 80.

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Stakeholder Identification and Engagement

We begin our mapping process in the context of our eight strategic imperatives. Then, we map identified stakeholders against the characteristics shown in the diagram.

Stakeholder Identification Mechanism for Engagement



Plotting the results as above allows us to home in on an order of priority, as detailed below, which prepares the ground for stakeholder engagement.

- Those who exhibited all three of the identified characteristics are regarded as the most important for engagement (A)
- Those who exhibited any two of the identified characteristics are regarded as the next most important for engagement (B, C and D)
- Those who exhibited only one or none of the identified characteristics are not, as a rule, considered for engagement (E, F, G, and H)



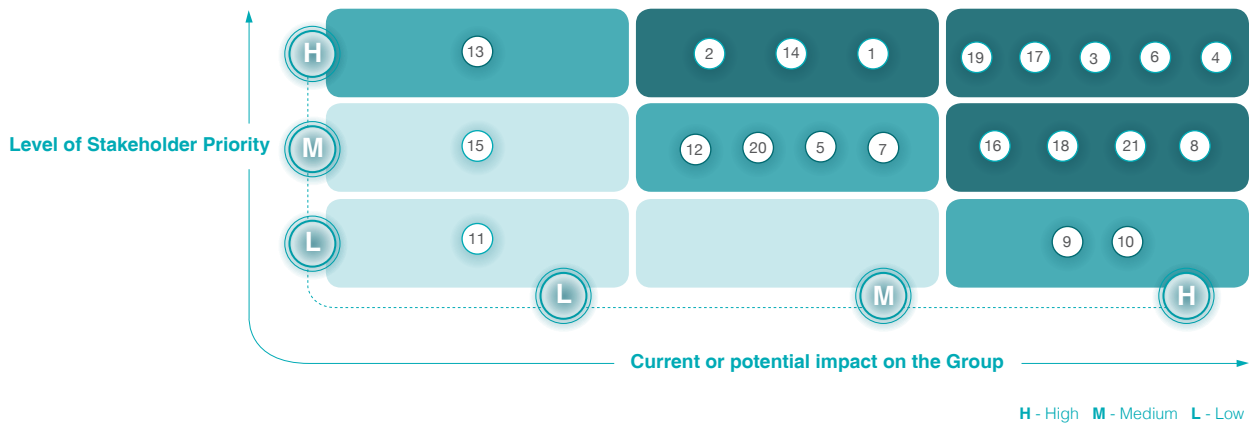
Identified stakeholder groups and process & frequency of engagement

The stakeholders we identify for engagement generally fall within the categories of - shareholders, employees, customers, business partners and suppliers, the community and regulatory and government agencies.

Arising from our stakeholder engagement process, the issues raised were rated and prioritised.

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Materiality of Stakeholder Issues



- Issues indicated in this area are of high significance and impact both stakeholders and the organisation. All indicators shown in this area are fully discussed in the Detailed Annual Report.
- Issues indicated in this area have a relatively moderate impact on our business. They too were addressed during the reporting period and are fully or partially reported in the Detailed Annual Report.
- Issues found in this area of the grid have only a minor impact thus may not be reported on.

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|----------------------------------|--|--|
| 1. Emissions, effluents & waste | 10. Corruption | 18. Mutually beneficial relationships with suppliers |
| 2. Technical education for youth | 11. Diversity & equal opportunity | 19. Energy consumption |
| 3. Customer health & safety | 12. Investment and procurement practices for local suppliers | 20. Employee benefits |
| 4. Economic performance | 13. Anti-competitive behaviour | 21. Product & service labeling |
| 5. Employee training & education | 14. Customer privacy | |
| 6. Occupational health & safety | 15. Ethical marketing communications | |
| 7. Labour/management relations | 16. Local communities | |
| 8. Compliance | 17. Carbon footprint | |
| 9. Raw material consumption | | |

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Out of a total of 111 responses received through the engagement process, 75 were positive and 36 were negative. We have brought the materiality analysis up to date by adding key inputs and replacing outdated information based on feedback from stakeholders.

The said analysis traces the issues raised, their materiality status (whether increased, decreased, unchanged from previous year, or newly identified in current year), reasons for shift of status and the Company's response.

Status of Material Issues - 2012 vs 2013

SN	Material Issue	Status of Material Issues	Possible Reason for the Shift	Response
1.	Emissions, Effluents and Waste	*		Our Environment Management System is constantly working towards minimising emission levels.
2.	Technical Education for Youth	*		We will continue to facilitate external trainees to receive on the job training at no cost.
3.	Customer Health and Safety	*		We will continue to leverage the specifications and inbuilt health and safety aspects of our blue-chip product portfolio along with our own initiatives to reinforce this aspect.
4.	Economic Performance	*		Strategic initiatives taken on capacity building and management development.
5.	Employee Training and Education	◆	Continuous training and development programmes conducted for the employees.	Training hours have increased by 34% from the previous year.
6.	Occupational Health and Safety	*		Gap Analysis for Occupational Health and Safety Standard (OHSAS) completed. OHSAS 18001 to be obtained during the FY 2013/14.
7.	Labour/Management Relations	◆	Employees are more satisfied with opportunities for dialogue with management.	As a further improvement, a whistle-blower policy was published.
8.	Compliance	*		Compliance Register and review system being compiled by Legal Division to facilitate compliance with regulations.
9.	Raw Material Consumption	*		Optimising the use raw of material and continuous monitoring.
10.	Corruption	*		Employee Code of Conduct in place.
11.	Diversity and Equal Opportunity	◆	Employees and other stakeholders increasingly believe that the Company is an equal opportunity provider.	Equal opportunity ethos is enshrined at the core of the Company.

◆ Materiality of issues increased ◆ Materiality of issues decreased * Materiality of issues remains same ○ New Issues identified

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SN	Material Issue	Status of Material Issues	Possible Reason for the Shift	Response
12	Investment and Procurement Practices for Local Suppliers	◆	Suppliers are not aware of the content of supplier code prepared by the Company.	Will be conducting awareness programmes for suppliers during the year.
13	Anti-Competitive Behaviour	*		Company policy shuns anti-competitive behaviour.
14	Customer Privacy	*		A secure database management system meeting requirements of Daimler AG is in place to ensure customer data security.
15	Ethical Marketing Communications	●	No hindrance to society in terms of ethical marketing practices.	Company communication policy ensures strict compliance with regulations and codes concerning ethical marketing practices.
16	Local Communities	*		A process of assessment to measure community impact precedes all relevant Company activity.
17	Carbon Footprint	*		During the year, total carbon footprint has decreased due to the drop in turnover and efficient use of fuel.
18	Mutually Beneficial Relationships with Suppliers	*		Constant contact and sharing of information continues. Principals' reports will address expectations of Principals.
19	Energy Consumption	*		Energy saving measures are implemented across the organisation. New initiatives will be taken during FY 2013/14.
20	Employee Benefits	●	Increasing confidence and trust of Employees reposed in Dimo.	Dimo seeks to exceed industry levels wherever possible in delivering benefits to employees.
21	Product and Service Labelling	○	Sufficient information about products/services not provided to the customer. New concern raised through the customer survey.	We have conducted many training sessions on product knowledge to ensure sales staff have adequate knowledge of the products we offer.

◆ Materiality of issues increased ● Materiality of issues decreased * Materiality of issues remains same ○ New Issues identified