

We have made it an art to grow  
our reach...build our own service  
competencies...offer responsible care  
and manage relationships  
optimally...we continue to exist.



**B**cause

## The Operating Environment...and Trends

Refining our Portfolio...and Reinventing our Future

Financial Value Creation

Delivering Value to Customers...and their Value to Us

Working at Dimo...Enjoyable and Rewarding

Our Business Partners...A Symbiotic Relationship

Regulatory Authorities...Playing by the Rules

Our Community...Live and Let Live

The Environment...Now and for Generations Yet Unborn

Sustainability Performance Objectives in 2012-2013

## The Operating Environment...and Trends

In formulating this commentary we drew on material from several external sources.

### The Global Economy...a Tough Haul Ahead

This has to be one of the most written about subjects in the world today - but it needs repeating, if we are to set the tone for the rest of this report.

A noticeable slowdown in the emerging markets and developing economies characterised 2012. GDP growth in these economies which stood at 4% in 2011 slowed to 3.2% in 2012. Key influential factors were a sharp deceleration in demand from several advanced economies as well as tightening of domestic policy and the end of investment booms in some of the major emerging market economies.

Global prospects have improved again but the road to recovery in the advanced economies will remain bumpy. World output growth is forecast to reach 3.25% in 2013 and 4% in 2014.

### The World's Auto Industry...Still a Growth Sector

Auto sales growth in China, the world's largest car market, fell short of expectations last year, as the economy slowed. Sales grew by 4.3% YoY in 2012, well below the forecast of 8%.

In the USA, the year 2012 signalled a welcome recovery for the auto industry. Sales increased by 13% over 2011.

Japanese manufacturers too had a good year with sales up by 20% over the previous year and in the process, shaking off the doldrums of post tsunami inventory shortages that prevailed last year.

Despite a revival in the US and strong sales in Japan, the global automobile industry is not expected to repeat its success. According to various estimates, the global auto industry is likely to record a growth of just over 2% in 2013, compared to the growth of 5% achieved in 2012. This is attributable to the sluggish progress of the economies of countries in Europe and Brazil, Russia, India and China (BRIC).

In summary, the auto industry is expected to remain a growth sector, though not at the same high level as in past years.

### Sri Lanka's Economy records Modest Growth

The economy grew by a modest 6.4% in 2012. Inflation was maintained in 'single digit territory', at 9.2% for the fourth consecutive year despite several global and domestic areas of challenge.

The relative 'boom' we saw in 2010 and 2011, with GDP growth reaching and exceeding 8%, largely evaporated in the year under review.

High credit, monetary expansion and a widening trade deficit fuelled by high import demand led the Central Bank to adopt a comprehensive policy package in early 2012, involving monetary, exchange rate and fiscal elements as well as adjustments to administratively determined prices. This ushered in a regime of raised policy interest rates and a ceiling being imposed on rupee lending by licensed banks to moderate credit growth, although the latter was relaxed from the beginning of 2013.



**Ranjith Pandithage**

Chairman/Managing Director



Country Report

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Interest rates which followed an upward trend during the first three quarters, slightly eased in the fourth quarter, coinciding with the removal of the ceiling placed on credit growth of banks in 2012. The AWPLR, to which most of the Company's borrowings are linked, increased from 12.65% as at 01st April 2012 to 13.77% as at 31st March 2013. The Sri Lankan Rupee appreciated by 2.41% against the US Dollar during the year and stood at Rs. 126.89 at the year end, compared to Rs. 129.95 at the beginning of the year.

Let us now look at individual economic sector performances. These are pertinent, as Dimo has substantial interests in these areas through its diversified portfolio.

In the **Transportation sub-sector**, the Government's Tariff/Fiscal policies led to a sharp fall in sale and registration of motor vehicles. The number of new vehicles registered during 2012 decreased by 24% to 397,295 compared to an increase of 46% in the previous year. As over 75% of the Group's business revolves around the vehicle segment, this information needs to be 'digested' and addressed.

### Registration of Vehicles in Sri Lanka

Class of vehicles	2012	2011	2010	2009	2008
Motor cars	31,546	57,886	23,072	5,762	20,237
Three-wheelers	98,815	138,426	85,648	37,364	44,804
Motor cycles	192,284	253,331	204,811	135,421	155,952
Buses	3,095	4,248	2,491	739	1,180
Dual purpose vehicles	37,397	33,518	11,712	1,280	2,856
Goods transport vehicles	12,266	14,818	11,845	8,225	14,038
Land vehicles	21,892	23,194	19,664	15,284	26,132
<b>Total</b>	<b>397,295</b>	525,421	359,243	204,075	265,199

Source: Department of Motor Traffic

The **Agriculture and Fishing Sector** grew by 5.8% for the year under review as against 1.4% in 2011 whilst contributing 11.2% to total GDP growth, fuelled by favourable weather conditions in early 2012.

The performance of the **Industry Sector** was driven by substantial forward momentum in the Construction sub-sector, which recorded an impressive growth of 21.6% compared to 14.2% in 2011. This is the highest growth registered by the sub sector in the past ten years. Overall, the Industry sector, which accounts for approximately 30.4% of GDP, grew by 10.3% in 2012, contributing substantially to the expansion of the economy.

Growth in the **Services Sector**, which is the largest sector of the economy, accounting for 58.5% of GDP moderated to 4.6% in 2012 from 8.6% in 2011.

### Pertinent Aspects of Sri Lanka's Economic and Social Infrastructure

#### Power

Electricity generation in 2012 increased moderately by 2.4% to 11,800 GWh compared to 11,528 GWh in 2011. The share of power generated by Ceylon Electricity Board, in relation to total power generation decreased to 52% in 2012 from 57% in 2011, reflecting the increase in the share of power produced by the private sector from 43% to 48%. Ceylon Electricity Board is a key target customer for Power Engineering Solutions Business.

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### Water Supply & Irrigation

The demand for pipe borne water has increased significantly in line with rapid expansion in commercial and industrial activities and urbanisation. The National Water Supply & Drainage Board provided 137,874 new water connections in 2012. Thereby the total number of connections managed by them reached 1.6 mn, reflecting a 9.5% increase. Water supply and irrigation is a key target segment for the Fluid Management Business of the Group.

### Health

In recent times, there has been a surge in Non-Communicable Diseases (NCD), such as heart diseases, diabetes and cancer. While NCDs have beaten communicable diseases as the leading cause of death in the country, the trend is expected to continue in the context of an increasingly aging population.

It is expected that the growing per capita income will entail significant changes to lifestyles, adding major risk factors for developing chronic NCDs. The target sector of the Bio Medical Engineering Business is the health sector.

### What the Local Economy holds in Store...

This is about - ambition, alignment and attainment - the alliterative 3 'a's!

Sri Lanka has set its sights on developing into a USD 100 bn economy by 2016 - *Ambition*. The achievement of this goal would demand significant improvement of all public utilities from their current levels. *Alignment*.

Sri Lanka's labour market needs to be re-oriented to face the challenges of achieving sustainable high economic growth. The unemployment rate, which has remained below 5% since 2010, reached a historic low of 4% in 2012. Although such low rates of unemployment could give rise to wage pressures, low labour force participation rates and possible underemployment in some sectors, indications are that there is still room for the supply of labour to improve.

The challenge of an ageing population caused by the slow population growth needs to be addressed with a long-term focus through strengthening retirement benefit schemes and reforming the health sector.

Sri Lanka's achievements in reducing absolute poverty, even while facing an internal conflict, are well documented, but focused policies to eradicate poverty and reduce income inequality need to continue.

It is essential to strengthen the framework for sustained economic growth based on the strategy of 5 hubs (aviation, maritime, energy, commercial and knowledge) plus tourism to diversify the economy and improve the resilience of the economy to external and internal shocks.

The implementation of required structural adjustments including tax reforms and exchange control liberalisation, strengthening of institutions, and the continuation of the fiscal consolidation process are desirable for Sri Lanka to sustain this high growth momentum.

*Attainment* is an ongoing journey...read us next year; there's bound to be progress...a great deal of it!

In this environment, our next step was to look closely at key elements of our business.



**Gahanath Pandithage**

Director/Chief Executive Officer