

Enterprise Governance

Risk Management

Report of the Audit Committee

Remuneration Committee Report

Nomination Committee Report

Responsibility Statement of Chairman/Managing Director
and Chief Executive Officer and Chief Financial Officer

Enterprise Governance

Senior Independent Director's Statement

Code of Best Practices on Corporate Governance' (The Code) issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka recommends that a Senior Independent Director (SID) be appointed in the event of the Chairman heading the executive function of the Company.

The presence of the SID provides a workable mechanism to review the role played by the Chairman. Whilst the role of the Chairman entails providing leadership in observing best practices of corporate governance, my role as the SID calls for a review of the Board's effectiveness. The presence of the SID also provides emphasis to transparency in matters relating to governance.

Dimo is committed to principles of good governance and always strives to live by the Code of Best Practices on Corporate Governance. The governance culture of the Company is strongly embraced by the Board of Directors. The Company follows a policy of strict compliance with laws, regulatory requirements and the Code of Ethics.

A Director is permitted to obtain independent professional advice that may be required in discharging his responsibilities, at the Company's expense.

As the SID, which role I have played since May 2009, I am consulted by Chairman on major strategic and governance issues. As the SID, I make myself available to any Director to have any confidential discussions on the affairs of the Company, should the need arise. By virtue of being the Chairman of the Audit Committee, I also meet Independent Auditors and Internal Auditors and obtain their views on any matters of concern.



R. Seevaratnam

Senior Independent Director

Colombo
21st May 2013

Enterprise Governance

Philosophy

Enterprise governance is in the core of the corporate philosophy of Dimo. It perceives good governance as an uncompromising pursuit that provides the platform for growth in a sustainable manner; not as a set of controls that stifles growth.

Governance Policy

Dimo is committed to a policy of transparent, accountable and responsible governance. In doing so, the Board accepts the position of trusteeship, stewardship and accountability that is placed upon it. The Board's objective is to deliver superior returns to all stakeholders and it is done in conformity with the eight strategic imperatives.

Governance Model

The Board identifies the scope of enterprise governance through its eight strategic imperatives. This signifies that the conformance and performance aspects of governance should be identified through the strategic imperatives. Duties of responsible trusteeship, faithful stewardship and uncompromising accountability underpin the manner in which Dimo is committed to good governance through its eight strategic imperatives, in its pursuit of creating value and accumulating financial and non-financial wealth for its stakeholders. Conformance and performance requirements demand a robust enterprise governance framework.

Governance Framework

The ultimate responsibility for good governance rests with the Board of Directors. In order to effectively fulfil this responsibility, the Board has in place a governance structure and a process to monitor its effectiveness. The Audit Committee, Remuneration Committee and the Nomination Committee together with the Group Management Committee play a leading role in ensuring effective enterprise governance.

The governance framework is designed taking into consideration the demands placed by the aspects of conformance and performance along with legislative and regulatory requirements and best practices of enterprise governance. It consists of a governance structure, regulation framework and assurance and certification sources.



Nishantha Mudannayake

Group IT Manager

Member - Group Management
Committee

Enterprise Governance

- Risk Management
- Report of the Audit Committee
- Remuneration Committee Report
- Nomination Committee Report
- Responsibility Statement of Chairman/Managing Director and Chief Executive Officer and Chief Financial Officer

Enterprise Governance

Governance Framework

REGULATION FRAMEWORK

External Regulation

Code of Best Practice on Corporate Governance issued jointly by SEC and ICASL

Corporate Governance Rules published by the CSE

Companies Act No. 07 of 2007

GRI Guidelines on Sustainability

Internal Regulation

Articles of Association

Quality Management System (QMS)

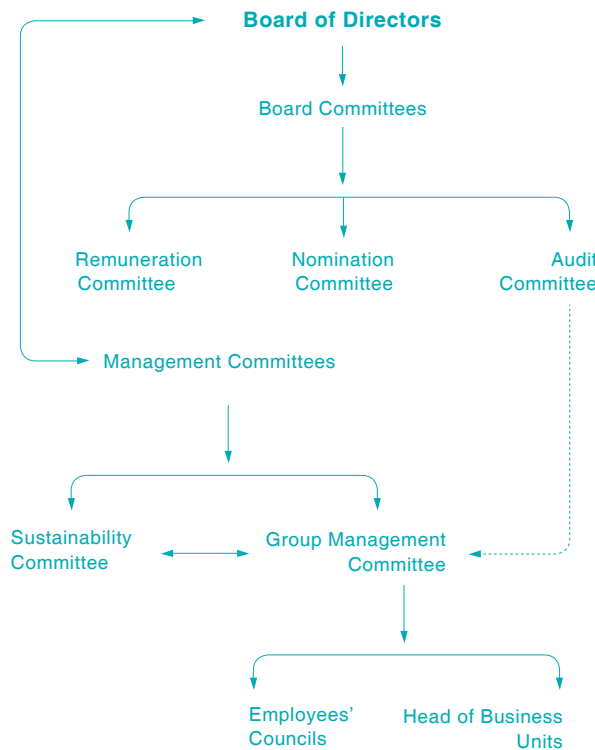
Environment Management System (EMS)

Code of Business Ethics

Internal Control System

Risk Management

GOVERNANCE STRUCTURE



ASSURANCE & CERTIFICATION

Assurance of Financial Information

Independent Audit

Independent Review

Internal Audit

Independent Certification

QMS Audit & Certification

EMS Audit & Certification

Assurance of Non-Financial Information

Conformance and Performance

The driving force of conformance and performance is the onus that is placed upon the Board by the expectations of trusteeship, stewardship and accountability although there are many laws, regulations, best practices and expectations that shape these two dimensions of governance. Arising from the responsibilities placed upon it, the Board endeavours to meet the demands through the structures and the processes that are in place.

The following table illustrates key conformance and performance aspects arising from each strategic imperative and the point of reference through which they are addressed, regulated and reported. The point of reference is the source that provides guidance for conformance or performance. A point of reference could be a code of best practice, guideline, standard, system, process or even a body of persons that could provide guidance and direction in conformance and performance.

Enterprise Governance

Conformance & Performance Aspects based on Strategic Imperatives

Strategic Imperative	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
01. Refine the portfolio mix of our business continuously	Meet Regulatory standards with regard to product and services and its delivery.	Quality Management System Code of Business Ethics	Managing the product and service portfolio	Quality Management System
	Product Responsibility	Quality Management System		
02. Create financial value	Internal Control	Audit Committee Group Management Committee	Business Strategy Formulation	Strategic Imperatives
	Internal Audit	Audit Committee	Operational Excellence	Group Management Committee
	Uncertainty Management	Risk Management		Quality Management System
	Assurance	Audit Committee Independent Auditors		Environmental Management System
03. Earn the trust of customers and they keep coming back	Meeting Customer Expectations	Quality Management System	Customer satisfaction	Quality Management System
	Customer Health and Safety	Quality Management System	Customer Relationship Management	Quality Management System
	Customer Privacy	Quality Management System	Customer Complaint Handling	Quality Management System
	Product responsibility	Quality Management System	Customer satisfaction	Quality Management System
04. Nurture people and they find it enjoyable and rewarding to work with us	Employee Safety	Quality Management System	Employee satisfaction	HR Scorecard
	Employee Rights	UN Global Compact Principles	Training & development	HR Scorecard
		Code of Business Ethics	Retention	HR Scorecard
	Equal Opportunities	UN Global Compact Principles	Employee Engagement	HR Scorecard
	Reducing gender inequality	Sustainability Objectives		
Comply with legislation and regulations relating to employees	Code of Business Ethics			
05. Have great relationships with best-of-breed business partners	Compliance with Principals' requirements of ethical practices	Quality Management System	Expectation Management	Quality Management System
	Honour Agreements with Principals	Quality Management System		

Enterprise Governance

Strategic Imperative	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
06. Play by the rules	Meet the requirements of the Legislative enactments applicable to the Group	Code of Business Ethics	Not applicable	
	Meet the requirements of the Code of Best Practice on Corporate Governance issued jointly by The Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL)	Code of Best Practice on Corporate Governance jointly issued by SEC and ICASL		
	Comply with all regulatory requirements of the Colombo Stock Exchange	CSE Listing Rules		
	Comply with Articles of Association	Articles of Association		
07. Serve the community	Anti-corruption	Code of Business Ethics	Benevolence and Philanthropy	Sustainability Committee
		UN Global Compact Principles	Social development	Sustainability Committee
08. Be friendly towards the environment	Comply with all requirements of the Environment Management System	Environmental Management System	Carbon foot-print Management	Environmental Management System
	Meet Legal and Regulatory requirements regarding Environment	Environmental Management System	Energy and Fuel Management	Environmental Management System
		UN Global Compact Principles	Water Management	Environmental Management System
		Code of Business Ethics	Waste Management	Environmental Management System
			Material Usage	Environmental Management System
			Noise and Air Emissions	Environmental Management System
			Recycle and Reuse	Environmental Management System

Enterprise Governance

Level of Compliance and Adherence

Point of Reference	Aspect of Regulation	Status
The Code of Best Practices on Corporate Governance jointly issued by The Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (The Code)	Best practices of Corporate Governance	Every single requirement by the code and the compliance level is given on the table laid out in the Dimo Detailed Annual Report
Listing Rules of the Colombo Stock Exchange	Listing rules to be followed by listed companies in Sri Lanka including on Corporate Governance relating to: <ul style="list-style-type: none"> • Non-Executive Directors • Independent Directors • Disclosures relating to Directors • Remuneration Committee • Audit Committee 	Complied. The Compliance level is given in the table laid out from pages 60 to 62
Legislative enactments applicable to the Group	Legal requirements that the Group is subject to	The Code of Business Ethics specifically requires that all employees comply with all applicable laws. Employees sign a declaration to the effect that they will follow Code of Business Ethics
Articles of Association	Requirements prescribed by the Articles of Association	Complied
Code of Business Ethics	Compliance requirements applicable to all employees	All employees signed declarations to the effect that all requirements in the Code will be complied with
Global Reporting Initiative (GRI) guidelines on Sustainability Reporting	To report on sustainability related performance in a complete generally-accepted manner as specified by GRI G3.1 guidelines	Complied. GRI index at an A+ is available in the Detailed Annual Report. The Report on the Independent Assurance obtained on Non-Financial Reporting is available from pages 123 to 124.
Environment Management System (EMS)	Meet the requirements of the Group's Environmental Management System accredited by ISO 14001:2004 Standard	Complied. The Group's Environmental Management System is accredited with ISO 14001:2004 with accreditation provided by Det Norske Veritas AS (DNV)
Quality Management System (QMS)	Meet the requirements of the Group's Quality Management System accredited by ISO 9001:2008 Standard	Complied. The Group's QMS is accredited with ISO 9001:2008, accreditation provided by Det Norske Veritas AS (DNV)
UN Global Compact Ten Principles	To comply with the requirements of the declaration made on UN Global Compact Ten Principles covering Human Rights, Labour, Environment and Anti-Corruption	Communication on progress is available in the Detailed Annual Report
HR Scorecard	Specifies the KPIs to be attained with regard to HR related objectives that includes objectives relating to Employee Satisfaction, Training and Development, Retention and Engagement	HR scorecard is compiled every month and actual KPIs are compared with targets

—○ **Enterprise Governance**

Point of Reference	Aspect of Regulation	Status
Audit Committee	Among other responsibilities, to review effectiveness of Internal Control, Internal Audit and Independent Assurance	Effectiveness of internal controls is reviewed with Internal Auditors and Independent Auditors. Performance of Internal Auditors and Independent Auditors is also reviewed by the Audit Committee Where necessary, members of the Group Management Committee is called upon to explain matters relating to internal controls
Group Management Committee	Among other responsibilities, to install and review effectiveness of internal controls and to work towards operational excellence	Effectiveness of internal controls is reviewed by the Group Management Committee from the feed - back received internally and from internal audit findings Performance standards are set through KPIs and Objectives set for Business Units and Support Service Units and performance levels are reviewed periodically
Sustainability Committee	To carry out the Groups' sustainability efforts as per its terms of reference	Initiatives are planned and progress is reviewed by the Sustainability Committee. Key sustainability initiatives are reported in the Annual Report
Risk Management	To manage risks that the Group is exposed to during its operations and interactions with Stakeholders	Please refer the Risk Management Report on pages 64 to 71

Adherence

The governance practices of the Company are conceived out of the corporate philosophy of achieving sustainable growth through good governance. Whilst, being fully compliant with demands of the laws and regulations relating to corporate governance, the Company recognises that best practices provide a robust framework for sustainable growth and meeting stakeholder expectations.

Enterprise governance requires high levels of commitment across the organisation and it is essential that an enabling governance culture is created. This envisages creation of awareness at all levels. All employees are expected to respect the strategic imperatives in achieving their own objectives set by the management and in achieving the objectives of the Company. Financial value creation is not encouraged at the cost of other strategic imperatives. The sustenance of enterprise governance principles is facilitated by aligning the strategic imperatives into its value adding process, and making a conscious effort to continually improve the governance framework and processes.

Compliance

Compliance is monitored through the monitoring of the point of reference/s. In the event of the point of reference being a code of best practice, guideline, legislation or a rule, the compliance is monitored through ascertainment of compliance with the point of reference. On the other hand where the point of reference is a body of persons such as a Management Committee, the compliance is monitored by comparing the stated expectations or goals with the actual status.

Assurance and Comfort

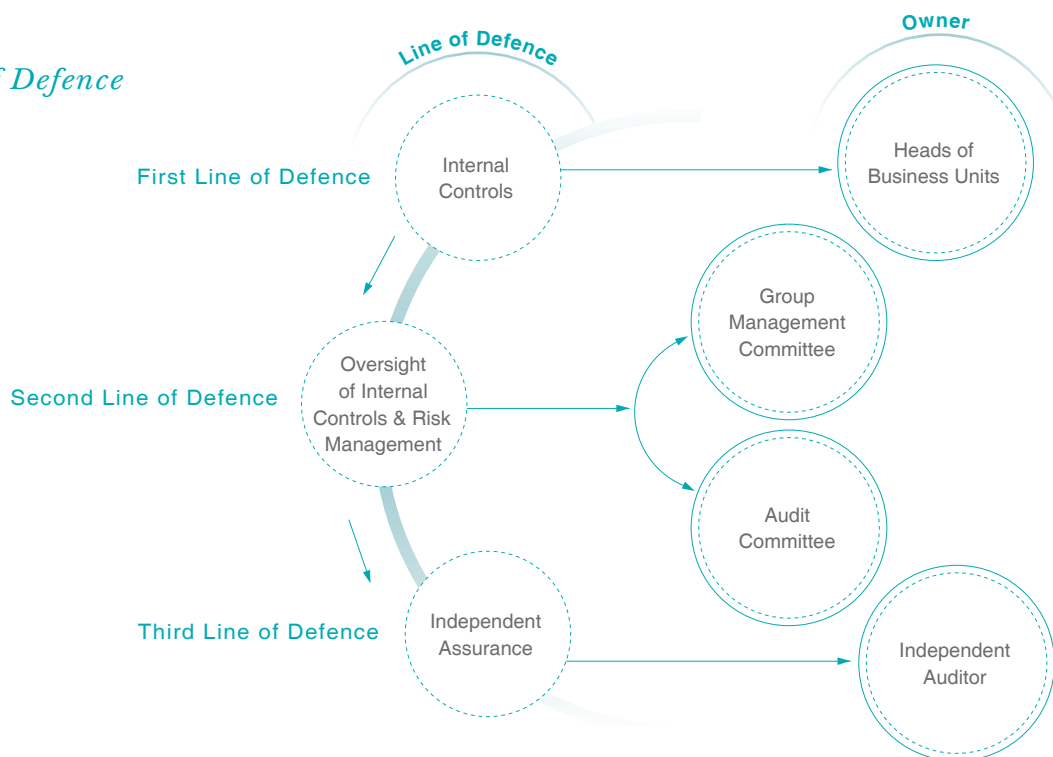
Independent assurance, independent review, oversight and independent certification are key sources of assurance and comfort with regard to integrity and due functioning of the enterprise governance framework. This is depicted in the governance framework appearing on page 54. The Three Lines of Defence approach, which is described later, provides comfort on the effectiveness of internal controls and risk management.

Enterprise Governance

Lines of Defence

The comfort level derived from assurance is reliant upon on the internal controls that are in place. Whilst the internal controls focus on the current operations and decisions, the risk and management focuses on the uncertainties that the Group is exposed to. The 'Three Lines of Defence' model given below depicts the approach followed in ensuring effectiveness of the internal controls and risk management:

Three Lines of Defence



Chaminda Ranawana

General Manager - Construction and Material Handling

Member - Group Management Committee

Internal Controls

The Board has delegated the oversight function of the internal controls to the Audit Committee. Implementation of suitable internal controls rests with the Group Management Committee (GMC). The Audit Committee has the services of the internal audit function led by the Group Internal Auditor. The field work and internal audits are currently outsourced to Messrs SJMS Associates - Chartered Accountants. The internal audit findings include areas requiring improvements in internal controls and instances of any non-compliance. In addition, Independent Auditors present their findings with regard to possible improvements to the internal controls and instances of non-compliance that they come across during their engagement. The Independent Auditors and Internal Auditors present their findings to the Audit Committee.

Code of Best Practices

The extent of compliance with the Code of Best Practices on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka is available in the Dimo Detailed Annual Report.



Enterprise Governance

Disclosures

The tables given below provide the required and applicable details, disclosures or cross references to details/disclosures mandated by the Companies Act No. 07 of 2007 and the listing rules of the Colombo Stock Exchange:

Disclosures Required by the Companies Act No. 07 of 2007

	Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Page Reference
i.	The nature of the business of the Group and the Company together with any change thereof during the accounting period	Section 168 (1) (a)	86
ii.	Signed Financial Statements of the Group and the Company for the accounting period completed	Section 168 (1) (b)	81-120
iii.	Auditors' Report on Financial Statements of the Group and the Company	Section 168 (1) (c)	80
iv.	Accounting Policies and any changes therein	Section 168 (1) (d)	86-93
v.	Particulars of the entries made in the Interests Register during the accounting period	Section 168 (1) (e)	78
vi.	Remuneration and other benefits paid to Directors of the Company during the accounting period	Section 168 (1) (f)	96
vii.	Corporate Donations made by the Company during the accounting period	Section 168 (1) (g)	78
viii.	Information on Directorate of the Company and its Subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	122
ix.	Amounts paid/payable to the External Auditor as Audit Fees and Fees for other services rendered during the accounting period	Section 168 (1) (i)	96
x.	Auditors' relationship or any interest with the Company and its Subsidiaries	Section 168 (1) (j)	78
xi.	Acknowledgement of the contents of this Report and Signatures on behalf of the Board	Section 168 (1) (k)	78

Disclosures Required by the Listing Rules of the Colombo Stock Exchange

The following table shows the level of compliance with the Section 7.10 of the Listing Rules of the Colombo Stock Exchange, pertaining to Corporate Governance:

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.1.(a)	Non-Executive Directors	At least two or one-third of the Directors, whichever is higher, should be Non-Executive Directors	Compliant	Four out of Eleven Directors are Non-Executive Directors
7.10.2.(a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher, should be independent	Compliant	Three of the Four Non-Executive Directors are independent
7.10.2.(b)	Independence of Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Non-Executive Directors have submitted the declaration in the prescribed format
7.10.3.(a)	Disclosures relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	Compliant	Please refer page 62
7.10.3.(b)	Independence of Directors	The Board shall make a determination annually as to the Independence or non-independence of each Non-Executive Director	Compliant	The Board has determined that Independent Directors identified on page 62 meet the criteria of an Independent Director

Enterprise Governance

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.3.(c)	Disclosures relating to Directors	A brief résumé of each Director should be included in the Annual Report including the area of expertise	Compliant	Please refer page 121
7.10.3.(d)	Appointment of new Directors	Provide brief résumé of any new Director appointed to the Board	Not Applicable	Not Applicable
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	A name of the members of the Remuneration Committee is available on page 62
7.10.5.(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Remuneration Committee consists of four Non-Executive Directors of which three are independent. Chairman of Remuneration Committee is an Independent Non-Executive Director
7.10.5.(b)	Functions of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors	Compliant	Please refer the Remuneration Committee report on page 74
7.10.5.(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out:	Compliant	Please refer page 62
		a. Names of Directors comprising the Remuneration Committee		
		b. Statement of Remuneration policy	Compliant	Please refer the Remuneration Committee Report on page 74 or a brief statement of policy
		c. Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 96
7.10.6	Audit Committee	A listed company shall have an Audit Committee	Compliant	Names of the members of the Audit Committee are available on page 62
7.10.6.(a)	Composition of Audit Committee	Shall comprise Non-Executive Directors, a majority of whom are independent	Compliant	Audit Committee consists of four Non-Executive Directors of which three are independent. Chairman of Audit Committee is a Non-Executive Independent Director
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	Chief Executive Officer and Chief Financial Officer attend Audit Committee meeting by invitation

Enterprise Governance

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Chairman of the Audit Committee is a member of The Institute of Chartered Accountants of Sri Lanka and the Institute of Chartered Accountants of England and Wales
7.10.6.(b)	Function of Audit Committee	Should be as outlined in the Section 7.10 of the Listing Rules	Compliant	The terms of reference of the Audit Committee adopted by the Board on 20th June 2007 cover the areas outlined
7.10.6.(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Please refer page 62
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Please refer Audit Committee Report on pages 72 and 73
		c. The Annual Report shall contain a Report of the Audit Committee in the prescribed manner	Compliant	Please refer Audit Committee Report on pages 72 and 73

Disclosures specified by Section 7.6 of the Listing Rules of the Colombo Stock Exchange

The Annual Report also contains disclosures specified above. There is no evidence of the book value being substantially different from the market value of land and other fixed assets of the Company or its subsidiaries.

Composition of the Board and Board Committees and Attendance at Meetings for 2012/13

Board Member	Date of Appointment to the Board		Board		Committee Members					
	First	Re-election	Position	Attendance	Audit Committee		Nomination Committee		Remuneration Committee	
					Position	Attendance	Position	Attendance	Position	Attendance
A.R. Pandithage	June 1977	–	Chairman/MD	8/8	No	–	Member	1/1	No	–
R. Seevaratnam	January 2007	June 2010	Senior Independent Director	7/8	Chairman	4/4	Member	1/1	Member	2/2
Dr. H. Cabral	October 2006	June 2011	Independent Director	7/8	Member	4/4	Chairman	1/1	Member	2/2
Dr. U. Liyanage	October 2006	June 2012	Independent Director	8/8	Member	4/4	Member	1/1	Chairman	2/2
A.M. Panidithage	September 1982	June 2012	Non-Executive Director	7/8	Member	3/4	Member	1/1	Member	2/2
A.N. Algama	November 1984	June 2012	Executive Director	8/8	No	–	No	–	No	–
S.C. Algama	November 1984	June 2012	Executive Director	8/8	No	–	No	–	No	–
A.G. Pandithage	December 1995	June 2011	CEO/ Director	8/8	No	–	No	–	No	–
B.C.S.A.P. Gooneratne	April 2006	June 2011	Executive Director	8/8	No	–	No	–	No	–
T.G.H. Peries	August 1977	June 2010	Executive Director	6/8	No	–	No	–	No	–
R.C. Weerawardane	June 2002	June 2011	Executive Director	8/8	No	–	No	–	No	–