Deputy Chairman and Managing Director's Message

Dr. Parakrama Dissanayake

Deputy Chairman and Managing Director

Rs. 14.2 Bn

Profit Before Tax

"We shall not perish as a people even if we get our money supply wrong; but if we get our human relationships wrong, we shall destroy ourselves"

Most Reverend Robert Runcie,
Archbishop of Canterbury (1980-1991)

Sri Lanka is facing a dark period in its history with multiple crises converging to create a perfect storm. Rapidly escalating from an economic crisis to an energy crisis in March 2022, the country has since then experienced a sharp increase in interest rates, devaluation of the rupee by 76% from 1st March to 30th April 2022 and defaulted on its debts, as foreign reserves plunged to low levels. The country's sovereign rating is at the lowest level across rating agencies. Further, 14 banks including the country's domestically significant banks have been placed on a ratings watch highlighting the financial instability. Total debt of state-owned enterprises is equivalent to 9% of the country's Gross Domestic Product and measures to minimise losses of the state-owned enterprises will exert upward pressure on inflation as fuel prices and other services provided by state enterprises are re-priced to reflect the actual costs. Any default by the large state-owned enterprises will add further pressure on the country's banking system. The impact of inflation and the devaluation of the rupee will be keenly felt by people as price shocks erode disposable incomes and savings resulting in increased vulnerabilities. We would need to navigate the unprecedented challenges prudently and boldly, keeping in mind that in Sri Lanka the socio-economic and cultural landscape is rapidly changing as evinced by the ongoing people's movement which continues to gather momentum uniting people to achieve a common goal.

Strong recovery

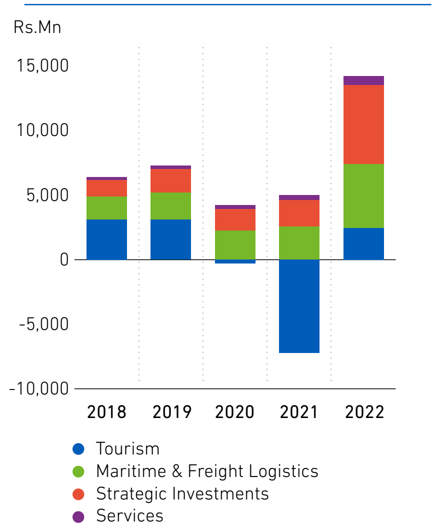
Aitken Spence PLC delivered an excellent performance recording Rs.14.2 billion, as profit before tax which is the highest in its entire history as we crafted a recovery from the Rs. 2.8 billion loss before tax in the previous year. Profit after tax increased to Rs. 12.2 billion, with profit attributable to equity holders increasing to Rs. 10.5 billion from a loss of Rs. 1.6 billion the prior year.

The earnings per share for the year was Rs. 25.96. The share price of the Company as at 31st March 2022 was Rs.73.70 which is trading at a discount of 54.6% to the net assets value per share of Rs.162.44, clearly indicating that the present share price is not reflective of the true value of the Company. The total assets of the Group stood at Rs.197.3 billion with non-current assets being Rs.127.9 billion reflecting the asset richness of the Group's investment portfolio.

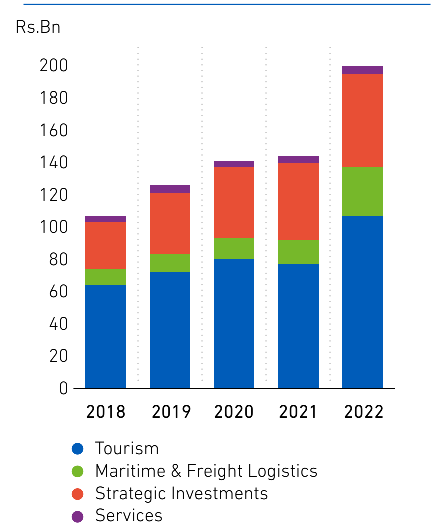
The sectoral and geographic diversity of the Group was key to delivering the results as divergent paths to economic recovery resulted in pockets of opportunity as challenges were both global and local. The Group's presence across 8 countries provided valuable insights enabling us to identify opportunities, optimise resource allocation and leverage group synergies to navigate the uncertainty that characterised the reporting year. The insights arising from the diversity of our operations also strengthened the Group's risk management, enabling us to focus on sector and country specific challenges and opportunities. Our approach has always been "if we do not risk anything, we risk even more" and this ethos was our guide in making the bold decisions to move early to seize available opportunities. As a pioneer in many sectors, we will strive towards maintaining our first mover advantage in the industries we operate in.

The Tourism sector of the Group performed exceptionally well recording pre-tax earnings of Rs. 2.5 billion for the year with the sector recording Rs.3.2 billion in the fourth quarter as travel restrictions were eased across more than 70% of countries reflecting the sector's ability to recover quickly by wiping out losses of the past three quarters. The Maritime & Freight Logistics sector was the anchor for the Group contributing Rs.4.9 billion to pre-tax earnings through strong growth across all segments as the sector transformed to provide a more holistic value proposition to customers. The Strategic Investments sector also did well as its diverse portfolio of businesses reported improved profitability except the power generation segment which recorded a decline in profits. The sector recorded pre-tax earnings of Rs.6.1 billion which was also assisted by the foreign exchange gain at holding company. The Services sector also maintained profitability, with pre-tax earnings increasing to Rs.708.0 million owing to the improved performance in the elevators and money transfer segments. These results were achieved amidst many lockdowns due to the pandemic, social unrest, high inflation

Profit before Taxation



Total Assets



Deputy Chairman and Managing Director's Message

and interest rates in Sri Lanka as well as the geopolitical unrest stemming from the Russia-Ukraine conflict during the last quarter of the year which had an impact on the cost of power and energy in Sri Lanka.

Spensonians – A unique value proposition

Our employees continue to be the most valued asset of the Company as they are the essence to the uniqueness of our value proposition. The pandemic demonstrated their agility, adaptability and professionalism as they delivered a performance worthy of a standing ovation with the same coordination and precision of an orchestra during an extremely volatile time. It is worth reflecting on the shared values and the team spirit of the Spensonians that has nurtured this team to this level of skill, discipline and professionalism.

The Group is as good as its people, and this was clearly understood by our predecessors who laid the foundations and nurtured a culture of people centric growth at Aitken Spence. We have set in place finely tuned processes to attract people with the skills and attributes aligned to our business needs, values and culture to retain and develop them. Our sustained focus on developing the Spensonians has underpinned our ability to grow as an organisation and create increasing value for all stakeholders. Many have long and fruitful careers with us, progressing through the rungs to fill an ever-increasing number of leadership positions as we diversify and grow as an organisation. We continue to focus on the development of our Spensonians by investing in training, skills development and succession planning to equip them to create a future forward organisation.

Principles of equality, diversity and inclusion and women empowerment have been integrated into every aspect of our businesses, formally through the policy framework as well as in spirit. More recently we have focused on initiatives for women empowerment at all levels, inspiring women to undertake new and diverse roles. We are committed to putting in place the structures, benefits, policies and mindsets required to minimise leakage of our talent pipeline due to gender and other diversity issues.

It is also time to question our traditional organisation structures and leadership roles to ensure they are aligned to the future of work which will be more digital, collaborative and flexible. A reset of the industrial age mindset is urgently required as the concept of a hierarchical leadership becomes a vestige in a digital era. The pandemic was a catalyst, opening minds to the possibilities of remote working and the hybrid workspace that gained acceptance. The Group's SVM initiative paves the way for Aitken Spence to transit seamlessly into the digital era, creating a workforce that is tech savvy, collaborative and accountable for their performance. This will enable Aitken Spence to strengthen its culture of meritocracy and transparency while facilitating the right skills for the right job. The organisational structure set in place enables it to be truly eudaimonic to all stakeholders.

Group strategy

The long-term vision of our Group is simple - sustainable growth through diversification of products and services with a high market share. Aitken Spence recognises the importance of transformative leadership in its next phase of expansion. The Group's leadership evolution strategy focuses on building leaders who can effectively bring about the transformational reforms to achieve this objective. The short-term strategies keep evolving to meet our vision and remain flexible given the rapidly changing business landscape. These will focus on growing our businesses, improving efficiencies and effectiveness of existing business segments, cost management and building competitive advantages through technology. Further they are aligned to sustaining earnings, liquidity, capital and growth.

The quest to enhance the customer value proposition across all business segments continues as it is necessary to create a strong competitive edge, increasing the Group's market share. This is evident in the market leadership position held by many of our businesses and the development of businesses across the respective value chains. We will also continue to invest in renewable energy given both the Group's commitment to sustainability and the country's urgent need for greater energy security.

Due to the prudent investment decisions made by the Group in the past, a substantial portion of the Group revenue is derived directly or pegged to foreign currency. The Group intends to continue its strategic drive to invest in projects that directly result in foreign currency revenue

"Our employees continue to be **the most valued asset of the Company** as they are the essence to the uniqueness of our value proposition."

streams thereby positively contributing towards the reserves of the country.

Transformation through digitalisation

The Group continued with its drive on business transformation through digitisation and automation which saw many segments reaping the benefits during the year through efficiency improvements. We completed the first phase of Robotic Process Automation (RPA) and created a pool of skilled employees. Although at an early stage, we plan to move forward with automation and digitisation which underpins our key stakeholder value propositions.

Committed to integrating ESG

An early champion of ESG, Aitken Spence has been successful in integrating ESG principles into its key processes through a comprehensive and sustained programme which serves to enhance awareness of the same. The awards and accolades over the years have served to renew our commitment and inspired us to set new benchmarks for ourselves in full understanding of the need for urgent action. The needs of our stakeholders within a framework of inclusive development are the pivot for all our strategies and we have stayed true to this covenant even during the pandemic years. Multiple stakeholder engagement mechanisms are in place to engage with our stakeholders including members of our communities, regulators, suppliers, and customers to identify their key economic, environment, social, and governance concerns.

The Group is credited with pioneering a movement for sustainability in Sri Lanka, with our performance showcasing our continued commitment to protect and enrich the environments we operate in. Keeping with the Group's commitment towards ensuring diversity, equity, and inclusion, Aitken Spence has joined UNGC's Target Gender Equality programme as well as the working group for Gender Equality. Our communications on progress for the UN Global Compact and disclosures in accordance with the GRI standards presented in this report reflect the Group's unswerving commitment to driving change towards a more sustainable future for all.

Aitken Spence leads the working group for Human Rights at the Workplace in the UN Global Compact Sri Lanka Network, in sharing our experiences with the wider corporate network of Sri Lanka. We are also committed towards achieving net zero emissions by 2030 at our operations by investing in renewable energy, reducing energy consumption from nonrenewable sources, and increasing carbon sinks through our conservation efforts.

We continued our efforts to build and support local communities through systemic initiatives by creating employment opportunities, enforcing local purchasing policies and supporting local businesses and brands despite several challenges faced during the year. Group companies actively collaborate with external partners to educate employees and core teams on disaster risk reduction and to evaluate our vulnerabilities against manmade and natural disasters, strengthening our resilience.

The governance pillar is built on our commitment to uphold business ethics, compliance with applicable laws and regulations, zero tolerance to bribery, corruption, and unethical behaviour by upholding the Group's Code of Ethics & Professional Conduct. We are now communicating with our supply chain partners to strengthen their commitment to ESG while also continuing to increase the scope and levels of commitment in our own strategic business units.

Sector performance

Tourism

The Tourism sector was buoyed by a strong recovery across all markets recording pre-tax earnings of Rs.2.5 billion compared to a loss of Rs.7.9 billion in the previous year. Tourist arrivals gained momentum from November 2021 recording a strong performance in the fourth quarter. All properties in Sri Lanka recorded positive contributions with the exception of RIU Hotel and Turyaa Kalutara reflecting the untiring efforts of our teams. The Maldivian tourism sector also recorded a strong recovery with both tourist arrivals recovering to 77% of pre-pandemic arrivals and room rates recording strong growth as well, supported by innovative marketing and pricing. Heritance Aarah recorded the best operational performance from the hotel portfolio in the reporting year which was the first year that the resort had a full year's operation after its opening. All other Maldivian resorts also performed well affirming Aitken Spence's decision in investing in overseas resort operations. Turyaa Chennai and Al Falaj hotel in Oman had better operational performances than the previous year even though they are still reporting losses.

Destination management operations also recorded a profit, as the number of clients handled increased from 18,147 in 2020/21 to 60,974 in 2021/22 as we explored the potential of both traditional and non-traditional markets to drive growth. Our strong relationships continue to be the key strength although the country situation needs to improve to leverage its full potential to drive recovery of this stressed sector.

The Singapore Airlines GSA operation also recorded an encouraging performance recording growth in cargo tonnage over the previous year. A recovery of passenger sales was seen towards the latter part of the year as the frequency of flights increased.

The Group's tourism sector pioneered the movement for sustainable tourism in the region, benchmarking to global best practice with certifications such as Travelife affirming our commitment to manage our social and environmental

Deputy Chairman and Managing Director's Message

impacts and shaping sustainable tourism in the country. We have maintained our commitments to achieve social and environmental sustainability through systemic efforts even in the middle of a global pandemic. The sector benefited from the extension of loan moratoriums implemented to ease the cashflow crisis in the tourism industry and will look to regularise these facilities as performance improves. The sector continued efforts to support local communities through local purchasing and employment policies, including partnering with key stakeholders to strengthen local supply chains in the industry.

Maritime & Freight Logistics

The Maritime & Freight Logistics sector set a new benchmark as it delivered the highest pre-tax earnings of Rs. 4.9 billion, contributing 34.7% to the Group's profit before tax. The import restrictions as well as the economic downturn of the country impacted the volume of EXIM cargo which had a direct impact on the performance of the sector although this was cushioned by rate increases and effective marketing strategies employed.

The freight operations of the sector saw a growth over the last year due to strategic re-engineering of its operations and revamping of its marketing drive to provide customers a more value added and customised service offering. The cargo GSAs represented by the Group also performed exceptionally well with freight rates holding ground this year as well. The industry faces challenges in the repatriation of principal payments due to the non-availability of foreign currency in the country which needs to be resolved to sustain the continued operations of this vital sector.

The recovery of economic activity supported the improved performance of port services segment during the year, with Fiji operations recovering at a steady pace.

CINEC Campus recorded a good performance during the year with potential for growth in the future as the demand for high quality tertiary education in Sri Lanka continues to grow with a mere 22% of those eligible for university admission being admitted to state universities. The significant depreciation of the LKR against the USD and the ongoing conflict between Russia and Ukraine is expected to increase the demand for higher education programmes affiliated with foreign universities which can be followed in Sri Lanka.

This sector continued to work towards strengthening systems, procedures and employee engagement initiatives for occupational health and safety and environmental impact control. The team is also taking on an ambitious goal to increase female representation in the sector's workforce as part of the Group's diversity and inclusion initiatives.

Strategic Investments

The Strategic Investments sector recorded a profit before tax of Rs. 6.1 billion for the year. The power generation segment had the first full year of operations of its waste to energy power plant which recorded healthy profits for the segment and saw the conversion of over 200,000 metric tonnes of municipal solid waste to electricity. The acquisition of Waltrim Energy in April 2021 added 6.6 MW of hydro power to the sector's portfolio while a further 748 KW were added through roof top solar installations. These power plants recorded an exceptional performance during the year due to favourable weather patterns and priority access to the grid. Ace Power Embilipitiya was non-operational for the greater part of the year due to expiry of the power purchasing agreement.

The plantations segment recorded its third consecutive year of exceptional performance which is attributable to the impeccable execution of the diversification strategy followed by the segment. The fertiliser and chemical ban implemented sans stakeholder consultations had a negative impact on the development of this key sector and had a more disastrous impact on the country's food security, necessitating imports of essential food items which added further pressure to the foreign exchange crisis. The plantation sector continues its programmes to uplift the quality of life of our employees through housing, water and sanitation, nutrition, maternal and childcare and self-development initiatives.

The apparel segment recovered in the second half of the year to record strong earnings growth, underpinned by a focused strategy which delivered higher volumes, improved efficiencies and lower absenteeism after a difficult start which was largely due to the impact of COVID. The strategic partnership with its key customer played a key role in the recovery while the devaluation of the rupee also helped in the improvement of the revenue of the segment.

The printing and packaging segment had a challenging year with the sharp increase in paper, board and ink prices due to world market conditions. This was further exacerbated by the rupee devaluation. However, the concentrated marketing efforts undertaken to broaden the segment's customer base and the strategic repositioning of its product mix to improve margins served to turnaround the segment to record profit growth.

The printing operations in Fiji were unable to carry out the targeted enhancements to its technical capacity due to travel restrictions that were in place during the year which made it difficult for the required technical experts from Sri Lanka and Australia / New Zealand to visit the premises.

The Strategic Investments sector plays a crucial role in achieving the development goals of the country. The workforce of 7,410 with a female representation of 58.3% are provided a safe and conducive working environment with opportunities for personal and professional growth. The sector also invests in sustainable industrial growth through renewable energy generation, emission control, resource management and ecosystem conservation.

Services

The Services sector recorded a profit before tax of Rs. 708.0 million which was a growth of 80.4% compared to last year and a 5.0% contribution to the Group's profitability. This was a result of the growth in performance recorded by the money transfer, elevators and insurance segments as the property management segment witnessed a decline in performance due to lower demand in the market for commercial office spaces due to the drive towards "working from home" trends. The sector supports the Group's efforts to uphold social and environmental sustainability by maintaining systems, procedures and best practices for impact control and by encouraging employee engagement. The elevators segment was the first elevator company to get their environmental management system ISO 14001:2015 certified and recently obtained the ISO 45001:2018 system certification for their occupational health and safety system. The property development segment maintains a state-of-the-art building management system that enables better resource management and utilisation at Aitken Spence Towers.

Future Outlook

Global geo-political and economic uncertainties will shadow most of the coming year with inevitable increases in inflation driven by increased energy costs as well as food prices. The Russia-Ukraine conflict is also expected to have a negative impact on supply chains as trade routes are disrupted. It is also forecasted to impact the tourism industry at least to some extent given that the Russian market is a major generator to the countries we operate in the tourism sector.

Sri Lanka's challenges are grave and need urgent action to navigate a path to sustain economic activity and to recovery. The negative sovereign ratings, the pre-emptive default in government debt and the tightening of the monetary policy are expected to further drive the cost of funds which will impede future investments to a great extent. However, we remain positive in the gradual recovery process of the country with the assistance of the IMF and implementation of prudent fiscal policies. We remain committed and hopeful to achieve sustainable growth and market share through, inclusive and sustainable business models, strategic investment in resilient infrastructure and sustainable industrialisation, ensuring a safe and conducive workplace, and facilitating economic growth for all stakeholders. As a Group we will continue to focus on enhancing our value creation and supporting the country in its economic revival.

Our own plans are focused on sectoral and geographic diversification, steering within a tight monetary and fiscal policy environment as Sri Lanka attempts to regain growth momentum. Timing and the extent of plans needs careful consideration in the light of recent developments, considering the impact of our actions on a vulnerable nation to ensure that our impact is positive and aids sustainable recovery. However, a significant proportion of our businesses are located overseas, and we are optimistic about steering these operations to improved profitability in the year ahead, enhancing foreign exchange returns to Sri Lanka. Our risk management functions are strengthened to provide the insights and forecasts required to navigate what may be a crucial year ahead.

Acknowledgements

I am honoured to have had the privilege of leading an exceptional team who quickly mastered new approaches to adapt to a turbulent operating environment. I thank each and every one for their contribution which enabled the Group to record the highest profit in its history and request their cooperation as we gear up for what maybe our toughest game yet.

I wish to thank Deshamanya D.H.S Jayawardena the Chairman for his astute leadership, policy direction and the strategic guidance afforded to the Group during these extremely challenging times. These results would not have been possible if not for his visionary leadership. A special note of appreciation to my fellow members of the Board and the Group Supervisory Board for their immense contribution towards the achievement of this remarkable performance.

I extend my appreciation to the significant role played by our principals and business partners in strengthening the Group's performance and look to forge stronger bonds in the year ahead. I thank our investors for their continued trust and confidence. I conclude by reiterating that all Sri Lankan's must unite to overcome the current crisis embracing the diversity of ideas, gender, race and religion to find a new path forward.

Dr. Parakrama Dissanayake
Deputy Chairman and Managing Director

31st May 2022