DEPUTY CHAIRMAN AND MANAGING DIRECTOR'S MESSAGE

Dr. Parakrama Dissanayake
Deputy Chairman and Managing Director

REVENUE
Rs.**98.1** bn
2021/22: Rs.54.7 bn
79.4%

EBITDA
Rs.**30.1** bn
2021/22: Rs.23.1 bn
30.3%

TOTAL ASSETS
Rs.**214.3** bn
2021/22: Rs.197.3 bn
8.6%

VALUE ADDED PER EMPLOYEE
Rs.**6.1** mn
2021/22: Rs.4.7 mn
30.3%

Aitken Spence has yet again demonstrated resilience and agility through our commitment to adaptability, acuity and awareness by successfully steering the course of the Group to overcome the unprecedented challenges and uncertainties faced during the year. Through maintaining situational awareness, acknowledging external factors beyond our control and adapting accordingly, we have successfully managed our strategic approach throughout the year. Leveraging our insights and hindsight, we have anticipated future developments and safeguarded the interests of all our stakeholders. As we look ahead, we remain dedicated to seizing new opportunities and delivering exceptional value to our stakeholders, irrespective of the obstacles we may encounter.

Overcoming Challenges: Building a Stronger Sri Lankan Economy

Sri Lanka experienced economic stress, social unrest and political instability causing systemic shocks which had a wide-ranging impact on the people of Sri Lanka. The first quarter of the financial year began with challenges such as the suspension of foreign debt payments, increasing inflation, a shortage of foreign exchange liquidity, a severe energy crisis and a significant devaluation of the currency. The country's inflation reached unprecedented levels with food inflation reaching as high as 94.9% in September 2022. Encouragingly, policymakers have since been able to rein in inflation during the latter part of the financial year.

Sri Lanka was downgraded by major international rating agencies during the year exerting further pressure on the country's financial system. The paucity of foreign exchange had a significant impact on international trade as payments to shipping lines and airlines were delayed, posing a challenge even on the ability to retain the agencies in Sri Lanka. The year began with a significant 700 basis point increase in policy rates in April 2022 aimed at curbing inflation, which resulted in higher borrowing costs for companies. The value of the rupee depreciated by more than 20% in the first quarter but experienced some relief in February and March 2023 with a slight recovery. The Government approached the IMF for assistance, leading to the implementation of tax reforms to boost Government revenue. However, these reforms had a noticeable impact on consumer purchasing power, affecting business growth.

During the fourth quarter of the financial year, the rupee experienced an upward trend against the USD. This appreciation was driven by improved liquidity as a result of the suspension of external debt repayments, the implementation of import restrictions, and the anticipation of receiving funding from the IMF. Policy rates were raised by 100 basis points in March 2023, supporting efforts to control inflation and fulfilling requirements for the IMF Extended Fund Facility. While there was some relief in supply chain disruptions and shortages of essential items due to temporary improvements in foreign exchange liquidity, certain import restrictions remained in place. Export performance declined as demand weakened in advanced economies amid inflationary pressures and a slowdown in economic growth.

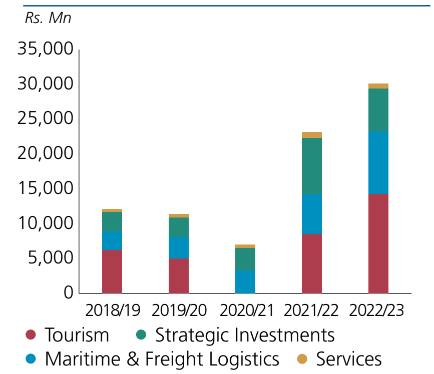
Propelling Growth in Highly Unpredictable Times

The Aitken Spence Group recorded top line growth of 79.4% to Rs.98.1 billion despite the converging challenges during the financial year with all segments in the four Sectors contributing to growth. EBITDA increased by 30.3% reflecting the contribution from all Sectors. The Maritime & Freight Logistics Sector and the Tourism Sector demonstrated remarkable growth in their EBITDA figures for the year. However, the Tourism Sector faced challenges in terms of post-interest cost figures due to the burden of high interest expense, which hindered its overall profitability. EBITDA of the Group excluding foreign exchange gains reflected a growth of 77.0%.

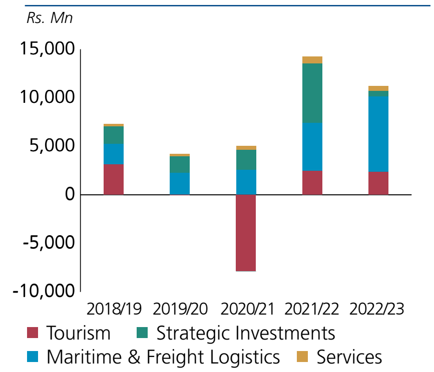
The Group's profit before tax decreased by 21.3% to Rs.11.2 billion, primarily influenced by the decline in foreign exchange gains compared to the previous year and the high interest cost incurred during the year. When adjusted for foreign exchange gains, profit before tax demonstrates a growth of 31.9%, amounting to Rs. 9.3 billion compared with Rs. 7.1 billion in the previous year. This adjusted measure provides a fairer evaluation of performance, considering the significant volatility of the exchange rate witnessed since mid March 2022. Profit after tax declined by 33.6% as corporate tax rates increased significantly during the year with a corresponding increase in the deferred tax provision of the Group.

The Group's strategic focus on geographical diversification has yielded fruitful results, with the overseas sector making a significant contribution of over 60% to the Group's profit before tax. In the year under review, the Maritime & Freight Logistics Sector made the

EBITDA



Profit before Taxation



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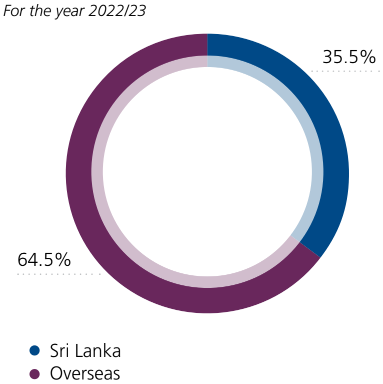
highest contribution of 69.8% to the Group's profitability, followed by the Tourism Sector contributing 20.8%, Strategic Investments Sector contributing 4.8% and Services Sector contributing 4.6%. The robust growth of the Maritime & Freight Logistics Sector played a crucial role in supporting the overall performance of the Group. All five segments within this Sector made positive contributions, demonstrating their strength and resilience. Additionally, the performance of the Group was significantly bolstered by the notable contributions of segments such as apparel manufacturing and hotels in the Maldives. Through focused marketing initiatives and strategic adjustments, Turyaa Chennai underwent a substantial transformation in its performance, resulting in the hotel achieving a profit before tax for the first time since its inception.

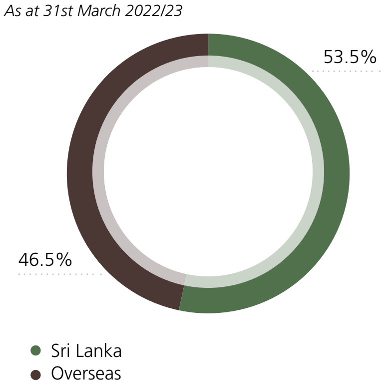
Geographical Analysis of Profit before Tax

For the year 2022/23



Geographical Analysis of Total Assets

As at 31st March 2022/23



The business environment in the first few months of the financial year was characterised by a rapid increase in interest rates and the devaluation of the Sri Lankan Rupee. These factors created a high level of uncertainty in the market. The situation was further complicated by liquidity shortages in both domestic and foreign exchange markets. The fluctuation of foreign exchange rates posed a significant challenge for the Group. The Group's profitability was affected by a substantial rise in interest expense, which had an adverse impact on the performance of capital-intensive segments such as power and hotels that rely heavily on borrowings to finance their infrastructure. The power segment was also impacted by increased working capital cost because of the long delays experienced in the settlement of dues by its sole customer, the Ceylon Electricity Board.

Over the span of 150 years, our foresight and insightful decision-making have guided us to strategically invest in businesses that generate foreign exchange. This long-term vision proved to be exceptionally advantageous during this tumultuous year, as these investments have played a pivotal role in ensuring uninterrupted operations across all business segments of our Group. The invaluable foreign currency inflows resulting from these investments have enabled us to efficiently import vital raw materials and spare parts, whilst also facilitating timely payments to our shipping and airline partners. As a result, our manufacturing segments have greatly benefited, and our commitment to maintaining a seamless supply chain has been unwavering, devoid of any significant disruptions.

The Group recognises the significance of digital capital in our journey to success. Our investments in digital infrastructure and AI technology, nurturing talented individuals, forging strategic partnerships and mitigating risks have assisted us in the growth of the Company. Embracing digital innovation has empowered us to enhance efficiency, elevate customer experience and uncover new avenues for growth. Together, we are steadfast in our commitment to remain at the forefront of the digital era.

ESG and Sustainability (GRI 2 – 22)

Our Commitment

Our governance framework is founded on unwavering dedication to business ethics, strict adherence to relevant laws and regulations and a resolute stance against bribery, corruption and unethical practices.

We maintain open lines of communication with our supply chain partners to reinforce their commitment to environmental, social, and governance (ESG) principles. Simultaneously, we continually enhance our own strategic business units by expanding the scope and depth of our commitment to ESG. A core aspect of our governance framework is our steadfast adherence to the UN Global Compact and its ten principles, which are integrated into our governance structures, sustainability policy and its implementation framework and other policies such as our Code of Ethics and Professional Conduct.

Our voluntary endorsement of the UN Global Compact marked 20 years in May 2022. We actively engage with our teams to work on the key priorities of human rights, labour standards, environment and anti-bribery and corruption within our operations. The highest ethical standards as well our ESG benchmarks are upheld in our operations, whether it is a sale of a product or bidding for government projects.

Climate Change

Climate change stands as one of the paramount challenges of our time, prominently addressed at COP 27, underscoring the urgency of bolstering efforts in climate change mitigation. In 2022, our Group publicly pledged to attain net zero emission status by 2030, becoming signatories to the Science Based Targets initiative (SBTi). To achieve this ambitious objective and make significant contributions to Sri Lanka's climate change-related Nationally Determined

Contributions (NDCs), we partnered with the National Cleaner Production Centre. We are working together to establish benchmarks, set targets and devise a practical action plan aligned with our strategic priorities. These endeavours exemplify our steadfast commitment to addressing climate change and integrating sustainable practices into our operations.

Synergising Insight : Unleashing Leadership and Strategy

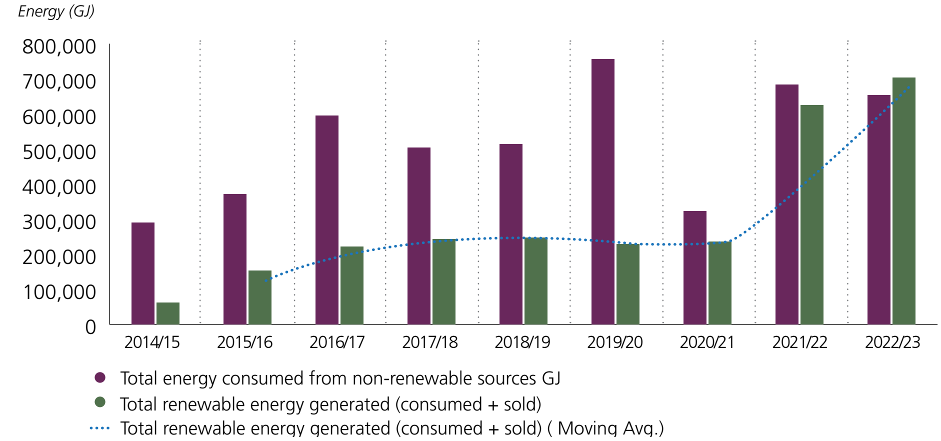
The Group remains committed to identifying growth opportunities that align with our strategic objectives. We carefully evaluate opportunities based on industry relevance, potential returns, sustainability and our ability to create value. By taking a diligent approach to growth, we ensure that any expansion initiatives are well-suited to the Group and have the potential to contribute positively to our overall success.

Accordingly, the power segment portfolio was expanded with the acquisition of Sagasolar Power (Pvt) Ltd, adding 10 MW to our renewable energy generation capacity at an investment of Rs. 1.4 billion. The Group now contributes to provide for just over 1.4% of the country's peak energy demand with renewable energy.

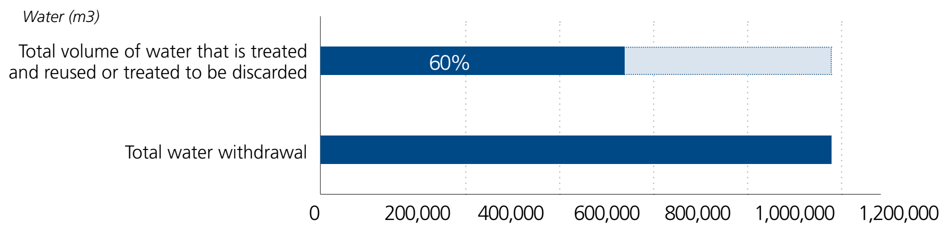
The Group also invested in a joint venture for freight forwarding in Cambodia, further expanding its geographical footprint. The Group also commenced construction of a 100,000 sq.ft container freight station at a cost of Rs.1.6 billion. This new facility will significantly expand our existing capacity, enabling us to handle more cargo and better serve our customers.

In line with our commitment to continuously improve our business operations and enhance customer satisfaction, we have invested Rs. 4.5 billion during the year. These investments are intended to ensure that our operations remain relevant and equipped to serve our customers' evolving needs. Moreover, the investments will support our expansion efforts, enabling us to extend our reach and serve more customers in new markets.

Progress Made in the Renewable Energy Scope



Proportion of Total Water Withdrawn that is Treated for Safe Reuse / Discharge



Throughout the year, we fine-tuned our strategic goals and objectives, outlining our growth aspirations in the short, medium, and long term. To achieve this, we have embraced a combined approach of transformational and transactional leadership within our organisation.

Our transformational leadership approach focuses on driving significant changes within our organisation. We aim to enhance our management practices, foster a positive corporate culture, leverage information systems, promote digitalisation, and improve our business processes. By empowering our employees and encouraging them to challenge conventional norms, we create a dynamic and innovative environment that fuels progress. We also recognise the importance of transactional leadership, which ensures

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the effective management of our day-to-day operations and the achievement of specific goals through structured processes. This allows us to maintain operational efficiency and successfully accomplish our objectives alongside our transformative initiatives.

Transforming Futures: Empowering Growth through Innovation and Impact

With a strong emphasis on talent management and shaping the future of work, the Group recognises the significance of different generations. Our management approach revolves around identifying and harnessing the right talent while understanding the unique needs of diverse generations. To ensure effectiveness, talent management is implemented through a Segmentalised, Targeted and Positioned (STP) strategy, acknowledging the importance of individualised approaches.

The Group's Diversity, Equity and Inclusion strategy and policy was rolled out during the year, articulating our commitment to create a diverse workforce that is empowered to strengthen their careers with the Group. As signatories to the Women's Empowerment Principles, the Group has integrated frameworks to enable equal access to opportunities in recruitment, career progression and development into every aspect of our businesses, especially with the aim of increasing female representation across all levels at Aitken Spence. The 2022 – 2023 theme #SpenceWomenAtWork brings together a suite of policies that support women at the workplace with the intention of retaining them and ensure career progression. Flexible working has been facilitated through the semi virtual mobility architecture strengthening our employee value proposition. This year the Group increased maternity leave to 100 days and introduced paternity leave of 5 days for the first time in the Group, enriching lives beyond the workplace through supportive policy frameworks.

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The Aitken Spence School of Management continues to play a vital transformational role across the organisation, preparing executives and management for the future of work. As a part of the Group's efforts for transformational leadership, targeted succession development programmes were conducted for senior management personnel across the Group.

Our commitment lies in establishing the necessary structures, benefits, policies, and fostering the right mindsets to address and mitigate the potential loss of our talented workforce due to socioeconomic challenges. By implementing a comprehensive framework of supportive policies, we aim to provide the necessary support and leverage to retain our talented Spensonians and create an environment that encourages their growth and development within the organisation.

Future outlook

We continue to monitor developments in the macroeconomic outlook of the world, regions and countries that we operate in, in-order to revise strategies to strengthen our resilience. In Sri Lanka, external debt restructuring continues to be a key uncertainty as the country is in discussions with major creditors. Its impact on domestic debt restructuring and impact on businesses and financial institutions is also still unclear although there is a high probability of impact.

The restructuring of State-Owned Enterprises (SOEs) in Sri Lanka is of utmost importance to address the issues of mismanagement, corruption, and financial losses while creating opportunities for sustainable growth. The key factors for successful restructuring include public oversight, transparent management practices, and minimising political interference. The Government's role should be to primarily focus on oversight rather than interference. Strengthening oversight committees and conducting regular financial audits are recommended to ensure efficient restructuring and mitigate the burden on the country's budget deficits.

Sri Lanka's quest to become a maritime and logistics hub is an area of interest to the Group given its leading position in the country's logistics sector. Sri Lanka's aspiration to establish itself as a Maritime Hub has gained momentum, evident in its notable improvement in the Logistics Performance Index (LPI) ranking. The country's LPI score has increased from 92 to 73, reflecting advancements in various aspects of logistics performance. Given its advantageous size, strategic location, and well-developed port infrastructure, Sri Lanka should set higher targets for its LPI ranking. While progress has been made in all LPI criteria except customs management, it is imperative for Sri Lanka to intensify efforts in implementing initiatives such as ASYHUB and Port Community Systems, ensuring adherence to well-defined