

CHAIRMAN'S MESSAGE

Purpose Defined

Knowing exactly who we are, what we stand for and where we're headed makes all the difference.

I am pleased to present the Integrated Annual Report, and the Statement of Accounts, for the Financial Year ended 31st March 2012. The Report encapsulates the Group's belief that what is sustainable is not just the single minded dedication to profits; but rather the "purpose driven" business practices, social responsibility and governance processes which are interwoven into our operating model. Knowing exactly who we are; what we stand for and where we are headed, made all the difference as we pursued our strategic objectives and financial goals in the past year. I believe it is this approach which will continue to differentiate us, from the rest, as we seek long term value creation in our businesses.

For the financial year 2011/12, the recurring profit attributable to equity holders of the parent, excluding capital gains on share disposals and fair value adjustments on investment property, was Rs. 8.36 billion, this being a 40 per cent increase over the recurring profit attributable to equity holders of the parent of Rs. 5.98 billion in the previous year. On a similar basis, the recurring Group profit before tax (PBT) for the financial year 2011/12, was Rs. 11.50 billion - a 37 per cent increase over the recurring PBT of Rs. 8.37 billion in the last year.

The profit attributable to equity holders of the parent for the financial year 2011/12 was Rs. 9.78 billion - a 19 per cent increase over the Rs. 8.25 billion achieved in the previous year. The Group PBT for 2011/12 was Rs. 12.91 billion, this being a 21 per

cent increase over the PBT of Rs. 10.63 billion in the previous year.

Summarised below are the key financial highlights of our operating performance during the year.

- Group revenue increased by 27 per cent to Rs. 76.70 billion
- Recurring profit attributable to equity holders of the parent increased by 40 per cent to Rs. 8.36 billion
- Recurring Group profit before tax (PBT) increased by 37 per cent to Rs. 11.50 billion
- Net cash flow from operating activities increased by 94 per cent to Rs. 16.48 billion
- Return on capital employed (ROCE) was 14.9 per cent compared to 14.7 per cent in the previous year

- Return on equity (ROE) was 15.0 per cent compared to 15.1 per cent in the previous year
- Diluted earnings per share increased by 18 per cent to Rs. 11.49
- Cash earnings per share increased by 30 per cent to Rs. 14.68
- Total shareholder return (TSR) at a negative 2.5 per cent outperformed the Milanka Price Index (MPI) which declined by 29 per cent
- Carbon footprint per one million Rupees of revenue decreased by 11 per cent from 1.08 MT to 0.96 MT

Although the asset turnover improved from 0.67 in 2010/11 to 0.71 in 2011/2012, I believe that the head-room still available within the existing capacity and capacity expansion currently underway will be enhanced with better utilisation and through greater productivity.

The Group continues to maintain a strong balance sheet. This strength is evidenced by a debt to equity of 25.1 per cent, a net debt (cash) to equity of (10.7) per cent, debt to total assets of 15.0 per cent and an interest cover of 20.2 times (previous year 14.4 times). These ratios and indicators portray the manoeuvrability, flexibility and agility available to us in the current volatile economic environment.

From a portfolio perspective, I am pleased to note that the dependence on the Transportation industry group's contribution to recurring PAT has decreased to 34 per cent in 2011/12 from 41 per cent in the previous year. As a result of the increase in PAT from normal operations in Leisure and Consumer Foods and Retail, the combined contribution from these two industry groups, to the Group's recurring PAT, increased to 51 per

cent in 2011/12 from 34 per cent in the previous year.

As a discussion on the economy and the macro-economic factors, and a detailed analysis of each Industry Group, are available elsewhere in the Report, I will focus on a high level summation of the performance of each industry group during the financial year 2011/12 and broad outlook on each of them.

Transportation Industry Group

The Transportation industry group maintained its growth momentum having achieved revenues of Rs. 17.38 billion and a PAT of Rs. 3.27 billion, contributing 23 per cent and 30 per cent respectively to Group revenue and PAT. The 2011/12 PAT increased by 18 per cent over the previous year. Both sectors within the Transportation industry group experienced volume growth as a result of capacity enhancements and also due to general improvements in the industry landscape. The installation of two new 'super post panamax cranes' at South Asia Gateway Terminals (SAGT) during the fourth quarter is expected to further increase the handling capacity of the terminal - considered crucial in catering to the growing demand. The bunkering business expanded its operations during the year with the extension of its existing services. The outlook for businesses within the industry group remains positive despite the likely challenges stemming from fluctuating global oil prices and the currency depreciation.

Leisure Industry Group

The Leisure industry group reported revenues of Rs. 17.42 billion and a PAT of Rs. 3.71 billion, contributing 23 per cent and 34 per cent respectively to the Group revenue and PAT. With a PAT growth of 60 per cent over the

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Recurring profit attributable to equity holders of the parent increased by 40 per cent to Rs. 8.36 billion

previous year, the Leisure industry group was the largest contributor to the 2011/12 JKH Group PAT. As anticipated, the macro environment for Sri Lankan Resorts, City Hotels and the Destination Management sectors were favourable with tourist arrivals surpassing the 900,000 visitor mark for the financial year 2011/12, an increase of 27 per cent over the previous year. Whilst traditional tourism generating markets continued to dominate arrivals, a trend was visible with growth momentum shifting to emerging fast growing markets such as the Middle East, East Asia and Eastern Europe, albeit off a small base. India continues to be the largest generating market and demonstrates the need to further develop capabilities to cater to this segment. Our Maldivian resorts had a successful year despite the political disturbances experienced towards the latter part of the financial year. The launch of Cinnamon Lodge as a five star property, the re-launch of Chaaya Wild (formerly Yala Village) and Chaaya Tranz (formerly Coral Gardens) upon completion of refurbishments

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and available for a part of the year, augmented the revenues of the Sri Lankan Resorts sector. The opening of Chaaya Bey Beruwala, in September 2012, as planned, will further add to the revenues of this sector. The two City hotels, Cinnamon Grand and Cinnamon Lakeside continued to invest in refurbishing existing rooms and enhancing the capacity, and the ambience of their restaurants. Once completed, our joint venture project with Sanken Lanka (Private) Limited, to construct a 240 roomed select service business hotel in Colombo will further strengthen the portfolio of hotels within the city. The management operations of the hotel will be undertaken by Keells Hotel Management Services under a long term management contract. The select service business hotel will be marketed under a new brand, conveying the convenience and value proposition to its target clientele. Whilst the potential for tourism for Sri

Lanka is enormous and compelling, we cannot overemphasise the dire need for a focussed, long term and sustained promotional and development strategy, at a national level, if the opportunities for Leisure are to be fully realised.

Property Industry Group

The Property industry group with a revenue of Rs. 3.79 billion and a PAT of Rs. 930 million contributed 5 per cent and 8 per cent respectively to total Group revenue and PAT. The 2011/12 PAT increased by 19 per cent over the previous year. The Property group has proven itself to be an industry yardstick with the delivery of high quality residential properties in the city of Colombo. The 163 unit 'The Emperor' was successfully completed and handed over to owners during the year and construction work on the 475 unit 'OnThree20' is progressing according to schedule. The Property group has initiated plans to embark on the development of multiple commercial and residential properties to capitalise on the growth opportunities in the property business.

Consumer Foods and Retail Industry Group

Consumer Foods and Retail (CF&R) recorded revenues of Rs. 22.02 billion and a PAT of Rs. 2.38 billion, contributing 29 per cent and 21 per cent respectively to Group revenue and PAT. The 2011/12 PAT, which includes a Rs. 1.11 billion investment property revaluation surplus, increased by 932 per cent over the previous year. Recurring PAT increased by 451 per cent. The strong performance of the industry group was mainly fuelled by the growth in volumes of soft drinks and ice creams. Despite increasing competition, our brands, 'Elephant House' (soft drinks and ice creams), 'Keells' and 'Krest' (processed meats) retained the market leadership in their respective categories. The

distribution network continued to be expanded with investments to improve the efficiency to serve 90,000 retailers island wide. The Retail sector saw an improved performance mainly on the back of growth in same-store footfalls. A renewed focus on promoting the Nexus loyalty card resulted in a significant increase in the number of active cards and card spend. Retail is continuing to look for new locations to expand its footprint. Despite the impact of the increased electricity tariffs, fuel prices and the depreciation of the Rupee, the longer term prospects for the economy and changes in lifestyles are expected to widen the scope for growth in the businesses within CF&R.

Financial Services Industry Group

The Financial Services industry group, with revenues of Rs. 7.93 billion and a PAT of Rs. 1.11 billion contributed 10 per cent to both the Group revenue and PAT. The 2011/12 PAT increased by 29 per cent over the previous year. Union Assurance continued to improve its service standards and captured market share through differentiation of its products. The performance of both Life and General insurance businesses were strong. Nations Trust Bank (NTB), with its unique positioning, captured market share despite difficult market conditions, particularly towards the second half of the year where liquidity was tight and with the currency experiencing volatility. NTB's focus on areas such as effective risk management, and on enhancing process efficiencies, continued. These measures will serve to improving the profitability despite the credit ceiling introduced by the Central Bank and pressures on net interest margins.

A significant decline in turnover levels at the Colombo Stock Exchange compared to the previous financial year resulted

in John Keells Stock Brokers reporting lower turnover and profitability. The company however recorded a healthy improvement in market share with strong growth in the foreign segment.

Information Technology Industry Group

The Information Technology industry group posted revenues of Rs. 5.93 billion and a PAT of Rs. 64 million, contributing 8 per cent and 0.6 per cent to Group revenue and PAT respectively. The 2011/12 PAT was a turnaround from the loss made in the previous year. The strong revenue growth emanated mainly from the Office Automation business. The Toshiba product range consolidated its market position, while Samsung mobiles captured a significant market share within a short period. The Software Services business saw the acquisition of new customers owing to more focussed marketing efforts. The BPO business in India has strengthened its marketing efforts and has attracted more customers to derive the maximum benefits of the scalability of its operations.

Other including Plantation Services

The Plantation Services sector reported revenues of Rs. 2.22 billion and a PAT of Rs. 146 million, contributing 3 per cent and 1.3 per cent respectively to Group revenue and PAT. In 2011/12, the PAT declined by 49 per cent as a result of lower tea prices and the increased cost of 'bought' leaf. Tea Smallholder Factories will continue exploring means to improve productivity and, as a result, its profitability by using the latest technology available.

In addition to the Plantation Services sector, Others comprise of the holding company, other investments and land owning companies. These have limited external revenues. Overall, Other,

including Plantation Services, reported revenues of Rs. 2.23 billion (primarily from Plantation Services) and a loss after tax of Rs. 392 million (primarily as a result of the exchange loss on the IFC loan following the depreciation of the Rupee against the US Dollar and an increase in the tax expense at the holding company). Strategic Group Information Technology (SGIT), the Group's IT function now takes on external assignments. SGIT was recently appointed the first-ever full services SAP Services' partner in Sri Lanka. In spite of relative inactivity in the capital markets, John Keells Capital, the investment banking arm of the Group, was involved in private equity transactions and secured several mandates from its clients during the year.

IFRS convergence

The Institute of Chartered Accountants of Sri Lanka (ICASL) made a commitment to converge with International Financial Reporting Standards (IFRS) by January 2012. I am pleased to report that the proactive convergence approach of the Group culminated in a smooth transition from the 'old' to the 'new'. The Group also completed necessary upgrades to the ERP platform. Further details on the methodology and approach and the IFRS impacts to each of our businesses are found elsewhere in the Report.

Employees

As we mark the conclusion of a reasonably successful year, I wish to pay tribute to all our employees for their commitment and strong work ethic. As I have stated time and again, it is our employees who are integral to our success and we will continue to invest in their development. Our culture allows our employees to communicate freely and openly, continually challenge the status quo, test new ideas, and to see 'failure' as an opportunity to learn.

“Our human capital is well equipped to meet the challenges of the future and have proved their ability to adapt and adopt in keeping with the needs of the time”

These attributes are entrenched in our re-launched Values which emphasise Innovation, Integrity, Caring, Excellence and Trust. The 'Governance' and 'Our People' sections of this Annual Report explain in further detail the collection of best in class policies, procedures and systems which are in place to ensure that JKH is, by all standards, 'more than just a workplace'. Our human capital is well equipped to meet the challenges of the future and have proved their ability to adapt and adopt in keeping with the needs of the time.

Sustainability

Our operating philosophy is based on a triple bottom line approach which considers the economic, environmental and societal impacts to the Group and its stakeholders. Towards this, as discussed at the outset of my message, we have embarked on a strategy which integrates sustainability with our financial goals. We see the necessity to merge environmental and societal aspects with the economic goals of the company to be of paramount importance and we will spare no effort in achieving this. To this end, we have deployed a 'Task Group' based structure to decentralise sustainability and facilitate ownership at the business unit level. Each Task Group, headed by a senior manager, overlooks one of the key pillars of sustainability.

This year, we have taken sustainability deeper, and further, by introducing internal quarterly sustainability reporting which has enabled the Group to entrench

sustainability within its strategic focus. This has facilitated the comparison of sustainability performances against global benchmarks and key performance indicators and each business unit has been made responsible for developing its sustainability strategies and operational practices. In keeping with our ongoing commitment to sustainability and corporate responsibility, we have increased the scope of our reporting through the introduction of seven additional indicators and this we believe would provide our stakeholders a more holistic view of the Group's overall performance.

From a sustainability perspective, the Group's short term strategy is to track our performance against key sustainability indicators with a view to mitigating environmental and societal impacts, minimising the risk to our organisation and to achieve best in class business processes. In the medium to long term, we believe that by the adoption of sound sustainability policies and practices, the Group would be equipped with the necessary strengths to create strategic competitive advantage.

At a more specific level, I am pleased to announce that this year we have been able to make significant progress on the agenda items reported in the 2010/11 Sustainability Report in the areas of energy conservation, Green Globe and LEED certification, training and development and community engagement. Our carbon footprint for the year is 73,753 MT as against 65,524 MT in the previous year. The growth is mainly due to the increased output

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of our Consumer Foods and Retail sector, increased occupancy levels at our hotels and the re-launching of two resort hotels as mentioned above. However, it is pleasing to note that our carbon footprint per every Rupee of revenue generated has decreased by 11 per cent. From a labour perspective, the Group has provided 40 hours of training per employee which is a 33 per cent increase in the number of training hours provided this year when compared to last year.

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During the year under review, we have seen numerous contributions to sustainability through innovative initiatives such as renewable energy lighting, co-generation utilising waste heat of generators, manufacture of bio-diesel using waste cooking oil and a completely organic hydroponics garden. What is remarkable is that all these contributions have come from our own staff and were developed in-house using mainly recycled material. This is an indication that the culture of sustainability and innovation is becoming a part of the DNA of the Group.

During the year, the Group also undertook several environmental conservation and community development projects such as recycling of plastic containers, rainwater harvesting and a leopard research project in Yala. 'Project Leopard', aimed at mitigating

the human-leopard conflict in the villages adjacent to the Yala National Park is a collaborative initiative with Chaaya Wild.

Similar to last year, the information on sustainability has been compiled at GRI Application level B(+), has achieved a GRI Application Level Check, and has been assured by a third party, Det Norske Veritas AS. The John Keells Group continues to be a participant in the United Nations Global Compact Initiative and supports the country's commitment to achieving the Millennium Development Goals.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is now a well established and integral part of our business. Through our CSR initiatives we aim to responsibly manage the effects of our operations and also cultivate strong relationships with the communities that we operate within. At JKH, our CSR focus continues to be on six key areas: namely, Education, Health, Environment, Community and Livelihood Development, Arts and Culture and Disaster Relief.

The CSR initiatives of the Group are administered by the John Keells Foundation (Foundation), a company duly incorporated under the law and also registered as a 'Voluntary Social Service Organisation' with the Ministry of Social Welfare. Whilst further details are available in the Social

Responsibility section of this Report, some of the highlights of the Foundation's work during the year are:

- *English Language Scholarship Programme*

During the year under review, the Foundation continued with its English Language Scholarship Programme via the foundation-level programme for school children within the age limits of 12 to 14 years branded as 'English for Teens'. The programme was rolled out in two intakes in 19 Districts of the country.

- *The John Keells HIV/AIDS Awareness Campaign*

The Foundation, through this project, has targeted the employees of the John Keells Group, the communities around its business locations, other corporate entities, most at-risk persons (MARPs) and the general public. The Group carried out 60 awareness sessions during the year, educating over 9,900 persons.

- *John Keells Vision Project*

The 'John Keells Vision Project' continued to give sight to vision-impaired persons, with a reported 777 cataract operations being carried out island wide during the year under review, in addition to providing 2,120 spectacles to adults and children. The Foundation collaborated with the Vision 2020 Secretariat of the Ministry of Health, primarily with the objective of extending its services to previously war-torn areas in the Northern and Eastern provinces of the country. Eye camps continue to attract volunteers from different sectors / functions across the Group, portraying the enthusiasm amongst the employees of the John Keells Group to be part of this initiative.

- *Village Adoption*

The Foundation undertook another village adoption project in Mangalagama. Plans are underway to expand this initiative to include some villages in the North and East.

Conclusion

Your Board declared a final dividend of Rs. 1.50 per share to be paid on 15th June 2012.

I wish to place on record my thanks to Deva Rodrigo who stepped down from the Board at the end of June 2011. I also wish to formally welcome Ranjit Gunasekara who joined the Board in July 2011.

In conclusion, on behalf of the Board of Directors and everyone at John Keells Group, I wish to thank all our stakeholders for the support extended during the past year. We are excited about the opportunities ahead, and are confident that our successful track record of execution will allow us to excel, even in challenging situations, in creating value for all our shareholders, customers and employees.

Finally, I wish to thank my colleagues on the Board and the Group Executive Committee for their guidance and support as always.



Susantha Ratnayake
Chairman

25 May 2012