

## MANAGEMENT DISCUSSION & ANALYSIS

# Crafting the *Future*

This section of the Report is subdivided into the Group Consolidated Review and the Industry Group Review. The Group Consolidated Review analyses Group performance whilst the Industry Group Review details the performance of each industry group in the year under review.

## GROUP CONSOLIDATED REVIEW

# Inspiring *Excellence*

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# Group Consolidated Review

## THE ECONOMY

This is the second Integrated Report of John Keells Holdings PLC in accordance with the Integrated Reporting Framework of the International Integrated Reporting Council. The Report is centered on the theme “Corporate Craftsmanship”, which resonates with how the Group has built its portfolio of businesses. The continuous enhancement of our sector expertise, partnerships with communities and people whose lives we touch, and our reputation for delivering to the highest of standards with innovation, creativity and finesse, come together to craft the John Keells Group to be a model of business excellence.

The following is a discussion on the movement of the primary macro-economic variables during the year under review and the resultant impacts on the performance of the Group's businesses. A detailed discussion on the performance of the Sri Lankan economy is found under the Supplementary Information section of this Report. A more comprehensive discussion of the strategies and risks pertaining to the industry groups are covered in the Chairman's Message, Industry Group Review and Risks, Opportunities and Internal Controls sections of this Report.

In order to provide our stakeholders with an insightful view of the Group's operations, the Management Discussion and Analysis (MD&A) section of this Report consists of the following:

- Group Consolidated Review
- Industry Group Review

Whilst the Group Consolidated Review is a helicopter view of the Group's performance, the Industry Group Review section provides a detailed discussion on each of the industry group's performance during the year under review.

The Group Consolidated Review consists of the following sections:

- The Economy
- Capital Management Review
- Outlook
- Strategy, Resource Allocation and Portfolio Management
- Materiality and Stakeholder Relationships
- Risks, Opportunities and Internal Controls
- Share and Warrant Information

### The Economy

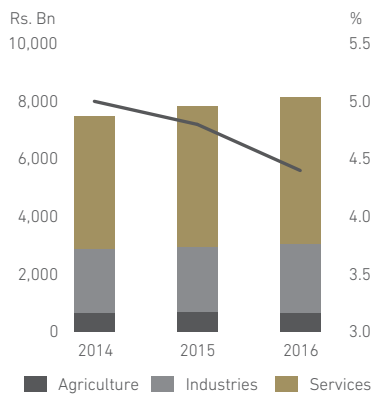
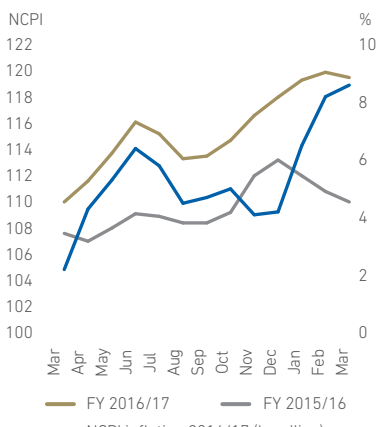
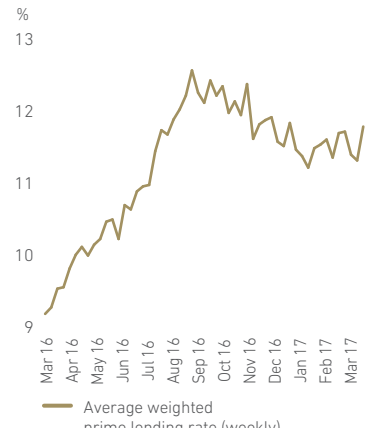
The Sri Lankan economy grew by 4.4 per cent for the calendar year 2016, compared to 4.8 per cent GDP growth recorded in 2015, primarily as a result of unfavourable weather conditions, tightening of monetary policy, measures to contain the fiscal deficit,

heightened volatility and policy uncertainty due to unanticipated outcomes of global economic and political developments. Increased investment expenditure, particularly in the construction sector, drove economic growth during the year, which was off-set by the notable decline in agricultural activity as a result of supply side disruptions on account of the aforementioned adverse weather conditions that prevailed during the year.

A notable development in June 2016 was the approval by the International Monetary Fund (IMF) for a three year USD 1.50 billion Extended Fund Facility (EFF) to support the country's Balance of Payments (BOP) position and the economic reform agenda of the Government. The Government's reform programme, supported by the IMF, aims to reduce the fiscal deficit, rebuild foreign exchange reserves, and introduce a simpler, more equitable tax system to restore macro-economic stability and promote inclusive growth. Under the recommendations of the IMF, the CBSL is also expected to adopt and move towards a flexible inflation targeting (FIT) monetary framework from the previous monetary targeting framework. It is expected that the FIT framework for the conduct of monetary policy would ensure price stability in the economy on a sustainable basis, thereby creating an enabling environment for businesses by boosting confidence, leading to prospects of higher economic growth.

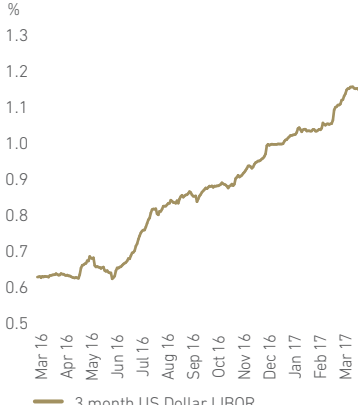

➤ See page 268 for a discussion on the [Sri Lankan Economy](#).

This is complemented with a 7 year summary of key economic indicators.

Movement	Cause	Impact to JKH
<p><b>GDP growth</b></p>  <p>Sri Lanka's GDP grew by 4.4 per cent in 2016 compared to 4.8 per cent in 2015.</p>	<p>The economic growth in 2016 was mainly supported by the Industries sector, which recorded a significant growth of 6.7 per cent. Services related activities also contributed positively to the growth during the year, expanding by a modest 4.2 per cent compared to 5.7 per cent in the previous year. The Agriculture sector witnessed a sizeable decline of 4.2 per cent from the positive growth of 4.8 per cent recorded in the previous year. Sri Lanka sustained its economic growth momentum despite challenging global and domestic environments which resulted in reduced export earnings and an increase in foreign outflows from Government securities. The growth in 2016 was largely driven by increased investment expenditure, whilst consumption expenditure witnessed a slowdown in response to the policy environment in place.</p>	<p>Whilst the overall performance of the Group demonstrated significant growth over the previous year, the slow-down in economic growth impacted consumer and business sentiment leading to a certain moderation of business activity, particularly during the fourth quarter of the year.</p>
<p><b>Inflation</b></p>  <p>Year-on-year headline inflation, based on the NCPI, increased to 8.6 per cent in March 2017 from 2.2 per cent in March 2016. Year-on-year core inflation, based on the NCPI increased to 7.0 per cent in March 2017 from 5.0 per cent in March 2016.</p>	<p>Inflationary pressures during the year were compounded by the impact of domestic supply side disruptions, particularly due to prevailing adverse weather conditions, increase in value added tax (VAT) and rising international commodity prices. Core inflation, which measures the underlying inflationary pressures in the economy, reflected an upward trend in 2016 indicating a possible sign of demand pressures on the economy.</p>	<p>Although overall growth for the consumer focused businesses remained positive for the year, the rising inflationary trend during the financial year partially impacted consumer discretionary spending which led to a moderation in the growth of the Consumer Foods and Retail industry group during the fourth quarter of the financial year. There was no impact on the margins of the businesses, as there were no significant impacts on the price levels of raw materials.</p>
<p><b>Domestic interest rates</b></p>  <p>AWPLR increased to 11.79 per cent in March 2017 compared to 9.19 per cent in the previous year. The three month Government T-bill rate was 9.63 per cent in March 2017 compared to 8.90 per cent in March 2016.</p>	<p>The rise in market interest rates since July 2016 reflected the monetary tightening measures that were adopted in early 2016 in view of rising inflationary pressures and the pressure on market interest rates due to foreign selling of Government securities. At the March 2017 Monetary Board meeting, it was decided that the SDFR and the SLFR will be increased by 25 basis points each, to 7.25 per cent and 8.75 per cent, respectively, as a precautionary measure in order to contain the build-up of adverse inflation expectations and the possible acceleration of demand side inflationary pressures through continued monetary and credit expansion.</p>	<p>The Group witnessed an overall increase in finance income due to the higher interest rates and unrealised gains recorded from short term equity investments made by Union Assurance PLC. However, the Group's finance expense decreased on account of the previous year including an unrealised mark-to-market loss which is not reflected in finance expense in the current year. The interest expense of the Group increased primarily on account of higher interest rates and the increase in overall debt. During the latter half of the year, the Group took initiatives to invest in more medium term investments (12 months and below) based on the Group's rate outlook for the year.</p>

## Group Consolidated Review

### THE ECONOMY

Movement	Cause	Impact to JKH
<p><b>Global interest rates</b></p>  <p>3 month US Dollar LIBOR</p> <p>3 month USD LIBOR increased to 1.15 per cent in March 2017 from 0.63 per cent in March 2016.</p>	<p>The 3 month USD LIBOR was generally stable for the first few months of 2016 and averaged 0.63 per cent. Although the US Federal Reserve delayed policy rate hikes, a run-up in the rate was witnessed since June 2016 due to a mix of structural changes in the form of regulatory reform in the US money market fund industry and financial system uncertainties. As anticipated, the Federal Reserve Open Market Committee voted to raise the federal fund rate by a quarter percentage point to between 0.5 per cent and 0.75 per cent in December 2016, which was followed by a further rate hike in March 2017, to between 0.75 per cent and 1 per cent; which reflects its confidence in the US economy on the back of strengthening labour market conditions and inflation firming up towards policy makers' 2 per cent target.</p>	<p>The steady rise of 3 month US Dollar LIBOR rates during most part of the calendar year was as expected by the Group. Given the likelihood of further rate increases in 2017 and beyond by the Federal Reserve, and the pricing based on the interest rate swap curve, the Group maintains a partial hedge on the USD 395 million syndicated loan facility as a prudent measure to mitigate the Group's exposure to rate fluctuations. The Group also consciously invested its US Dollar cash holdings in floating rate deposits which helped more than off-set the negative impacts arising from the rise in LIBOR during the year.</p>
<p><b>Exchange rates</b></p>  <p>LKR/USD exchange rate</p> <p>The Rupee depreciated to Rs.151.99 as at 31 March 2017 against the US Dollar compared to its closing rate of Rs.144.69 as at March 2016.</p>	<p>The exchange rate was maintained at relatively stable levels during the first half of 2016, with support from the supply of foreign exchange liquidity which depleted the reserves of the CBSL. However, the Rupee depreciated at a higher rate in the second half of the year on the back of Dollar demand from higher imports and net foreign outflows from Government securities, which was driven by the expectation and the subsequent increase in interest rates by the US Federal Reserve Bank, amidst which, the CBSL adopted a more flexible exchange rate policy.</p>	<p>The depreciation of the Rupee had a positive financial impact on businesses having Dollar denominated income streams, particularly in the Leisure industry group. However, due to differences of timing, there were short term impacts on the translation on foreign currency debt in Leisure. Given the higher reliance on imported inputs, the Consumer Foods and Office Automation businesses took proactive steps to mitigate exchange rate risks. The Consumer Foods sector was impacted to an extent in the last two quarters of the financial year under review, due to increased global commodity prices towards the latter part of 2016, although the impacts were not material in the context of the Group. In addition to implementing foreign exchange exposure management strategies, the Group continued to maintain, or where relevant, create a "natural hedge" to manage the volatility of the foreign exchange markets. It is noted that the exchange rate exposure arising from the "Cinnamon Life" project is mitigated to an extent since the functional currency of the project company, Waterfront Properties (Private) Limited, is in US Dollars.</p>

Note: AWPLR - Average Weighted Prime Lending Rate; CBSL - Central Bank of Sri Lanka; GDP - Gross Domestic Product; LIBOR - London Inter-Bank Offered Rate; NCPI - National Consumer Price Index; SDFR rate - Standing Deposit Facility Rate; SLFR rate - Standing Lending Facility Rate; SRR - Statutory Reserve Ratio

# Group Consolidated Review

## CAPITAL MANAGEMENT REVIEW

### Financial and Manufactured Capital Review

#### Revenue

In the year under review, Group revenue increased by 13 per cent to Rs.106.27 billion [2015/16: Rs.93.71 billion] with primary contributions from the Consumer Foods and Retail (CF&R), Leisure and Transportation industry groups. The significant revenue growth of CF&R, particularly from the Retail sector, offset the decrease in revenue from the Property industry group. The revenue decline in the Property industry group is on account of the revenue recognition cycle, where the majority of the revenue of the "7th Sense" on Gregory's Road residential project was recorded in the previous financial year. Revenue emanating from domestic sources was Rs.81.78 billion [2015/16: Rs.79.2 billion].

Group revenue inclusive of equity accounted investees increased by 14 per cent to Rs.119.62 billion [2015/16: Rs.104.75 billion]. Revenue from equity accounted investees increased by 16 per cent to Rs.13.35 billion compared to the Rs.11.47 billion in the previous year. With the exception of Maersk Lanka, all equity accounted investees recorded an increase in revenue. The primary increases were from South Asia Gateway Terminals (SAGT) and Fairfirst Insurance Limited (previously known as Union Assurance General Limited).

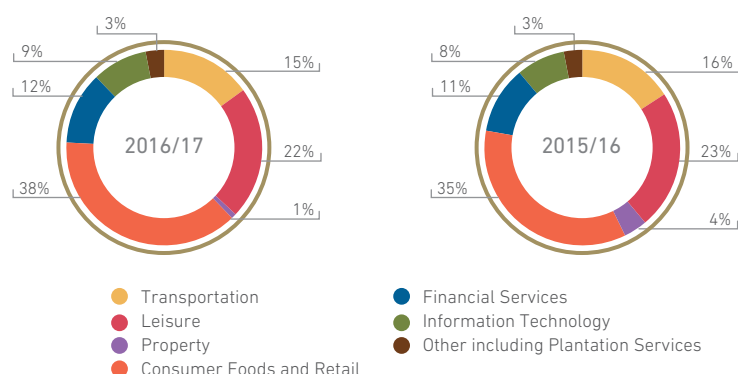
 **Rs.23.32Bn**  
Group EBIT  
A growth of 16 per cent

Fair value gains on investment property were recorded at Rs.484 million in 2016/17, comprising of gains of Rs.290 million, Rs.101 million and Rs.92 million at Property, Other including Plantation Services and CF&R, respectively. This compares with a total of Rs.263 million recorded in the previous year.

In terms of composition of EBIT, Leisure was the primary contributor with a 25 per cent contribution, followed by CF&R and Other including Plantation Services with contributions of 24 per cent and 23 per cent, respectively.

The graph that follows illustrates the Group EBIT, EBITDA and EBIT margins; indicating its overall upward trend over the five year period, demonstrating the robust business performance of the Group.

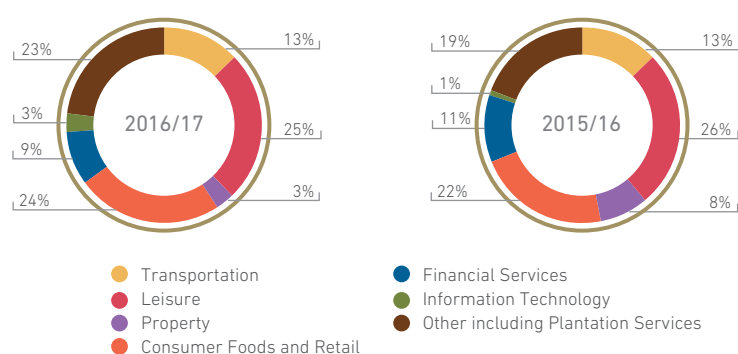
Group revenue composition



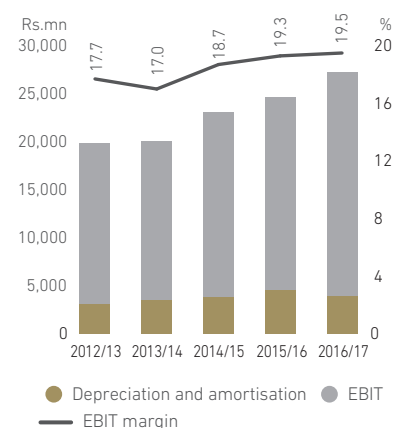
### Earnings Before Interest and Tax

During the year under review, the earnings before interest and tax (EBIT) increased by 16 per cent to Rs.23.32 billion [2015/16: Rs.20.19 billion] driven by increases in contributions from the Other including Plantation Services and CF&R industry groups.

Group EBIT composition



Group EBIT, EBITDA and EBIT margins



## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

EBIT margins (%)	Reported		Recurring	
	2016/17	2015/16	2016/17	2015/16
Transportation	16.9	15.0	16.9	15.0
Leisure	22.7	21.1	22.7	21.1
Property	61.6	38.6	35.7	34.1
Consumer Foods and Retail	12.0	12.3	11.8	12.3
Financial Services	14.9	19.3	14.9	19.3
Information Technology	5.6	1.9	5.6	1.9
Other including Plantation Services	182.3	146.7	178.8	144.8
Group	19.5	19.3	19.1	19.0

In addition to the discussion on the financial performance as reported, the Group Consolidated Review will also analyse the Group performance at a recurring level where the impacts of fair value gains on investment property will be excluded, as these do not arise as a result of the Group's ongoing core operations. Accordingly, the recurring EBIT for the year under review increased by 15 per cent to Rs.22.84 billion compared to Rs.19.93 billion in the previous year.

The above table illustrates the reported and recurring EBIT margins for each industry group. The recurring Group EBIT margin increased marginally to 19.1 per cent from 19.0 per cent in the previous year. With the exception of Consumer Foods and Retail and Financial Services, all other industry groups achieved a growth in recurring EBIT margins. For detailed discussions on the growth in EBIT for the respective industry groups, refer the Industry Group Review section of this Report.

The increase in the recurring EBIT margin in the Other including Plantation Services industry group is driven by the increase in interest income generated on the Group's Rupee and US Dollar portfolios, as a result of improved interest rates. The increase in the EBIT margin of Information Technology is mainly due to a bad debt provision that

was recorded in the previous year, arising out of the termination of business with a key client in the BPO business because of non-settlement. In spite of the CF&R industry group recording a significant improvement in overall performance, its EBIT margin is comparatively lower than the other industry groups as the Retail industry, which is increasingly a more significant contributor to Group performance, is in general characterised by low EBIT margins, both locally and globally.

#### Finance Income

During the period under review, the finance income of the Group increased by 25 per cent to Rs.10.03 billion [2015/16: Rs.8.01 billion], of which the composition is given in the table below.

Interest income relating to Union Assurance PLC (UA) of Rs.3.10 billion [2015/16: Rs.2.57 billion], net of related costs, is classified under operating segment results on the basis that interest income from the life insurance funds is considered as operational income. The increase in interest income of the Group, including UA, to Rs.9.02 billion is mainly due to higher interest rates. The decrease in other finance income to Rs.1.02 billion is mainly attributable to a decrease in exchange rate gains on the Company's foreign currency denominated cash holdings to Rs.583 million from Rs.1.61 billion recorded in the previous

year. Further details on finance income can be found in the Notes to the Financial Statements section of the Annual Report.

#### Finance Expense

The finance expense, which includes interest expense, of the Group decreased to Rs.436 million from Rs.994 million recorded in the previous year. Finance expense in 2015/16 included mark-to-market losses amounting to Rs.602 million on short term financial instruments of the life insurance fund at Union Assurance PLC, with no corresponding figure for 2016/17. For the year under review, a mark-to-market gain of Rs.267 million is classified under finance income. Excluding the aforementioned loss from the previous year, the increase in interest rates had a negative impact on finance expenses arising from an increase in interest expense this year particularly with the increase in total Group debt.

Leisure accounted for approximately 47 per cent of the total finance expense, followed by Other including Plantation Services with 35 per cent, and Property and Transportation contributing equal amounts of 6 per cent each, respectively.

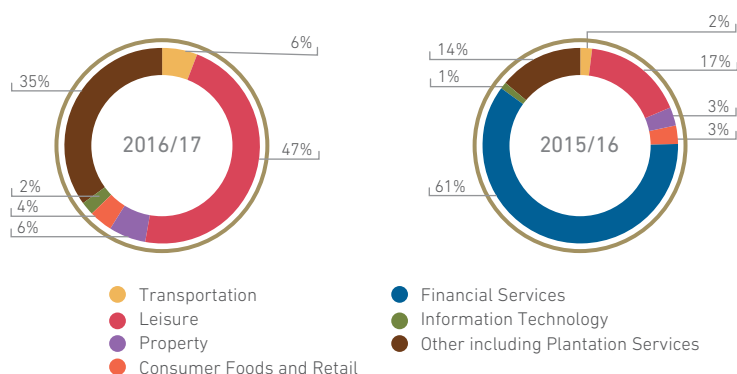
During the year, Property and Leisure contributed to an increase in Group debt, which was off-set to an extent by the decline in Other including Plantation Services. Finance expense incurred under the syndicated project development facility of "Cinnamon Life" is capitalised as work-in-progress, in accordance with the Group accounting policy and in keeping with accounting standards, under other non-current assets. The interest cover of the Group, excluding unrealised gains and losses from mark-to-market investments, increased to 52.8 times from 51.5 times in the previous year, on account of an increase in earnings.

The recurring EBIT for the year under review increased by 15 per cent to Rs.22.84 billion compared to Rs.19.93 billion in the previous year.

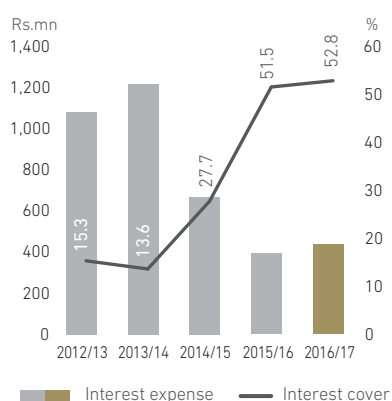
Finance income (Rs.'000s)	2016/17	2015/16
Interest income from life insurance policy holder funds at UA*	3,110,973	2,566,963
Interest income of Group excluding UA	5,905,843	3,659,192
Capital gains from disposals of private equity investments of JKH	9	82,406
Other finance income	1,016,456	1,702,391
Total	10,033,281	8,010,952

\* UA - Union Assurance PLC

## Group finance expense



## Interest expense and interest coverage



## Taxation

During the year under review, Group tax expense increased by 40 per cent to Rs.4.77 billion [2015/16: Rs.3.41 billion]. The Group tax expense comprised primarily of Rs.3.82 billion from income tax on Group profits and Rs.954 million from withholding tax from inter-company dividends.

The increase in the tax expense of Rs.1.36 billion was mainly on account of an increase in the income tax on Group profits and dividend tax amounting to Rs.1.23 billion and Rs.130 million respectively. The increase in income tax was primarily on account of the higher taxes at the Holding Company and the CF&R industry group. The Holding Company recorded an increase in interest income on account of higher interest rates whilst CF&R recorded an increase in profits, both of which are taxed at a higher effective tax rate.

The profit attributable to equity holders of the parent increased by 16 per cent to Rs.16.33 billion [2015/16: Rs.14.07 billion]. The net profit margin of the Group increased marginally to 13.6 per cent from 13.4 per cent in the previous year.

Accordingly, the effective tax rate on Group profits increased to 20.8 per cent as against 17.7 per cent in the previous year.

Other including Plantation Services, CF&R and Leisure were the highest contributors to the Group tax expense with Rs.2.13 billion, Rs.1.57 billion and Rs.713 million respectively. For further details on tax impacts of the Group refer to the Notes to the Financial Statements section of the Annual Report.

## Profit After Tax

For the year under review, the Group profit after taxation (PAT) was Rs.18.12 billion [2015/16: Rs.15.79 billion]. Of the industry groups, Leisure, CF&R and Other including Plantation Services were the highest contributors to PAT with contributions of Rs.5.01 billion [2015/16: Rs.4.37 billion], Rs.3.90 billion [2015/16: Rs.3.23 billion] and Rs.3.10 billion [2015/16: Rs.2.34 billion], respectively. Excluding the gains on investment property, the recurring Group PAT increased by 14 per cent to Rs.17.63 billion from Rs.15.53 billion in the previous year.

## Non-Controlling Interest

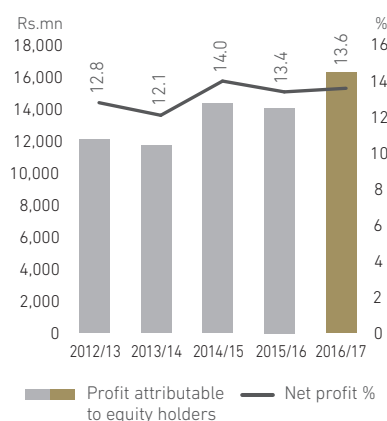
Non-controlling interest (NCI) increased by 7 per cent to Rs.1.84 billion [2015/16: Rs.1.72 billion] mainly due to the increase in profits at Ceylon Cold Stores PLC (CCS), which also includes the profits from its 100 per cent owned subsidiary JayKay Marketing Services Limited, where there is a relatively higher non-controlling interest. The NCI share of PAT for 2016/17 is 10 per cent against 11 per cent in the previous year.

## Profit Attributable to Equity Holders of the Parent

The profit attributable to equity holders of the parent increased by 16 per cent to Rs.16.28 billion [2015/16: Rs.14.07 billion]. The net profit margin of the Group increased marginally to 13.6 per cent from 13.4 per cent in the previous year.

The recurring net profit attributable to equity holders increased by 15 per cent to Rs.15.86 billion from Rs.13.85 billion in the previous year whilst the recurring net profit margin of the Group increased to 13.3 per cent against 13.2 per cent in the previous year.

## Profit attributable to equity holders and net profit ratio





## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

#### Contribution to the Sri Lankan Economy

The following economic value statement depicts the generation of wealth and its distribution among the stakeholders in all business and social activities throughout the entire value chain. It also reveals the amounts reinvested for the replacement of assets and retained for the growth and development of operations. An overview of the Group's total purchases of goods and raw materials from its local community is found in the ensuing Social and Relationship Capital discussion and Industry Group Review section of the Report.

Economic value statement (Rs. million)	2016/17	2015/16
<b>Direct economic value generated</b>		
Revenue	106,273	93,710
Finance income	10,033	8,011
Share of results of equity accounted investees	3,303	2,781
Profit on sale of assets and other income	1,765	2,132
Valuation gain on investment property	484	263
	121,858	106,896
<b>Economic value distributed</b>		
Operating costs	81,548	69,820
Employee wages and benefits	12,746	11,623
Payments to providers of funds	8,339	10,763
Payments to Government	6,285	4,694
Community investments	144	125
	109,062	104,838
<b>Economic value retained</b>		
Depreciation	2,875	2,782
Amortisation	926	1,059
Profit after dividends	8,995	6,032
	12,796	9,873

 **Rs. 259.12 Bn**  
**Average Group asset base**  
 A growth of 13 per cent

During the year under review, the Group return on capital employed (ROCE) increased to 11.5 per cent in comparison with the previous year, driven by an improved EBIT margin and higher capital structure ratio. The asset turnover ratio remained static at 0.46. The top line growth was 13 per cent in the year under review, whilst the average asset base of the Group increased by 13 per cent to Rs.259.12 billion [2015/16: Rs.229.53 billion]. The increase in the average asset base stemmed mainly from the revaluation gain on property, plant and equipment amounting to Rs.10.03 billion, the inclusion of work-in-progress costs relating to the "Cinnamon Life" project amounting to Rs.5.93 billion and the increase in short term investments by Rs.6.54 billion. For further details on the ROCE of each of the industry groups, refer the Strategy, Resource Allocation and Portfolio Management and the Industry Group Analysis sections of the Report.

#### Quarterly Performance at a Glance

(Rs. million)	2016/17				
	Q1	Q2	Q3	Q4	Total
Net revenue	22,732	25,756	27,937	29,848	106,273
PBT	3,584	5,171	6,725	7,408	22,888
Transportation	711	668	845	875	3,098
Leisure	558	1,364	1,362	2,437	5,721
Property	57	52	196	359	665
Consumer Foods and Retail	1,302	1,603	1,287	1,274	5,466
Financial Services	196	244	1,140	517	2,097
Information Technology	25	162	195	230	612
Other including Plantation Services	735	1,079	1,700	1,716	5,229
Profit attributable to equity shareholders	2,371	3,769	5,145	4,990	16,275
Total assets	241,123	247,411	260,255	277,272	277,272
Total equity	168,526	173,371	181,402	194,330	194,330
Total debt	20,501	19,896	22,582	22,766	22,766

#### Return on Capital Employed

	Reported ROCE (%)	=	EBIT margin (%)	x	Asset turnover	x	Capital structure leverage
2016/17	11.5	=	19.5	x	0.46	x	1.28
2015/16	11.1	=	19.3	x	0.46	x	1.26

## Return on Equity

	Reported ROE (%)	=	Return on assets (%)	x	Common earnings leverage	x	Capital structure leverage
2016/17	9.8	=	7.0	x	0.90	x	1.55
2015/16	9.6	=	6.9	x	0.89	x	1.57

The Group return on equity (ROE) marginally increased to 9.8 per cent compared to 9.6 per cent recorded in 2015/16, due to similar impacts as discussed under Group ROCE.

## Adjusted ROCE and ROE

Similar to the previous years, in order to provide our readers with further insight on the Group's ROCE and ROE movements, the following adjustments are considered in re-assessing the ratios.

## ROCE

When considering the Group capital employed for 2016/17, the following items are eliminated from the capital base, given the long gestation period.

- i. Equity and debt funding of the "Cinnamon Life" project:
  - Rs.34.25 billion received from the 2013 Rights Issue, and, 2015 and 2016 Warrant Issues.
  - Syndicated project development facility amounting to Rs.12.37 billion drawn directly by Waterfront Properties (Private) Limited.
- ii. The cumulative finance income portion of Rs.4.92 billion received during the period 2013/14 to 2016/17 on account of the funds from the 2013 Rights Issue and 2015 and 2016 Warrants Issue.
- iii. Investment property gains amounting to Rs.796 million for the period 2014/15 to 2016/17.
- iv. Revaluation of property, plant and equipment amounting to Rs.13.41 billion for the period 2014/15 to 2016/17.

Similarly, the Group EBIT recorded for the year 2016/17 is adjusted for the following items:

- i. Finance income of Rs.1.87 billion received from the investment of the 2013 Rights Issue, and, 2015 and 2016 Warrants Issue funds.
- ii. Investment property gains of Rs.484 million.

Based on the above, the adjusted industry group and overall Group ROCE is as illustrated in the table below.

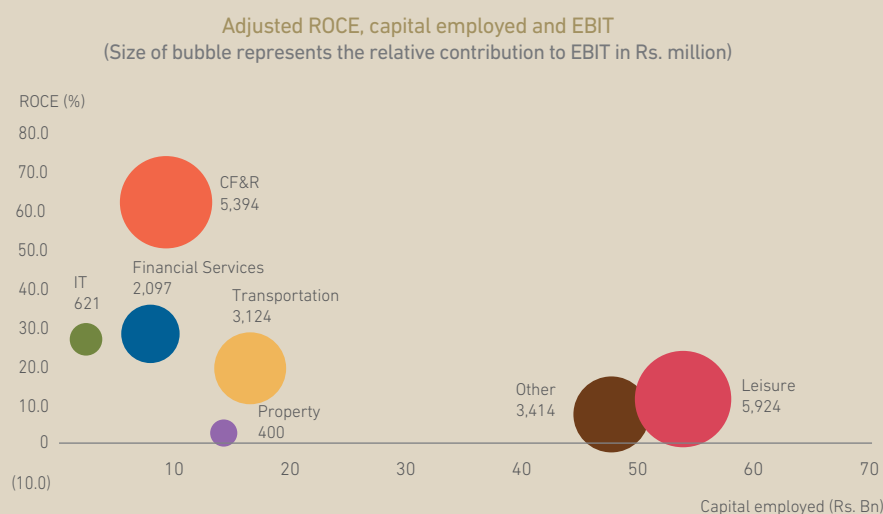
	Reported ROCE (%)		ROCE adjusted for Rights and Warrants Issue and Cinnamon Life debt (%)		ROCE adjusted for Rights and Warrant Issue, Cinnamon Life debt, investment property, gains and revaluations (%)	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Transportation	19.2	16.0	19.2	16.0	19.3	16.1
Leisure	10.0	10.0	10.0	10.0	11.4	11.5
Property	1.7	4.8	4.3	10.3	2.6	10.0
Consumer Foods and Retail	60.4	55.7	60.4	55.7	61.4	63.1
Financial Services	28.0	24.2	28.0	24.2	28.2	26.2
Information Technology	26.9	6.8	26.9	6.8	26.9	6.8
Other including Plantation Services	7.9	6.6	7.9	7.0	7.7	7.0
Group	11.5	11.1	13.9	13.4	14.4	14.3

The Group ROCE post the aforementioned adjustment is further analysed as follows:

	Adjusted ROCE (%)	=	EBIT margin (%)	x	Asset turnover	x	Capital structure leverage
2016/17	14.4	=	17.5	x	0.59	x	1.38
2015/16	14.3	=	17.8	x	0.58	x	1.37

## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW



#### ROE

Similarly, when adjusted for the above described impacts, the adjusted ROE for the Group is;

	Reported ROE (%)		ROE adjusted for Rights and Warrants Issue and Cinnamon Life debt (%)		ROE adjusted for Rights and Warrant Issue, Cinnamon Life debt, investment property, gains and revaluations (%)	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Group	9.8	9.6	11.2	11.1	11.5	11.8

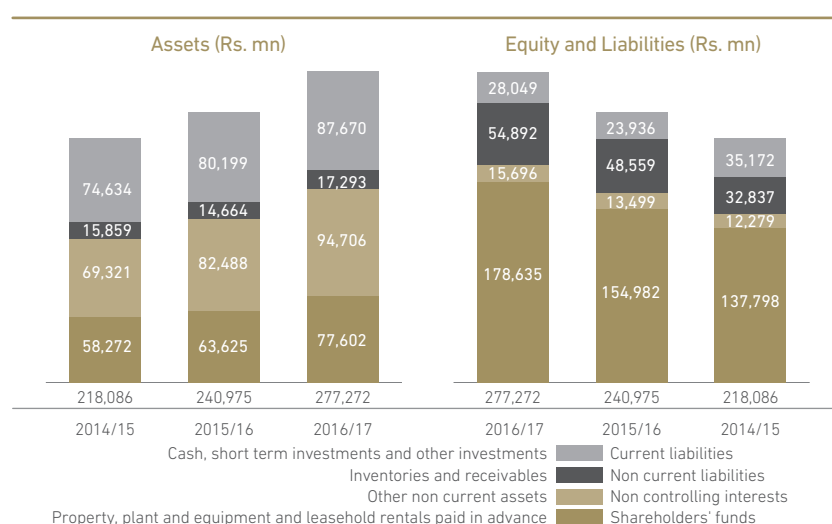
A Du-pont analysis of the adjusted Group ROE is as follows;

	Adjusted ROE (%)	=	Return on assets (%)	x	Common earnings leverage	x	Capital structure leverage
2016/17	11.5	=	7.8	x	0.91	x	1.62
2015/16	11.8	=	8.0	x	0.90	x	1.65

The adjusted ROE declined to 11.5 per cent compared with the previous year due to a decrease in the return on assets and the relative leverage. The need for a higher debt/equity ratio has been recognised with a view to improving the ROE.

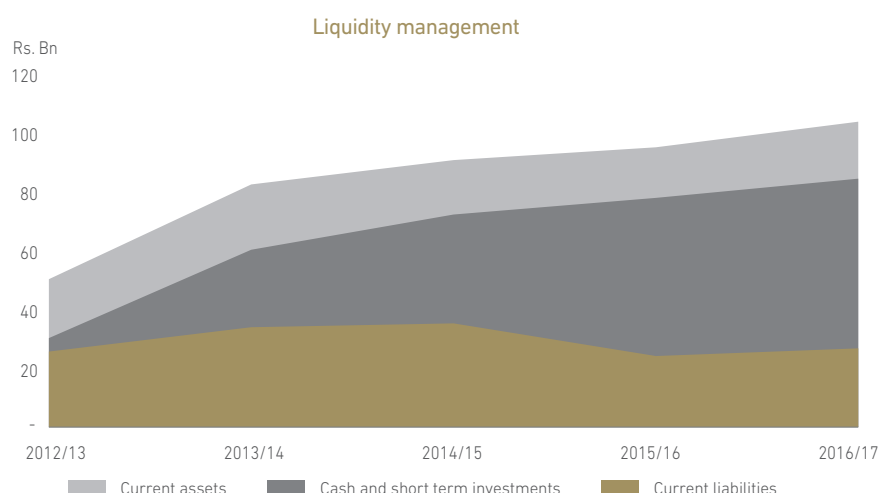
#### Financial Position

For the period under review, the Group's total assets increased by Rs.36.30 billion to Rs.277.27 billion [2015/16: Rs.240.98 billion], mainly on account of additions to property, plant and equipment, other non-current assets and short term investments. The increase in other non-current assets was mainly on account of work-in-progress costs relating to the "Cinnamon Life" project and the lease rental advance paid for Cinnamon Dhonveli Maldives. The cash and short term investments increased to Rs.84.29 billion [2015/16: Rs.77.76 billion], mainly on account of the cash earnings generated during the year and the cash infusion from the 2016 Warrant Issue.



During the year under review, despite an increase in overall Group debt and the cash equity infusion of Rs.4.34 billion to the "Cinnamon Life" project, net cash of the Group increased to Rs.55.31 billion from the Rs.51.85 billion recorded in 2015/16. Net cash, excludes short term investments of life fund of Union Assurance PLC and customer advances from "Cinnamon Life".

### Working Capital/Liquidity



Net working capital of the Group increased to Rs.76.91 billion as at 31 March 2017 [2015/16: Rs.70.93 billion]. Current assets recorded an increase on account of the aforementioned cash infusion from the 2016 Warrant Issue. Current liabilities also recorded an overall increase primarily due to an increase in trade and other payables and bank overdrafts.

Considering its strong financial position, the Group is confident of its ability to comfortably meet its short and medium term funding and debt repayment obligations, pursue organic and acquisitive growth opportunities and to meet other obligations. In terms of the composition of the liquid assets of the Group, Other including Plantation Services accounted for more than half of the cash and cash equivalents, of which a majority of assets are in the Holding Company, followed by the Financial Services and Leisure industry groups.

### Cash Flow

Cash and cash equivalents decreased by Rs.755 million to Rs.47.64 billion by the end of the current financial year [2015/16: Rs.48.40 billion] due to a change in the maturity profile of investments. Cash and cash equivalents in the Statement of Cash Flows comprise of cash, short-term investments with a maturity of three months or less and net of outstanding bank overdrafts.

Net cash from operating activities increased by Rs.507 million to Rs.21.02 billion as at 31 March 2017, mainly due to an increase in finance income amounting to Rs.1.42 billion. Net cash used in investing activities increased to Rs.17.67 billion mainly due to the increase in the purchases of short term investments of the life fund of UA and an extension of the head lease of Cinnamon Dhonveli Maldives. Net cash used in financing activities was Rs.4.11 billion in 2016/17 compared against the Rs.7.72 billion in the previous financial year. The decrease was primarily due to the increase in proceeds from short term borrowings coupled with an increase in debt drawdown for the "Cinnamon Life" project and cash infusion from the 2016 Warrant Issue.

### Leverage and Capital Structure Capital Structure

A higher proportion of the Group's total assets at Rs.277.27 billion were funded by shareholder's funds (64 per cent) whilst the remainder was funded by a combination of non-controlling interests (6 per cent), long term creditors (20 per cent) and short term creditors (10 per cent). The long term funding of assets at Rs.249.22 billion contributed to 90 per cent of total assets.

### Debt

The consolidated debt of the Group increased to Rs.22.77 billion from Rs.20.75 billion in the previous year. The Property and Leisure

 **Rs.22.77 Bn**  
**Group debt**  
A growth of 10 per cent

industry groups continued to account for a majority of the Group's total debt with Rs.13.44 billion and Rs.5.87 billion respectively.

Where businesses have foreign currency denominated incomes, borrowings in foreign currency are effected to take advantage of the comparatively lower cost of foreign currency debt. This strategy has been practiced in the Leisure industry group, in particular, where foreign currency receipts are regularly monitored to proactively evaluate the borrowing capacity of the business. Currently, approximately Rs.15.30 billion of the overall debt of the Group is denominated in foreign currency, primarily due to the increased debt of "Cinnamon Life". The exchange rate exposure arising from the "Cinnamon Life" project is mitigated to an extent since the functional currency of Waterfront Properties (Private) Limited, its project company, is in US Dollars.

The Other including Plantation Services industry group was the highest contributor to the decrease in Group debt as a result of the loan balance of the USD 10 million IFC facility being fully repaid as of 31 March 2017. Except for Other including Plantation Services, all other industry groups recorded an increase in debt.

The debt to equity ratio of the Group reduced to 11.7 per cent in the current year from 12.3 per cent in the previous year. The net debt (cash) cash to equity ratio was a negative 28.5 per cent as against a negative 30.8 per cent in the previous year. The debt to EBITDA cover of the Group stood largely unchanged at 0.8 times compared to the 0.8 times in the previous year. This underscores the Group's ability to increase its leverage, as and when required, to fund its future investment pipeline. Notwithstanding the significant cash reserves of the Group, which is earmarked for equity commitments of the "Cinnamon Life" project and other investments in the pipeline, the Group is cognizant of the ability to increase its leverage and optimise equity returns. The capital structure of recent investments have been on the basis of increased leverage at a project company level, although these investments have been relatively lower in the context of the assets of the Group.

## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

	2016/17	2015/16
Current ratio (times)	3.7	4.0
Quick ratio (times)	3.5	3.8
Net working capital (Rs. mn)	76,914	70,927
Asset turnover (times)	0.5	0.5
Capital employed (Rs. mn)	217,096	189,230
Total debt (Rs. mn)	22,766	20,750
Net debt (cash) (Rs. mn)	(55,309)	(51,849)
Debt/equity ratio (%)	11.7	12.3
Net debt (cash)/equity ratio (%)	(28.5)	(30.8)
Long-term debt to total debt (%)	62.4	66.1
Debt/total assets (%)	8.2	8.6
Liabilities to tangible net worth	0.4	0.4
Debt/EBITDA (times)	0.8	0.8
Net debt/EBITDA	(2.0)	(2.1)

The Group long term debt to total debt decreased to 62.4 per cent from 66.1 per cent primarily due to a 22 per cent increase in short term debt in the year under review.

#### Statement of Changes in Equity

Total equity of the Group increased by Rs.25.90 billion to Rs.194.33 billion [2015/16: 168.48 billion]. The main increases were on account of the profit after tax of Rs.18.12 billion, other comprehensive income of Rs.11.69 billion and the funds generated from the exercise of the 2016 Warrant amounting to Rs.3.18 billion, which were partially offset by the dividends paid during the year amounting to Rs.7.28 billion.

Concluding on the Group's Financial and Manufactured Capital Review, the section which follows discusses the third aspect of Capital Management, this being the Natural Capital. This section will discuss the Group's management of its environmental impacts as well as the outcomes and value creation processes through its sustainability and corporate social responsibility agenda, respectively.

#### Natural Capital Review

The management strategy of Natural Capital is of vital importance for the long term and sustainable value creation to the Group. The Group is committed to establishing policies and procedures that enable sustainable and efficient business operations whilst also growing the bottom line. The Group has a comprehensive environmental management system in place through which its efforts in efficient energy and water usage, waste management and conservation of biodiversity and wildlife continued throughout the year, as discussed in detail in the ensuing sections.

During the year under review, and in furtherance of its commitment to managing its Natural Capital with increasing productivity,

the Group established sustainability goals aimed at conserving energy and optimisation of water usage - both of which are material areas. The Group liaised with external consultants who conducted in-depth studies to ascertain optimisation strategies and technologies for the setting of environmental goals for the Group to be achieved by the end of the financial year 2020. The year 2015/16 was established as the baseline for the goal setting process. The goal setting process commenced with the Leisure and CF&R industry groups as they account for a majority of resource utilisation in the areas of energy and water. The feasibility of the proposed strategies was analysed, followed by a commitment by the business units and sectors to deliver on the actions agreed upon, after which the Group arrived at the goal for the financial year 2020. The monitoring of progress on achievement of goals will be as follows.

Sustainability goal for 2019/20	Monitoring of quarterly progression	Monitoring of annual progression
Achieve 12 per cent reduction in energy consumption by March 2020	Monitor and update progression of committed initiatives internally	Disclose progression of committed initiatives in the Annual Report to stakeholders each year
Achieve 6 per cent reduction in water usage by March 2020		

The Group liaised with external consultants who conducted in-depth studies to ascertain optimisation strategies and technologies for the setting of environmental goals for the Group to be achieved by the end of the financial year 2020.

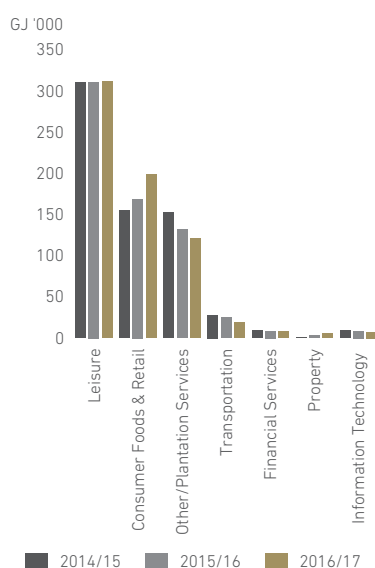
#### Energy and Carbon Footprint

During the year under review, the total energy consumption within the Group was 672,508 GJ [2015/16: 657,770 GJ] which was derived from non-renewable and renewable energy sources and the national grid.

Total power consumed in GJ	2016/17	2015/16	2014/15
1 Energy consumption from non-renewable sources	220,911	213,747	223,321
Fossil fuel			
Diesel	135,227	135,288	138,740
Petrol	16,861	15,009	21,361
Furnace oil	40,405	37,057	38,638
LPG	28,418	26,393	24,717
2 Energy consumption from renewable sources	101,112	111,061	130,067
3 Purchased energy - national grid	350,486	332,961	311,263
Total energy consumption	672,509	657,769	664,651

The Leisure and CF&R industry groups were the largest consumers of energy, accounting for over 75 per cent of the energy consumed and 89 per cent of the carbon footprint of the Group.

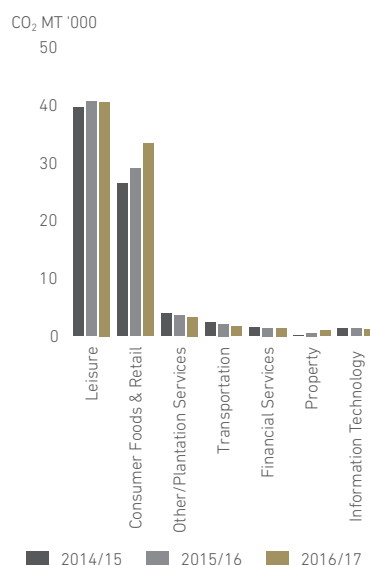
**Energy consumption by industry group/sector**



The Plantation Services sector accounted for 18 per cent of the Group's total energy consumption. However, the sector contributed only 3 per cent to the Group's carbon footprint, primarily due to its continued usage of renewable energy generated through biomass. Tea Smallholder Factories PLC (TSF PLC) was the largest consumer of power in the Plantation Services sector, obtaining 64 per cent of its energy through renewable energy. In addition, during the year under review, Group companies saved approximately 5,855 GJ, with a resultant estimated saving of 1,108 MT of carbon, through various energy conservation initiatives, details of which can be found in the Industry Group Review section of the Report.

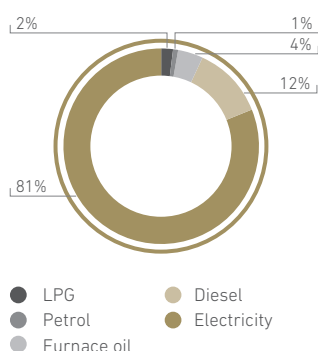
Overall, the Group generated 6.6 million kWh of power from renewable energy sources such as firewood purchased from the surrounding communities and solar power, constituting 6 per cent of its total energy requirement. Whilst such practices have enabled the Group to reduce its environmental impact and cost of operations, it has also provided a means of livelihood for the surrounding communities.

**Carbon footprint by industry group/sector**



The main contributor to the Group's carbon footprint was electricity from the national grid followed by diesel and furnace oil. Given that Sri Lanka's national grid is hydro power based, the resultant carbon footprint is lower in comparison to countries producing power solely through fossil fuels.

**Carbon footprint by energy type**

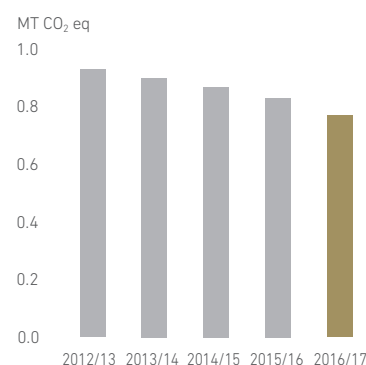


Notwithstanding the increased operational activity of the Group due to a full year's operations at Rajawella Holdings Limited (RHL), the opening of 15 new Keells Super outlets resulting in a significant increase in the square footage and increased production volumes in the Consumer Foods sector, the Group demonstrated continuous improvement in carbon efficiency as it recorded an increase of only 5 per cent in its carbon footprint amounting to 82,492

The Group generated 6.6 million kWh of power from renewable energy sources

MT [2015/16: 78,661 MT]. The scope 1, direct energy carbon footprint amounted to 16,134 MT, while scope 2, indirect energy carbon footprint amounted to 66,359 MT. The movement over the past five years' carbon footprint in metric tons per million rupees of revenue illustrates an overall declining trend as depicted in the chart below.

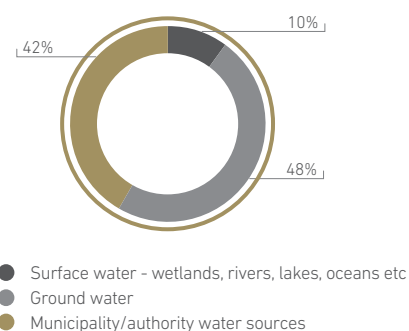
**Carbon footprint per Rupees million of revenue**



## Water Management

As part of its Natural Capital management strategy, the Group monitors and measures water from all sources, which include ground water, inland surface water bodies, oceans, pipe-borne water from the National Water Supply and Drainage Board and rainwater harvesting.

**Water withdrawal by source**



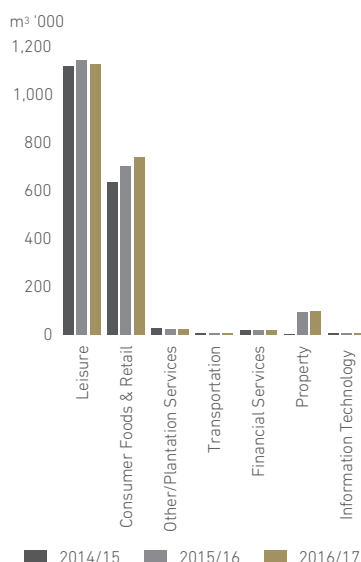


## Group Consolidated Review

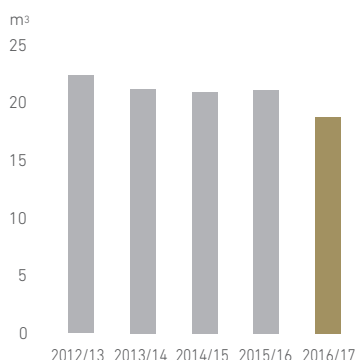
### CAPITAL MANAGEMENT REVIEW

The Group withdrew a total of 2,021,739 cubic meters of water, resulting in a 1 per cent increase of consumption from the previous year. This was mainly due to the increase in operational activity across all sectors of the Group. Where feasible, the Group seeks to fulfil part of its requirement from green water sources through rainwater harvesting. Given the nature of its operations, the Leisure and CF&R industry groups account for the highest proportion of water consumed, with approximately 92 per cent of the Group's water consumed by these industry groups.

**Water withdrawn by industry group/sector**



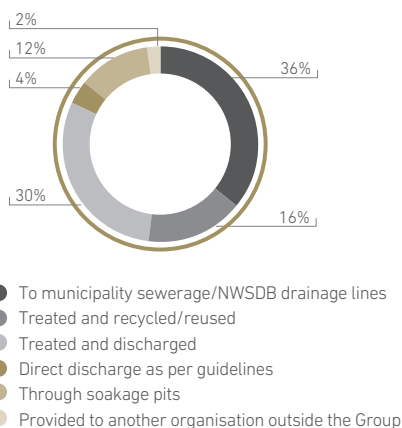
**Water usage per Rupees million of revenue**



Where feasible the Group makes best efforts to reduce its water requirement through the recycling of treated effluent and be brought to an acceptable quality. In

any event the Group ensures compliance with regulatory standards, mentioned in relevant Environmental Protection Licences (EPL) when returning such water to the environment.

**Water discharge by method**



During the reporting period, the Group discharged 1,460,799 cubic meters of effluent. Of all water discharged to the environment, 46 per cent was treated through on-site sewerage treatment plants at the various operational locations, 36 per cent was discharged to municipal sewerage

treatment systems, whilst 16 per cent of water was completely recycled by operations, which as a percentage of water withdrawn was 11 per cent. Such water was utilised for general cleaning, gardening and flushing mechanisms.

Business units also carry out a range of initiatives such as awareness campaigns and installation of water saving fixtures and equipment. A detailed discussion of water withdrawal and discharge by industry group, as well as water saving initiatives, can be found in the industry group review section of the Report.

### Waste Management

Due to increased operational activity across the Group, waste generated increased to 8,846 MT from 8,251 MT in the previous year. Of this, 328 MT was classified as hazardous waste and disposed of through specialised third party contractors. Of the total waste produced, 42 per cent was recycled or reused by the Group's business units or through selected third party contractors. The Leisure and CF&R industry groups contributed to over 94 per cent of the waste generated by the Group. Further details of how such waste was generated, reused and recycled are available in the industry group review section of the Report.

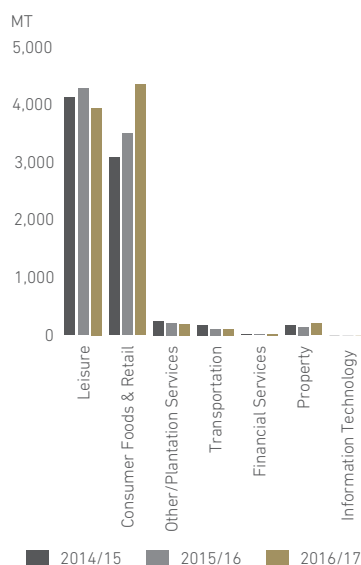


Composting yard at Cinnamon Citadel Kandy

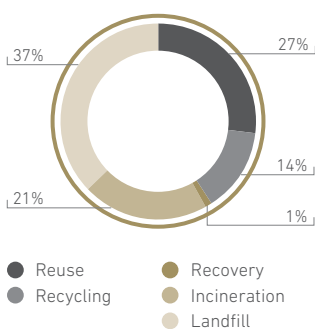
### Progress Review on Sustainability Commitments

Targets for 2016/17	Comment on Progress
The Group will strive to outperform selected international benchmarks for carbon footprint, energy consumption and water usage whilst also seeking to better its own performance on said aspects	The Group outperformed both the selected international benchmarks as well as its own performance of the previous year.

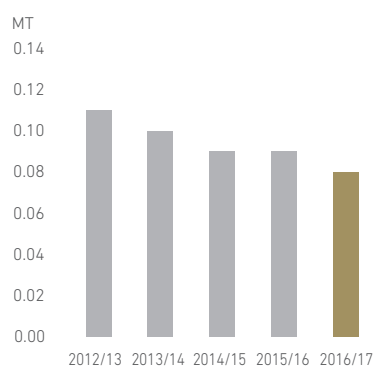
### Waste generated by industry group/sector



### Waste disposal by method



### Waste generated per Rupees million of revenue



### Corporate Social Responsibility Projects

Recognising the importance of conserving our environment for future generations, the John Keells Group makes a conscious and collective effort to protect and enhance the environment via its social responsibility arm, John Keells Foundation ("Foundation"). Following are a few of the key initiatives undertaken by the Foundation. Other key environmental projects such as Project Leopard, elephant data gathering and forestry project can also be found in the industry group review section of the report.

### Nature Field Centre, Rumassala

The Central Environmental Authority (CEA), in collaboration with the Foundation, established the Nature Field Centre in

Rumassala in 2008 to facilitate experiential learning on the environment and bio-diversity conservation, particularly among school children. As per the CEA's report, a total of 2,625 visitors, of which 2,469 were school children, participated in the CEA's awareness programmes during the year in review. The Foundation also initiated discussions with the CEA on means of making the Centre self-sufficient and sustainable.

### Paper Conservation

During the year in review, waste paper continued to be collected from each of the business locations for shredding and recycling. The impact of this initiative during the reporting period is summarised as follows:

Waste paper collected (kg)	Payment (Rs.)	Savings (indirect impact)				
		Trees (Nos)	Water (Litres)	Electricity (kWh)	Oil (Litres)	Landfill (m³)
48,942	342,594	834	1,555,378	195,768	85,891	147

Concluding the Group's Natural Capital Review, the following section discusses Human Capital Review the fourth aspect of Capital Management.



Sewerage treatment plant at Cinnamon Bay Beruwala

### Human Capital Review

The Group's Human Capital is the primary component of its earning potential, productivity and long term sustainability. The Group's holistic approach to the management of its Human Capital founded on the core building blocks of inspiring people, caring for people and leadership, encompasses ensuring diversity, encouraging and facilitating innovation and excellence whilst always maintaining the integrity of the Group Values.

### Employee Diversity

As an equal opportunity employer the Group encourages workplace diversity in all its forms; it promotes and celebrates innovative thinking whilst raising the bar in everything they do, as individuals or in teams. The Group prides it self in continuously updating and upgrading what it does to create an enabling environment which promotes a content and productive workforce.



## Group Consolidated Review

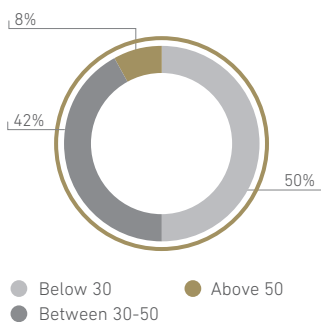
### CAPITAL MANAGEMENT REVIEW

The workforce as at 31 March 2017 was 20,100 of which 12,835 were employees and 7,265 were outsourced personnel (neither staff employees or seasonal workers). Of the Group's total employees, 495 are placed in the Maldives and 484 in India, with the remainder stationed in Sri Lanka.

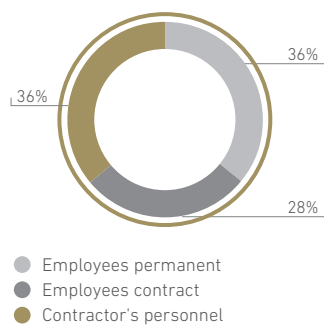
The Group monitors the diversity of its workforce based on age and gender as illustrated by the following diagrams. The Group has seen the demographics of the workforce changing with 50 per cent of its employees being less than 30 years, bringing with it the opportunity, dynamism and challenges. The Group has also

seen an increase in the female population of the Group during the reporting period which will no doubt augur well for the Group.

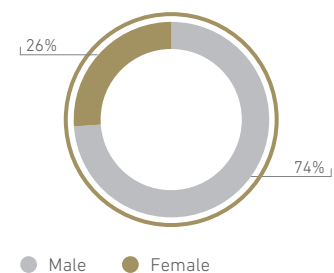
Total employees by age



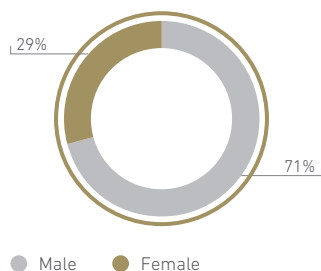
Workforce by type of employment



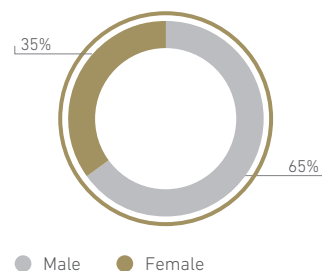
Total employees by gender



Workforce by gender



Contractor's personnel by gender



Of the ten Board Directors of JKH as at 31 March 2017, three members are between the ages of 30-50 and seven members are over the age of 50, with one female Director. Of the 9 Group Executive Committee (GEC) members, one GEC member is female, whilst seven members are over 50 years of age and two members are between the ages of 30-50 years. Excluding the GEC members, of the thirteen members of the Group Operating Committee (GOC), four are between the ages of 30-50, and nine are over the age of 50, with three GOC members being female.



Diversity at the work place

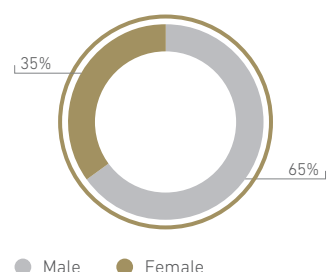
As an equal opportunity employer, the overall Non-Discrimination Policy, which commits to maintaining a workplace that is free from physical and verbal harassment and discrimination on the basis of race, religion, gender, age, nationality, social origin, disability, political affiliation or opinion, was expanded in the previous year to include sexual orientation and gender identity. The Group completed its Group wide awareness campaign to sensitise its employees on the areas of non-discrimination, with special emphasis on non-discrimination based on sexual orientation and gender identity.

#### Talent Management

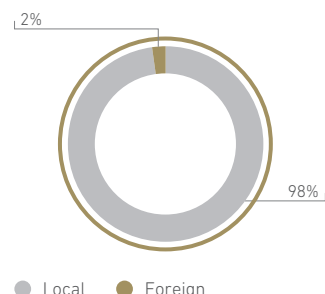
The Group continuously monitors its employee retention and, in particular, seeks to address staff attrition in typically high attrition industry groups through proactive initiatives that engage employees. During the year under review, the Great Place to Work (GPTW) survey was conducted for all Group employees which provided insights to identify, create and sustain the Group as a great workplace. The results from the survey were presented to the GEC in January 2017. Subsequently, action plans were drawn up and incorporated into business plans at a Group level and business unit level.

The Group's total attrition (for executives and non-executives) and new hire attrition rate, excluding the IT Enabled and Retail sectors, where staff turnover is expected to be high and is an industry norm, was 24

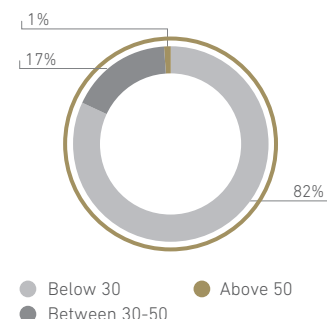
Attrition by gender



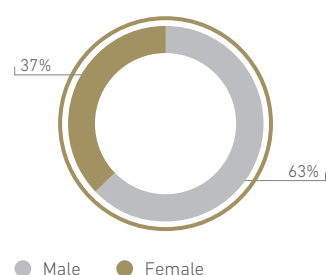
Attrition by region



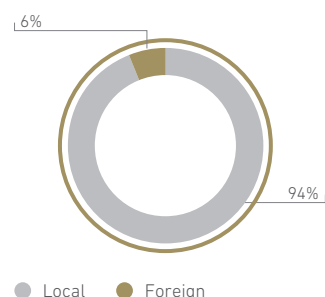
Attrition by age breakdown



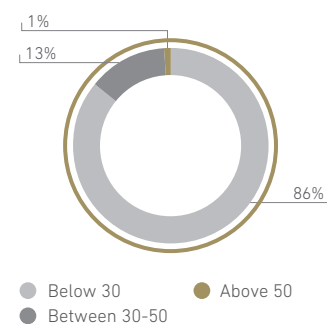
New hires by gender



New hires by region



New hires by age group



per cent and 6 per cent respectively. With increased supply of hotel rooms, some pressure on staff retention was faced by the Sri Lankan Resorts and City Hotels contributing to a higher attrition rate. Multi pronged approaches have been put in place to manage this and the Group is confident of achieving the desired results. With respect to staff identified as "Talent", the attrition has been negligible with senior management continuing to place extra emphasis on developing and nurturing them. The executive level attrition continues to be relatively lower than attrition at non-executive levels. Further, recruitment based on profile mapping was continued in certain businesses to ensure a better fit with the needs of the organisation and thereby ensuring longer retention. This has paid dividends as reflected in the new hire attrition rate.

### Performance Appraisals

The Group's performance management cycle ensures that all employees of the Group undergo regular appraisals. Formal feedback is provided on a bi-annual basis to the executive cadre and once a year to all others, whilst continuous feedback is encouraged. Recognition of employees is actively encouraged and special budgetary allocations are made for this purpose. Several employee

recognition schemes are in place at a Group level and at business unit level, reflecting business specific requirements. During the year under review, the "Disruptive Innovation Award" was introduced and awarded at the presentation of Chairman's Award held annually to support the Group's thrust in the digital business space.

### Learning and Development

The Group's learning and development programmes are key policy components of talent retention and ensuring a sustainable

competitive advantage, with a total of 529,468 training hours [2015/16: 418,726 hours] provided to Group employees. Each year, training for employees are determined on a needs basis, aligning the business specific requirements. Through the performance management system, employees can request for training when conducting self-appraisals while supervisors also can nominate employees for training based on the needs taking advantage of the Group's extensive training calendar. The learning is also facilitated via digital platforms such as



Employees participating in a Development Centre

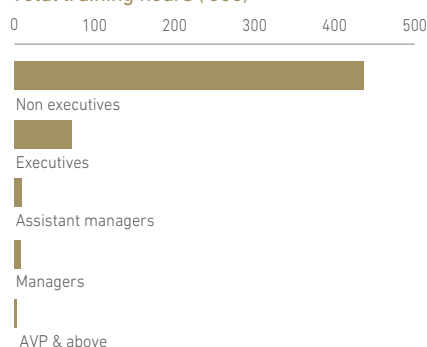
## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

Yammer, the Group Intranet, and experience sharing sessions. On average, 41 hours of training were provided per employee, with average training hours per annum amounting to 41 hours for males and 42 hours for females.

In the year under review, the Group undertook initiatives to create a “coaching culture” by identifying individuals at sector level and business unit level to be trained and developed as “People Coaches”. This was the fourth phase of the Team Leader Workshop series, which was introduced in the year 2015/16 for all team leaders in the executive cadre.

#### Total training hours ('000)



As part of its career development strategy, the Group carried out leadership development programmes, management development programmes, and Development Centres in collaboration with reputed international and local institutes. In addition, “Young Fora” are continued with the intention of developing management skills in executive and above levels through interactions with the business leaders of the Group. The Group continues its career support initiatives to ensure that its employees achieve their full potential.

#### Collective Bargaining

The Group engages with trade unions on an ongoing basis through Joint Consultative Committees and other mechanisms. Formal agreements are found in the CF&R industry group, covering over 706 employees amounting to 6 per cent of the Group's total employee count. TSFL follows the wage structures of the plantation industry of the country and the Resort Hotels have entered into a Memorandum of Understanding with staff representatives from one trade union.

#### Health and Safety

The Group places the highest importance on ensuring a safe working environment for all its employees, taking steps to ensure that health and safety concerns are prioritised and addressed across the Group. All business units within the Group have been empowered to undertake any measure it may deem necessary to ensure that it is a “Safe Place to Work”. As part of its Human Capital management strategy, incidents are logged, recorded and tracked on a continuous basis. There were no fatalities reported during the year under review.

	2016/17	2015/16
Number of staff affected by occupational injuries and diseases	213	217
Gender wise occupational injuries (male: female)	158:55	166:51
Gender wise occupational diseases (male: female)	-	-
Region-wise occupational injuries (in Sri Lanka: outside Sri Lanka)	211:02	206:11
Region-wise occupational diseases (in Sri Lanka: outside Sri Lanka)	-	-
Occupational injuries per 100 workforce	1.06	1.11
Total man days lost per 100 workforce days	0.035	0.050
Total absentee days per 100 workforce days	0.0011	0.0022

#### Employee Benefit Plans

In Sri Lanka, employees are eligible for the Employees' Provident Fund (EPF) and the Employees' Trust Fund (ETF) contributions. Employees who are Maldivian nationals or employed in the Maldives are eligible for the Maldives Retirement Pension Scheme (MRPS) contributions, whilst employees based in India are eligible for Employees' Provident Fund (EPF) contributions according to the terms of the Employees' Provident Fund and Miscellaneous Provisions Act in India. The total contribution made to the trust funds for the reporting year was Rs.142 million (3 per cent of salary contributed by employer) while the total contribution made to the provident fund was Rs.643 million (12-20 per cent of salary contributed by employer and 8-15 per cent of salary contributed by employee). In Sri Lanka and India, employees are also entitled to retirement gratuity. The employee benefit liability as at 31 March 2017 was Rs.1.88 billion.

#### Corporate Social Responsibility Projects Staff Volunteerism

Staff volunteerism is at the heart of the Group's community engagement strategy. Most projects carried out by the Foundation are supported by the Group's staff volunteers. This volunteer network enables employees to reach beyond their day-to-day work to contribute to the community and the environment, while the Group's volunteer leave policy enables staff to be released for CSR activities with minimum restraint.

During the year, over 1,008 staff volunteers engaged in projects undertaken by the Foundation, recording over 1,954 volunteer instances and clocking over 7,649 hours, excluding CSR initiatives that occur at a sector/business level.

Concluding the Human Capital Review, the following section discusses the Social and Relationship Capital, the fifth aspect of Capital Management.



JKH volunteers participating in a tree planting initiative in Cinnamon Wild Yala



### Social and Relationship Capital Review Product Responsibility

The Group strives to ensure and maintain the highest standards for its products and services by adhering to all statutory and regulatory requirements, local and international, as well as global best practices. Group companies ensure the highest quality in processes, responsible marketing and communications, as well as consumer and employee health and safety through robust quality management processes and quality assurance. The ongoing ISO 9001, ISO 22000, ISO 14000 and OHSAS 18001 certifications by the relevant Group companies are testimony to the Group's commitment in this regard.

### Social Responsibility

The Group understands the value of building Social and Relationship Capital for the long term sustainability of any business and thus strives to create and uphold trust and reciprocity among its key stakeholders, whilst creating long term value.

83 per cent of the Group's economic value distributed was spent on goods, services and utilities locally, with Sri Lanka being defined as local based on the number of operations and revenue and being the significant location of operations. Mutually beneficial relationships are sought in relevant industries through sustainable sourcing, with Rs.3.35 billion spent on purchases, mainly fresh produce, by the Consumer Foods and Retail industry group and the Sri Lankan Resorts segment, stimulating local economies and encouraging small businesses to help fulfil the supply chain requirements of the Group.

Group companies also undertake corporate social responsibility initiatives in locations of operations, across six key areas of national focus. During the year, through these initiatives, 1,010,200 people were impacted, while Rs.150 million was expended in carrying out community service and infrastructure projects. Training and awareness on serious diseases such as HIV and AIDS, dengue, thalassemia and diabetes was also carried out, with a total of 199,802 persons educated during the year. There has been a significant increase in persons educated due to a increasing number of awareness programmes conducted.



Diabetes screening programme conducted by UA

As a testament to its commitment to responsible business, the Group had no environmental, product related or any other significant fines during the reporting year and did not have any non-compliance with regard to marketing communications.

### Supply Chain Management

The Group believes that striving to entrench sustainability along its supply chain helps create long term value and business sustainability for all parties. The Group works closely with its key suppliers to create awareness and disseminate knowledge on sustainability best practices, with supplier fora being carried out for over 80 Group sourced suppliers in Sri Lanka as well as significant suppliers in the Maldives.

The Group's significant suppliers are reviewed in terms of labour practices, upholding of human rights and environmental impacts and assessed for key sustainability impacts, based on the Group's supply code of conduct, legal and other requirements. Approximately 90 existing suppliers were assessed during the year, while all new suppliers are assessed,

prior to being contracted as a pre-requisite to carrying out business.

The Group Initiatives process also ensures further integration of sustainability within the value chain. Tenders and bids received for high value items sourced by the Group are assessed not only for quality and price but also for social and environmental aspects and impacts.

During the year under review, a new procurement platform was implemented to streamline the Group's sourcing initiatives. Supplier identification, request for proposals, submission of proposals, evaluation, contracting and supplier management for products and services sourced from the central sourcing division will now be performed on the platform. This will enable the Group to have clear visibility of the sourcing process in real time, shorten contracting life cycles and have the ability to make better supplier related decisions based on more accurate analytics. In addition, the potential sourcing of business needs too will be carried out through this platform in the near future.

### Progress Review on Sustainability Commitments

Targets for 2016/17	Comment on progress
Seek to entrench sustainability and risk management practices across its significant value chain partners in an effort to promote responsible corporate citizenship in its supply chain whilst reducing the risk of operations for the John Keells Group	During the year, the Group carried out reviews of over 90 significant value chain partners on all areas of the triple bottom line, whilst also carrying out sustainability awareness through supplier fora for 80 group suppliers

## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

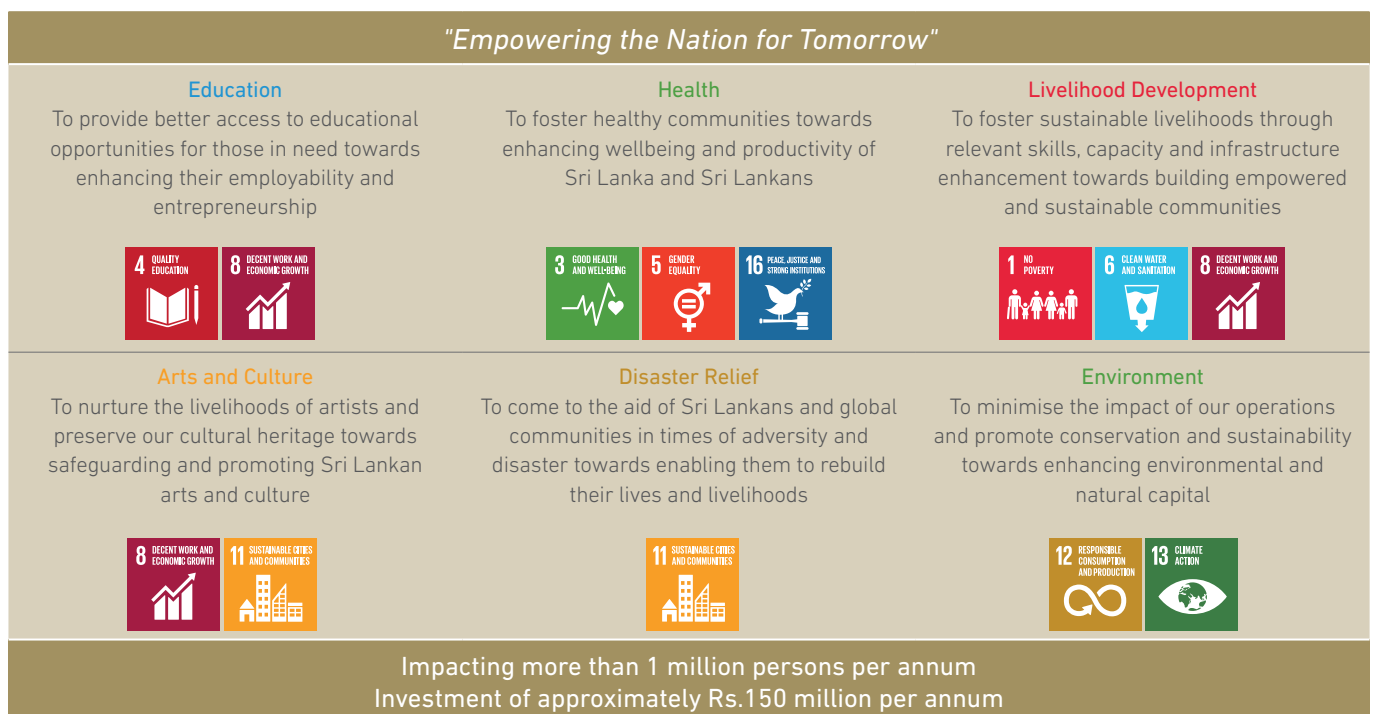
#### Corporate Social Responsibility Projects

The Group's CSR initiatives represent how the Group's values, corporate culture and operations are intrinsically intertwined and connected to social, economic and environment concerns. All initiatives carried out by the John Keells Foundation ("Foundation") are medium to long term strategic and sustainable projects that fall into one of six focus areas; Education, Health, Environment, Livelihood Development, Arts and Culture and Disaster Relief and is inspired by the Group's CSR vision "Empowering the Nation for Tomorrow".

During the year in review, the focus area entitled "Community and Livelihood Development" was renamed as "Livelihood Development". In addition, "Promises" in respect of each of the Group's CSR focus areas were developed, towards enabling strategic focus and alignment across the Group. All industry groups of the John Keells Group also commenced review of their CSR strategies towards aligning them to the Foundation's "Promises" and incorporating them in their long-term business plans.

At the Foundation, CSR initiatives are aligned to national priorities and Sustainable Development Goals (SDGs) to ensure a collective and targeted focus towards addressing key universal needs for the development of all people, focusing on the three dimensions of sustainable development: economic growth, social inclusion and environmental protection.

The diagram below indicates our CSR vision, focus areas and respective promises, aligned to the SDGs along with the impact and total investment of the Foundation during the financial year.



#### English Language Scholarship Programme

This project is aimed at enhancing English language skills of school children and youth from socially and economically disadvantaged backgrounds throughout the country in order to improve their opportunities for higher learning and sustainable employment. The main focus is "English for Teens"- with over 1,000 scholarships on offer each year to students aged 12-14 years from disadvantaged Government schools throughout the Island, while high-performing students have the opportunity to progress to the next level of the scholarship scheme. In the reporting year, a total of 1,296 youth registered under the English Language Scholarship programme in 24 locations covering 7 provinces while a



Performance by English scholars of Kurunegala at English Day 2016

Further details of the Corporate Social Responsibility projects are available on <http://www.johnkeellsfoundation.com/>



I have gained better skills in writing and speaking after the completion of this course. I believe that this programme has improved my knowledge more than enough to get through my examinations easily

- Thaksila Dilhara, scholar from Welimada

total of 1,148 scholars completed the course in keeping with attendance requirements. A speech and drama course for Grades 1-4 students of the School for the Blind in Ratmalana was introduced during the year in review. A cumulative total exceeding 13,000 scholarships have been awarded since project inception in 2005.

#### Neighbourhood Schools Development Programme

This project, in collaboration with Cinnamon Grand and Cinnamon Lakeside, aims to uplift the quality of education of five disadvantaged Government schools in Colombo 2. The following initiatives were conducted in the reporting year:

- Infrastructure and facility development amounting to Rs.1.2 million.
- 1,521 students benefited from English Language and IT scholarship programmes and revision classes in preparation for public examinations.
- 34 post-Ordinary Level students benefitted from a personal effectiveness and career guidance workshop, including an overview on career prospects available within the John Keells Group.
- Youth who were not eligible to pursue Advanced Level studies were offered vocational training in either the hospitality or retail industry.
- A teacher training workshop was organised in collaboration with the Zonal Education Office towards enhancing soft skills and interaction with students.

#### Soft Skills for University Undergraduates

Although workshops were planned to be held during the reporting year in the Universities of Ruhuna and Sri Jayewardenepura, the events could not be conducted due to union activities and student unrest affecting the Universities.



Teacher training workshop organised by JKF

#### Promoting Science Education Amongst School Children

The Foundation continued its collaboration with Sri Lanka Association for the Advancement of Science in conducting Science Day Programmes (SDPs), aimed at promoting an interest among school children in pursuing higher education and career aspirations in science contributing to the national development. 7 SDPs were conducted, benefitting 1,536 students and 101 teachers from 94 schools in six disadvantaged districts.

#### The John Keells Vision Project

This is an island-wide cataract project aimed at addressing Sri Lanka's biggest cause of preventable blindness. During the year in review, the Foundation continued its collaboration with the Ministry of Health and other partner organisations in relation to the following initiatives:

- Funding and volunteer support for a total of 133 eye camps in all 9 provinces, resulting in the screening of 1,770 patients and completion of 1,185 cataract surgeries. The cumulative number of cataract surgeries since the launch of the project in 2004 is 12,144.
- Funding and volunteer support for the School children's Vision Screening and Spectacles Programme in the Colombo District conducted in collaboration with the Department of Health Services and Ceylon Cold Stores PLC. During the reporting year, vision screening was conducted in 103 schools, testing over 54,670 school children and donating 3,465 eye glasses free of charge, resulting in a cumulative project total of 8,528 eye glasses.
- Donation of Rs.2 million towards the purchase of a phaco-emulsifier machine for the use of a mobile eye unit planned to be operated by the Vision 2020 Secretariat of the Ministry of Health.



JKH volunteers assisting in a school eye screening programme



## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

#### John Keells HIV and AIDS Awareness Campaign

The Foundation continued its long-term drive against the spread of HIV and AIDS as well as the stigma and discrimination associated with the disease. During the year in review, a total of 23,758 persons were sensitised on HIV and AIDS, resulting in a cumulative total of 117,268 persons since project inception in 2005. The awareness sessions are conducted by John Keells volunteer trainers, with some of the sessions featuring testimonies by HIV positive persons as a means of effectively addressing aspects of stigma and discrimination, while enabling such persons to develop economic independence. World AIDS Day was commemorated through a variety of Group wide activities including inter-business poster and quiz competitions and various awareness programmes.

The Foundation continued to host its e-learning platform on its website which is a comprehensive and interactive learning tool that covers critical information on HIV and AIDS. It is accessible free of charge by any member of the public over the age of 18 years. During the reporting year, 125 persons completed the e-module while a total of 622 persons visited the platform.

#### Project WAVE (Working Against Violence through Education)

This project is aimed at combating gender based violence (GBV) and child abuse through education and awareness creation in the context of increasing numbers of reported incidents in this regard. Since project launch in 2014, awareness sessions have been conducted across all sectors of the John Keells Group, covering almost all staff as at 31 March 2017 (11,456 persons). External awareness sessions were conducted sensitising 225 lawyers and 793 police officers in the reporting year.

In addition, the following initiatives were introduced during the year:

- A public awareness campaign against sexual harassment targeting commuters of public transport, in commemoration of the International Day for the Elimination of Violence Against Women. 124 John Keells volunteers actively participated in the campaign carried out at four of the busiest bus depots in Colombo. 2,300 stickers (in Sinhala and Tamil) were pasted inside 1,150 buses as well as depot precincts while 30,000 information cards were distributed throughout the day, estimated to impact



*HIV and AIDS awareness session conducted at the Kurunegala Army camp*

Many of the bus drivers and conductors were very supportive towards our campaign. They said harassment on buses is very common. I believe this is a very valuable awareness campaign that was not only meaningful but fun to be a part of - Husnun Nazeeyl, Management Trainee, John Keells Holdings

over 100,000 persons. 150 stickers were also provided to trishaw drivers for display. The campaign received encouraging support of the Sri Lanka Transport Board, the Western Province Provincial Road Passenger Transport Authority as well as bus drivers, conductors and commuters. Parallel to the public campaign, an internal campaign involving awareness posters, a staff pledge board and pinning of the white ribbon was undertaken across the Group as a demonstration of staff commitment to building a workplace free of harassment.

- A two day workshop on gender sensitisation and communication skills was conducted in collaboration with The Asia Foundation for police officers in Mullaitivu SSP Division towards enhancing their response towards sensitive issues concerning women and children. Police officers who participated in the programme will be guided towards conducting community outreach programmes on gender sensitivity towards building rapport, confidence and trust between the community and the police.

- A five year plan for Project WAVE was developed incorporating planned and potential key activities under 4 pillars comprising of Prevention, Capacity building, Interventions and Campaigning.

#### Village Adoption

This flagship initiative of John Keells Foundation is aimed at poverty alleviation at grass root level through an integrated and sustainable development programme. Initiatives are decided upon through constructive dialogue with all the relevant stakeholders, translating into a range of development activities generally spanning 5-10 years towards fostering the spirit of independence, self-reliance and entrepreneurship. Currently, 3 villages are in development including Iranaipalai and Puthumathalan in Mullaitivu District and Morawewa North in Trincomalee District. Below are some of the key activities carried out during the reporting year:

- Livelihood Development:** Three workshops on cattle rearing, family empowerment and youth empowerment were conducted towards enhancing skills for diversified livelihood and income generation opportunities.
- Education:** Construction of a new school building in Iranaipalai and revision classes for public examinations, benefiting an estimated 844 students.
- Infrastructure Development:** Rehabilitation work on 'D8' Tank in Morawewa was completed while the construction of a fisheries community centre in Puthumathalan was initiated for the benefit of approximately 1,300 persons.



Visitors purchasing a painting at Kala Pola

- **Gender Empowerment:** A leadership and team building workshop was conducted for women in Morawewa towards promoting peace, unity and entrepreneurial skills within the community.
- Further interventions will be decided following a needs assessment commissioned via World Vision.

Meanwhile, an impact assessment was commissioned via the Centre for Poverty Analysis (CEPA), following the closure of the Foundation's development activities in Halmillewa, its first adopted village, in the Anuradhapura District, after more than a decade's engagement with the transfer of total responsibility for the village to the villagers. CEPA commended the Foundation's vision, courage and efforts in undertaking this very ambitious project amidst a challenging environment, where JKF used a bottom-up approach and was able to develop rapport and trust with the villagers which made this intervention a very successful initiative.

#### Safe Drinking Water Initiatives

The following two key projects aimed at providing access to safe drinking water were undertaken in the reporting year:

- **Collaboration with the National Water Supply and Drainage Board (NWSDB)** to address Chronic Kidney Disease (CKD) - Continuing the success of the pilot project in Trincomalee District to provide two Reverse Osmosis (RO) filtration systems enabling access to good quality water for drinking and cooking purposes in areas known to be at risk of CKD, the Foundation released funding for

two more RO filtration systems in the Anuradhapura district.

- **United Nations Global Compact (UNGC)'s Water Stewardship** - The pilot project to provide equitable access to safe drinking water in the Badulla District was completed during the reporting year, which is estimated to directly benefit approximately 1,100 persons, including 4 schools.

#### Kala Pola and Digital Art Gallery

John Keells believes in safeguarding and promoting the cultural heritage of Sri Lanka through increased engagement in, and exposure to the arts, whilst also boosting livelihood opportunities of artists.

Kala Pola, an open air art fair, enabling artists and sculptors from across the country to showcase and sell their art, was successfully

conducted for the 24th year, with the participation of 327 registered artists and an estimated 22,115 visitors, generating over Rs.12 million in estimated sales revenue. 145 child artists participated in the Children's Art Corner at the event.

The Foundation continued to maintain and enhance the "Sri Lankan Art Gallery", a free digital online gallery established as a means for visual artists to showcase and market their creations throughout the year. Currently the website has registered over 813 artists with over 1,300 artwork pieces on display. During the reporting year, approximately 24,000 visitors visited the site.

#### Flood Relief

In the wake of the severe floods and landslides in several parts of the country in May 2016, destroying homes and displacing thousands, the John Keells Group provided immediate relief by funding 8,000 relief packs through the Sirasa Shakthi John Keells Sahana Yathra. Over 250 John Keells volunteers were mobilised throughout a 24-hour period to sort and pack relief items, while staff of Group businesses located in affected areas were involved in distribution of relief items estimated to benefit over 86,000 persons.

The Group also undertook a mass well-cleaning programme towards facilitating the resettlement of affected persons in the Colombo and Gampaha districts in collaboration with Sri Lanka Red Cross Society, Jinasena Private Limited and Ceylon Cold Stores PLC. 1,252 wells were cleaned under this initiative.



Community members gather round for their first collection of water from the Reverse Osmosis Plant donated by JKF



## Group Consolidated Review

### CAPITAL MANAGEMENT REVIEW

#### Intellectual Capital Review

The Group strongly believes that Intellectual Capital is a vital source of competitive advantage, which, in the long term, will result in a value premium for JKH through innovation and disruption of business models, ultimately serving the needs of an evolving and emerging consumer. Where possible and relevant, the Group strives to dynamically manage its Intellectual Capital, interweaving it to the Group's strategic management process. Following are the key components of the Group's Intellectual Capital. Refer to the Industry Group Analysis section of the Report for further details.

Whilst the Group undertakes research and development at the business unit level, John Keells Research (JKR), the research and development arm of the Group, was established in an attempt to create sustainable value through innovation to enhance the Intellectual Capital base of the Group. JKR's collaborative research project with the Human Genetics Unit of the University of Colombo is in its final phase. Further, the article titled "Whole genome sequencing and analysis of Godawee, a salt tolerant indica rice variety", which was reported in the previous Annual Report, was accepted and published in the Journal of Rice Research.

The year under review marked a significant milestone for JKR as it filed for its first patent for a novel energy source material that was developed through a research project undertaken in collaboration with the National Metallurgical Lab of the Council for Scientific and Industrial Research (CSIR-NML) in India. The patent application which was filed at the Indian patent office in December 2016 is related to a composite nanomaterial which could be used in energy storage. Biocompatibility and low cost per unit of power stored are the advantages of the material. JKR is currently in the process of building prototypes of energy storage devices which utilises the patented technology to enhance the Technology Readiness Level (TRL) of the intellectual property and to examine the commercial viability of a prototype product.

During the year under review, JKR relocated to the Technology Incubation Centre at the Nanotechnology and Science Park in Pitipana, Homagama, comprising of an in-house laboratory providing access to sophisticated equipment and analytical services to ensure sole ownership of intellectual property by



*The newly established laboratory of John Keells Research*

The year under review marked a significant milestone for JKR as it filed for its first patent for a novel energy source material that was developed through a research project undertaken in collaboration with the National Metallurgical Lab of the Council for Scientific and Industrial Research (CSIR-NML) in India.

JKH. The relocation to the Science Park is expected to provide greater opportunities for technical collaboration, while contributing towards creating and nurturing an ecosystem of innovation. JKR currently collaborates with leading universities and research institutes in Sri Lanka and also has projects with a leading research institute in India and a university in the United States.

The Group is home to many brands which have gained recognition in their respective spheres over many years. The range of brands under each of the industry groups are depicted in the Organisational Structure of this Report. In addition to routine strategies executed by each of the businesses to strengthen their respective brands, the Leisure industry group has placed significant emphasis on systematically executing the "Cinnamon" brand strategy. The "Cinnamon" brand development initiative was continued in the year under review as an ongoing effort to create value and brand equity through the hosting of signature events. Several brand

development initiatives were pioneered in the operational year to create and enhance opportunities and offerings to our diverse stake holders, in keeping with the changing dynamics and ever evolving trends of the travel and leisure industry.

During the year under review, the Group continued to identify emerging or current disruptive business innovations, focused on developing the digital quotient (DQ) of individuals and businesses. This is believed to increase the productivity and efficiency of businesses through the employment of digital technologies and disruptive business models, which in turn would create sustainable value to stakeholders. To this end, an award on Disruptive Innovation was introduced at the JKH Chairman's Awards 2016, to recognise businesses that have made disruptive innovation an integral part of the organisation and formulated successful responses to emerging or current business disruption. In addition, the Group launched "John Keells X - Open Innovation Challenge 2016" to create a conducive ecosystem for young entrepreneurs to thrive and encourage businesses at JKH to engage in open innovation. The inaugural JKH challenge was well received where a total of 148 applications were received with ten of these applicants being shortlisted for the final pitch. Considering the success of the inaugural challenge, the second open innovation challenge will be launched in May 2017.

While concluding the Group Capital Management Review, the ensuing sections will discuss the overall strategy and outlook for the Group, followed by a materiality and risk management discussion.

# Group Consolidated Review

## OUTLOOK

Following is a discussion on the economic outlook for Sri Lanka in the short to medium term, the high level impacts to our businesses and the overall business strategy of the Group. For a detailed discussion on the strategy and outlook for each industry group, refer the Industry Group Review section of this Report.

The acceleration in global growth and the resultant increase in global interest rates could have diverse effects on the Sri Lankan economy. The increase in oil prices, as well as prices of other commodities, will weigh negatively in aggregate on the Balance of Payments (BOP) and domestic price indices, while stagnant growth in the Middle East could reduce income from tea exports and remittances by migrant workers.

The Sri Lankan economy is projected to continue its current growth momentum in 2017, driven by expansion in the Industry and Services sectors, with growth in sub sectors such as construction, utilities, wholesale and retail trade involving SMEs, financial services, accommodation and food and beverage services and housing expected to spearhead economic expansion. The continuation of the prevailing drought conditions in the country, delays and the lack of decisive policy implementation, developments externally in the global economy due to Brexit, volatility in oil prices and the after effects of the US election are headwinds that the private sector will have to navigate in the short term. The higher value added tax (VAT) rate introduced in November 2016, the increase in interest rates and inflation, and the increased emphasis on improving tax collection for 2017 is likely to result in a moderation in consumer discretionary spending compared to the previous years. Whilst such short term moderations in growth and consumption are expected, given the challenges in balancing fiscal adjustments and growth oriented policies, the long term benefits will establish a favourable and sustainable disposition for the overall economy.

The re-commencement of large scale infrastructure projects such as the Port City Colombo and continued investments in infrastructure including expansion of the country's network of expressways have spurred economic activity. The execution of proposed Free Trade Agreements as well as planned development activities such as the development of the Hambantota Port,

the Western Region Megapolis Planning Project and development of industrial zones in Hambantota, Trincomalee and the North Western Province will provide fresh impetus to the private sector.

The Government has stated an interest in exiting non-core public owned interests to enable private sector driven investments, both directly and through public-private partnerships. Although no firm steps have been taken in this regard, this should augur well for the private sector, in general, and for our Group, in particular.

Sri Lanka entered into an Extended Fund Facility with the International Monetary Fund (IMF-EFF) in order to support the BOP and the Government's reform agenda. Further, the external current account deficit is expected to improve steadily with the projected developments in the external sector. An improvement in exports is projected to emanate in the medium term from higher export oriented domestic production supported through improved trade linkages, including the reinstating of GSP Plus concessions, and proposed free trade and economic partnership agreements. Whilst the Government's efforts, with the support of the IMF, to formulate policy frameworks to address the emerging challenges are commendable, it is essential that such policies are implemented swiftly and in consultation with key stakeholders. The higher dependency on imports of petroleum products for electricity generation amid severe drought conditions and an environment of volatile prices in oil can pose challenges in narrowing the trade deficit.

The pressure on the exchange rate is expected to continue in the short term due to the substantial increase in import expenditure, prevailing trade deficit and contracting earnings from merchandise exports with the drop in both international commodity prices and export volumes. However, the pressure on the Rupee is

expected to ease through the Government's proposed fiscal framework which is embedded in the IMF-EFF arrangement, aimed at strengthening fiscal sustainability in the medium term. Further, the conclusion of a 10 year sovereign bond in April 2017, raising USD 1.50 billion, underscores investor confidence in Sri Lanka and their positive outlook on overall growth prospects for the country. Whilst, the depreciation of the Rupee negatively impacted businesses with higher reliance on imported inputs, the Group also benefitted through its individual subsidiaries which have direct and indirect Dollar denominated income streams, in addition to the positive impact due to its foreign currency denominated cash holdings. The Group's risk strategy of maintaining "natural hedges", where relevant and feasible, will mitigate to a great extent, the volatility arising from possible fluctuations in the exchange rate.

The Consumer Foods sector will continue to focus on expanding its portfolio, remaining relevant to its consumers by understanding evolving consumer trends and needs. Whilst the moderation of consumer spending witnessed in the fourth quarter of 2016/17 is likely to continue in the short term given the Government's fiscal consolidation efforts and prevailing inflationary pressures, the long term growth potential for the business remains strong considering the low penetration levels in the country. Taking into account the strong growth in the previous year, and the anticipated growth in the ensuing years, the Consumer Foods sector has commissioned sizeable capacity enhancements which are expected to come into effect in due course. These expansions, coupled with the enhancements in the dealer management systems, are expected to create a platform for growth through the increase in production capacity and widened portfolio offering to consumers and, provide more real time information which will result in increased productivity and efficiency of operations. The Group's Retail sector will capitalise on the low penetration of modern retail in the country,

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Taking into account the strong growth in the previous year, and the anticipated growth in the ensuing years, the Consumer Foods sector has commissioned sizeable capacity enhancements which are expected to come into effect in due course.

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## Group Consolidated Review

### OUTLOOK

by strategically expanding its retail footprint. The business continues to seek opportunities in strategically placed locations to go well beyond the 15 stores opened in 2016/17, with an even more aggressive roll out plan over the next few years. Towards this end, the sector will be commissioning a state-of-the-art centralised distribution centre to maximise on operational efficiencies and to further improve productivity of the business whilst also enhancing the offering to its customers.

The Leisure industry group is well positioned to capitalise on the growth momentum of tourist arrivals to the country under the umbrella of the “Cinnamon” brand. The encouraging growth momentum of arrivals is expected to continue given the favourable fundamentals of the tourism offering in Sri Lanka, such as diverse experiences within close proximity, increasing awareness of the destination, stability in the country, increasing flight connectivity and gradually improving tourism infrastructure. The Leisure industry group will continue to evaluate expansion opportunities to complete the round trip offering of its portfolio of hotel. However, the Group is mindful of the return profile of hospitality investments and the resultant impact to the overall returns of the Group portfolio. To this end, asset light expansion models will synergise well to manage the effective capital deployed in the industry group whilst increasing its room inventory under management. The Leisure industry group will continue to harness the benefits of the branding initiative which was undertaken in the previous years for a more effective management of room inventory, yield management, enhanced guest experiences and in deriving synergies on common costs which lend themselves to centralisation. Further, in the medium to long term, the opportunity of the Meetings, Incentives, Conferences and Exhibitions (MICE) market, particularly from India, will enable the Group to attract the high spending segment of tourists which Sri Lanka has hitherto been unable to satisfy. To this end, “Cinnamon Life” is uniquely placed to cater to the emerging requirements of the contemporary tourist and the increasing MICE traffic, positioning Colombo as a hub for business and leisure travel.

Given the strategic location of the country and the inherent advantage Sri Lanka possesses as a maritime hub, the Ports, Logistics and

Bunkering businesses are expected to benefit from the increase in traffic with further infrastructure expected to support this traffic. It is pertinent to note that the overall capacity utilisation of the Port of Colombo is in excess of 70 per cent within a relatively short time span since the commissioning of the South Container Terminal. Given the strong potential and need for capacity led growth in the Port of Colombo, the Transportation industry group will continue to evaluate opportunities, particularly considering any developments based on the Government's interests in private-public partnerships, such as with the East Container Terminal of the Port of Colombo and bunkering and related services at Hambantota.

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The Leisure industry group is well positioned to capitalise on the growth momentum of tourist arrivals to the country under the umbrella of the “Cinnamon” brand. The encouraging growth momentum of arrivals is expected to continue given the favourable fundamentals of the tourism offering in Sri Lanka, such as diverse experiences within close proximity, increasing awareness of the destination, stability in the country, increasing flight connectivity and gradually improving tourism infrastructure.

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In line with Sri Lanka progressing towards an upper middle income country with growing urbanisation rates, the Property industry group will continue to identify unique product propositions within the residential and commercial property market, leveraging on the Group's sizeable land bank and its reputation as a leading developer which also creates opportunities in entering into partnerships with independent land owners. The Group is cognizant of the fact that revenue recognition in the Property industry group has demonstrated a volatile trend based on the projects completed, and as discussed in the Property industry group review, the business is taking steps to develop a more robust pipeline of projects.

The Insurance business will continue to capitalise on the opportunities made available by the significantly low life insurance penetration levels within the country, leveraging on its strong brand presence, cost efficient processes and differentiated offerings. Nations Trust Bank, although facing challenges with the narrowing of net interest margins, will continue to focus on

initiatives in relation to customer centricity, and incorporate more technology platforms and solutions for its customers. The Bank will also focus on continuing to increase its market share in the SME sector.

In the year under review, the Group embarked on a target setting process for key material impacts such as carbon and water, against baseline figures. The targets were based on systematic audits, assessments and benchmarking carried out for industry groups such as Leisure and CF&R which contribute significantly to the Group's total energy and water usage. The Group will continue to strive to outperform selected international benchmarks for carbon foot prints, energy

consumption and water usage, whilst also seeking to improve its own performance on the said aspects.

The Group will also continue to integrate its risk management process with its sustainability strategy through consistent tracking and reporting of key risk indicators on areas such as green-house gas emissions, talent attrition, third party claims, non-compliance and stakeholder concerns with regards to the Group's operations. While maintaining the robust sustainability performance management framework, the Group will also work to ensure that sustainability and risk management practices are further entrenched across its significant value chain partners through the implementation of responsible sourcing practices, where practical and relevant.

# Group Consolidated Review

## STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

The Strategy, Resource Allocation and Portfolio Management section of this Annual Report is aimed at providing the stakeholders of the Group with an insightful view of the manner in which decisions pertaining to investments of the Group are made.

As such, the ensuing pages will explain in detail, the following aspects:

- Strategy of the Group
- Resource allocation and portfolio management
- Portfolio movements

### Strategy

The Group's vision of "Building businesses that are leaders in the region" is the cornerstone of all resource allocation, portfolio evaluation and operational decisions of the business units. In pursuing its vision, the Group is mindful of the governing principles which form the foundation of all strategies and initiatives that have been planned, are being implemented, or have been implemented, towards achieving the medium to long term objectives of the Group. These principles are primarily: a stakeholder focused business model; a corporate governance philosophy which emphasises performance, in addition to compliance and conformance; a risk identification process and management philosophy based on a sound enterprise risk management framework, and a sustainability development framework which are all in line with international best practices.

As evident from the past, the Group strives to constantly align its portfolio of businesses with the growth sectors of the economy, both current and futuristic, and continuously endeavours to ensure that capital resources are efficiently employed in a manner that will expand the reach of the portfolio, ensure relevance and give the ability to compete at the relevant levels, both globally and internationally. The Consumer Foods and Retail, Financial Services, Leisure, Property and Transportation industry groups are all poised to grow in the medium to long term in a local economic environment which is expected to be progressive, and, in the region, where we have accumulated competence in the relevant industry.

The Group's ambitions are facilitated by an Operating Model where each business unit is granted operational autonomy within a framework of delegated decision rights

The Group's vision of "Building businesses that are leaders in the region" is the cornerstone of all resource allocation, portfolio evaluation and operational decisions of the business units. In pursuing its vision, the Group is mindful of the governing principles which form the foundation of all strategies and initiatives that have been planned, are being implemented, or have been implemented, towards achieving the medium to long term objectives of the Group.

approved by the Group Executive Committee or Board of Directors, as applicable, in ensuring speed of decision making, accountability and agility in responding to the needs of the market. Given the diversity and scale of the Group, and the multiple management layers within it, the agendas, scope and role of these committees and their positions are carefully structured to ensure the efficient flow of information, ethical and responsible implementation of strategic initiatives, minimisation of duplication of effort, and adherence to the Group's values.

The Group Executive Committee, which gets its high level direction from the Board and has a macro focus of the overall direction of the Group, is accountable for the overall performance of varied businesses/industry groups/sectors, and acts as an enabler of the Operating Model of the Group. The support functions at the Centre complement and assist the businesses through a common pool of knowledge, if and when required. These knowledge centres are able to complement the business units, as required from time to time, and are an effective synergising force across the Group. Thus, the Operating Model of the Group is designed to create a value premium, where the Group, as a whole, creates more value to JKH stakeholders than the sum of each business taken individually.

Strategy mapping exercises concentrating on the short, medium and long term aspirations of each business, are conducted annually and are reviewed at a minimum, quarterly/ bi-annually, or as and when a situation so demands.

This exercise entails the following key aspects, among others.

- Progress and deviation report of the strategies formed in the prior year and current year
- Competitor analysis and competitive positioning
- Analysis of key risks and opportunities
- Talent Management
- Management of stakeholders such as suppliers and customers
- Key sustainability related initiatives
- Disruptive innovation and digitisation initiatives
- Value enhancement through initiatives centred on the various forms of Capital under an integrated reporting framework

The strategies of the various business units operating in diverse industries and markets will always revolve around the Group's strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

When allocating funds for various investments, the project evaluation model, discussed in detail in the ensuing sections, strives to strike a balance between optimising immediate portfolio returns and preserving medium to long term growth objectives, whilst ensuring investments will be EPS accretive in the long term.

The strategies of the various business units operating in diverse industries and markets will always revolve around the Group's strategy, while considering their domain specific factors. The prime focus always is to enhance value for all stakeholders.

## Group Consolidated Review

### STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

Similar to the previous year, the Group continued to encourage all businesses to engage in “disruptive innovation” challenging the traditional ways of doing business by utilising current and emerging technology. As a result, several business units and functions within the Group have conceptualised and implemented digitally enabled workflow and process optimisation solutions into their key business processes, with the goals of enhancing the customer experience, internal productivity and organisational efficiency.

Further details on the strategy formulation and decision making process can be found under the Corporate Governance Commentary of this Report. Group-wide strategies are discussed in detail under the Strategy and Outlook section of each of the industry group reviews.

#### Resource Allocation and Portfolio Management

Resource allocation and portfolio management is an imperative action in creating value to all stakeholders through an evaluation of the Group’s fundamentals, which are centred on the forms of Capital. Whilst the Group is frequently presented with opportunities in diverse industries, it continues to follow its structured four-step methodology indicated below in evaluating, and managing its portfolio.

#### Regular Assessment of Risk and Reward

All verticals and businesses within each industry group are regularly assessed on key dimensions such as customer orientation and bargaining power, supplier concentration and power, JV partner affiliations and dependence, cyclicalities, regulatory structure, performance against the industry and the Sri Lankan economy, and economic, procedural,

regulatory or technological factors that obstruct or restrict operations, entry or exit of both the unit and competitors, et cetera.

The capital structures for new ventures are stress tested under varied scenarios, which often leads to taking proactive measures, particularly in managing potential risks, especially those relating to foreign exchange and taxation during both the development and operating phases. Further, ongoing projects are regularly tested and evaluated in partnership with independent and recognised parties to ensure clear, impartial judgement on matters relating to capital structure, economic implications and other key operating risks.

#### JKH’s Hurdle Rate/Required Rate of Return

The present hurdle rate of JKH is at 15 per cent, which is a function of the weighted average cost of capital (WACC). The WACC is derived from the Group’s cost of equity, cost of debt, target capital structure, tax rates, and the value creation premium required over and above the WACC. Whilst the cost of debt has increased towards the end of the period under review, the hurdle rate has not been revised on the basis that it is a long term target, and any revision would be warranted only if the above factors are expected to sustain over the long term.

Even though this hurdle rate is utilised as the initial benchmark rate in evaluating feasibility and opportunity in all projects of the Group, project specific modifiers are also used in order to get a holistic view of the project under consideration. As such, a country specific risk modifier would be applied for investments with a high proportion of foreign currency investment costs and operational cash flows,

through the use of a project specific cost of debt and a foreign currency denominated equity return benchmark commensurate with the investment, which in turn, would be comparatively analysed against projects with similar risk profiles.

#### Conceptualising Portfolio Performance

The Group aims to strike a balance between optimising immediate portfolio returns against returns in the future. As such, emphasis is placed on both return generating capabilities of the business against its capital employed, and the earnings potential of the business or project. The Group is conscious of the quantum of capital deployed to businesses, and to this end, places a strong emphasis on evaluating projects in such manner which optimises capital efficiency, especially in capital intensive businesses such as Leisure. In order to manage the effective quantum of capital deployed, the Group will continue to explore investment structuring options such as asset-light investment models for future hotel projects.

Being a portfolio of businesses, the Group has benefitted from contributions from different businesses at varying points of time based on their growth cycle and correlation with overall economic growth in the country. Over the last few years the Group has witnessed a shift in the composition of its earnings with a greater contribution from higher ROCE earning industry groups such as Consumer Foods and Retail, and Financial Services. The conscious and planned strategies of driving growth in these industry groups will, all things being equal, contribute towards an improvement in the ROCE for the Group, whilst concurrently driving absolute earnings growth.

Financial filter	Cornerstone of the decision criteria based on the JKH hurdle rate
Growth filter	Evaluates the industry attractiveness and growth potential based on the industry lifecycle
Strategic fit	Evaluates the long term competitive advantage of a business/industry by closely evaluating the competitive forces, specific industry/business risks, ability to control value drivers and the competencies and critical success factors inherent to the Group
Complexity filter	Considers factors such as senior management time and the risk to brand image and reputation in conjunction with the anticipated returns



Further to the discussion in the Group Consolidated Review section of this Report, the ensuing section discusses the return on capital employed (ROCE) under two key modifiers.

#### Modifier I - Adjustment for land re-allocations

Properties that are not under the operational banner of the non-property related business units, and are excess to their current and foreseeable operational requirements, have been allocated to the Property industry

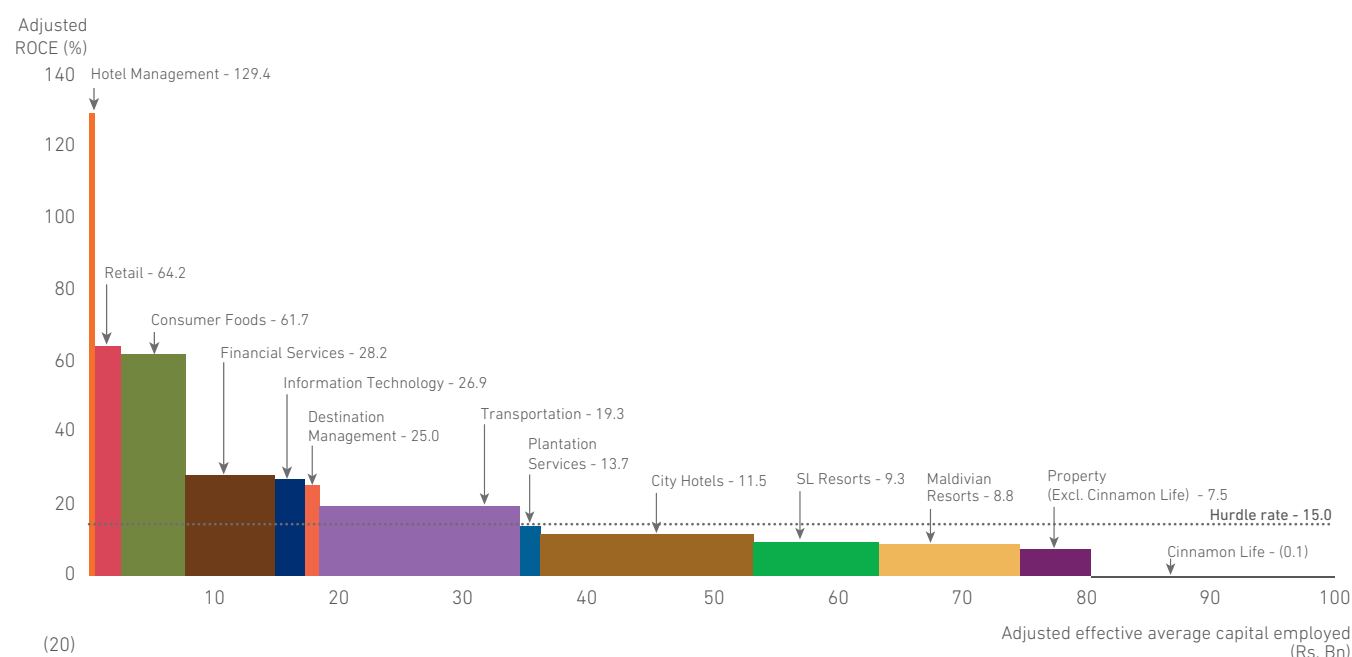
group along with the corresponding income. However, it is noted that real estate belonging to the Sri Lankan Resorts segment is excluded as such properties constitute the land bank of the segment for future hotel developments. The properties re-allocated will be a part of a "property play" and plans for development and operation are the responsibility of the Property industry group. "Cinnamon Life" is recognised as a stand-alone play.

#### Modifier II - Adjustment for investment property and revaluations

Properties which have been re-rated in keeping with the principle of fair value accounting have been adjusted for the preceding three years in order to obtain a clear and un-skewed view of the ROCE. The need for such a modifier is exacerbated as a result of the significant increase in the value of land in the recent few years, where monetisation of such properties would have a time lag.

	2016/17			2015/16	2014/15
	Unadjusted ROCE (%)	ROCE after modifier I (%)	ROCE after modifier I and II (%)	ROCE after modifier I and II (%)	ROCE after modifier I and II (%)
Hotel Management	129.4	129.4	129.4	91.0	76.6
City Hotels	8.5	8.9	11.5	10.2	11.6
Sri Lankan Resorts	8.6	8.6	9.3	8.1	8.5
Destination Management	25.0	25.0	25.0	46.2	46.2
Maldivian Resorts	8.8	8.8	8.8	9.6	9.6
Transportation	19.2	19.2	19.3	16.3	16.4
Consumer Foods	59.2	60.6	61.7	65.0	77.5
Retail	63.5	63.5	64.2	61.8	61.9
Financial Services	28.0	28.0	28.2	24.5	24.5
Property (Excl. Cinnamon Life)	12.5	10.3	7.5	19.4	13.1
Cinnamon Life	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Information Technology	26.9	26.9	26.9	6.8	6.8
Plantation Services	14.3	15.4	13.7	0.8	1.5

The adjusted ROCE following the two modifiers is graphically depicted below. Key highlights of the graph are discussed in the ensuing section.



## Group Consolidated Review

### STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

During the year under review, the adjusted ROCE of the City Hotels increased to 11.5 per cent, compared to 10.2 per cent for the previous year. The sector's performance was driven by higher Average Room Rates (ARR) and improved occupancy levels. The previous year's profitability was impacted by the partial closure of Cinnamon Lakeside. The Sri Lankan resorts segment also recorded a growth in ARRs, and thus recorded an improvement in adjusted ROCE at 9.3 per cent compared to 8.1 per cent for the previous year.

It is pertinent that, as part of its future expansion plans, the asset base of the Sri Lankan Resorts segment includes a large land bank earmarked for development of hotel properties. While monetisation of these properties in the future will be based on development potential, their effects on the capital base due to re-rating have been adjusted for, as mentioned above under the "Modifier II" section. For further details on the land bank refer the Group Real Estate Portfolio section of this Report.

Given its service oriented disposition, the Hotel Management sector and the Destination Management sector continued to record ROCEs well above the hurdle rate. The Hotel Management sector witnessed an increase in its adjusted ROCE to 129.4 per cent [2015/16: 91.0 per cent], primarily due to a decline in the capital base.

The strong long term growth prospects for tourism in the country present the Leisure industry group with expansion opportunities, which the Group intends to capitalise on through an asset light expansion model. It is envisaged that this would result in an optimal deployment of capital that is accretive to Group portfolio returns.

The Destination Management sector on the other hand, witnessed a decline in its ROCE to 25.0 per cent [2015/16: 46.2 per cent], which is attributable to a reduction in its EBIT due to increasing competition in the industry. Consequently, EBIT margins came under pressure, and declined to 6.0 per cent compared to 9.0 per cent for the previous year.

The Maldivian Resorts segment has been included in the aforementioned graph and the ROCE analysis, to ensure capturing of all sectors/industry groups. However, it should

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**The Group is cognizant of the fact that revenue recognition in the Property industry group has demonstrated a volatile trend based on the projects completed, and as discussed in the Property industry group review, the business is taking steps to develop a more robust pipeline of projects.**

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be noted that the return generated from the Maldivian Resorts segment should be appraised against a return of a comparable dollar financed asset as opposed to the Group rupee hurdle rate of 15 per cent which is based on the rupee risk free rate. As shown above, the return of the segment declined to 8.8 per cent [2015/16: 9.6 per cent], which can be attributed to an increase in the capital base due to the extension of the head lease of Cinnamon Dhonveli Maldives.

The adjusted ROCE of the Transportation segment increased to 19.3 per cent from 16.3 per cent in the previous year. This increase stemmed from a growth in EBIT, which outstripped growth in capital employed, primarily due to improved operational performances of the businesses, as discussed under the Transportation industry group review.

The Property industry group, excluding "Cinnamon Life", witnessed a decline in adjusted ROCE to 7.5 per cent [2015/16: 19.4 per cent], mainly attributable to the revenue recognition cycle of its residential apartments. During the year under review, the Property industry group's revenue primarily comprised of rental income from its shopping malls. This is in contrast to previous years where a significant portion of revenue comprised of income from apartment sales. As defined above under "modifier 1",

properties that are not under the operational banner of the non-property related business units, and are excess to its current and foreseeable operational needs, have been included under this segment. Despite the re-rating of the properties under this segment, the Group is of the view that there is a lag effect in returns adjusting for the increased capital base of such properties and thus, warrants it impossible to employ such properties in immediate return generating projects. Hence such revaluations, as defined under "modifier 2", have been adjusted for in calculating the adjusted ROCE. The Group is cognizant of the fact that revenue recognition in the Property industry group has demonstrated a volatile trend based on the projects completed, and as discussed in the Property industry group review, the business is taking steps to develop a more robust pipeline of projects.

Unlike the analysis done on adjusted ROCE under the Group Consolidated Review section of the Report, debt and equity infused in to "Cinnamon Life" have not been adjusted, as the project is separately evaluated in the ensuing section.

During the year, Rs.4.34 billion of cash equity and Rs.1.22 billion of debt was infused to "Cinnamon Life" to finance the development costs of the project. As at 31 March 2017, the cumulative figures stood at Rs.15.00 billion and Rs.12.37 billion for cash equity and debt respectively. The aforementioned cash equity investment at "Cinnamon Life" excludes the land transferred by JKH and its subsidiaries. Note that all project related costs, unless explicitly mentioned as above, are capitalised in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS). Additionally, it is highlighted that the revenue from the "Cinnamon Life" project will only be recognised post the commencement of operations.

The Consumer Foods sector recorded a decrease in the adjusted ROCE to 61.7 per cent from 65.0 per cent in the previous year.

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**The strong long term growth prospects for tourism in the country present the Leisure industry group with expansion opportunities, which the Group intends to capitalise on through an asset light expansion model. It is envisaged that this would result in an optimal deployment of capital that is accretive to Group portfolio returns.**

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This decrease is attributable to an expansion in the capital base as a result of borrowings undertaken to fund new investments, such as the new ice cream manufacturing facility. The growth in the capital base was partially off-set by the increase in profitability driven by double digit volume growth and changes made to the sales mix which positively impacted profit margins.

The Retail sector continued its strong growth trajectory with a significant increase in profitability owing to higher overall footfall, coupled with incremental turnover from newly opened outlets. As such, the adjusted ROCE increased to 64.2 per cent [2015/16: 61.8 per cent] despite an increase in capital

employed resulting from the opening of fifteen new outlets during the year.

The Financial Services sector recorded an adjusted ROCE of 28.2 per cent compared to 24.5 per cent recorded in the previous financial year. The increase in the ratio is partly stemming from the decline in the average capital base of the industry group attributable to the UA share repurchase which took place in September 2015.

The adjusted ROCE of the Information Technology industry group increased to 26.9 per cent [2015/16: 6.8 per cent] primarily stemming from the performance of the Office Automation business, which witnessed

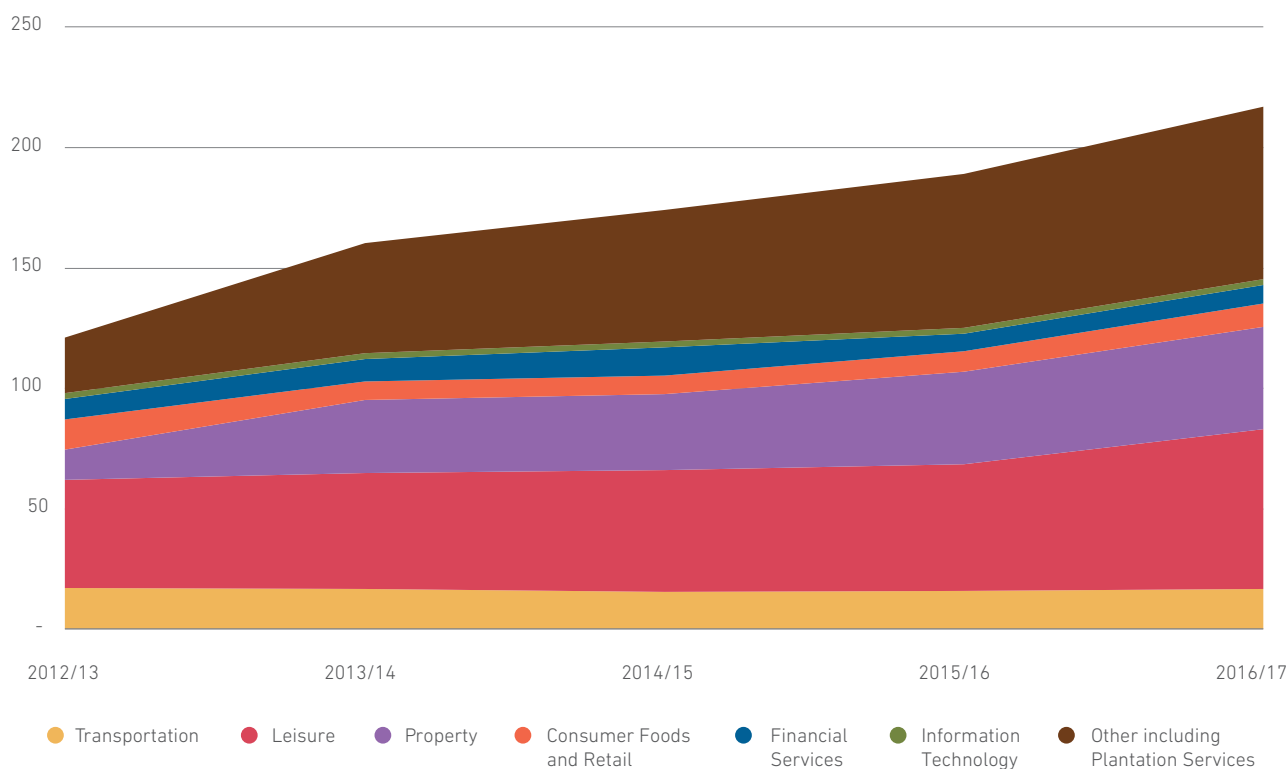
a significant increase in sales volumes of mobile phones. Operational efficiencies in the BPO business also contributed towards the improved profitability of the industry group.

The adjusted ROCE of the Plantations Services sector increased to 13.7 per cent compared to 0.8 per cent recorded in the previous financial year. This marked increase is attributed to an increase in EBIT on account of higher prices due to a tighter supply of leaf tea, as crop yields declined due to the unfavourable weather conditions prevailing in the country.

## Portfolio Movements

Portfolio movements over the past five years are illustrated in the graph below.

Capital employed  
(Rs. Bn)





## Group Consolidated Review

### STRATEGY, RESOURCE ALLOCATION, AND PORTFOLIO MANAGEMENT

#### Significant Movements of the Portfolio and in Capital Employed

	2013/14	2014/15	2015/16	2016/17
Investments	JKH raised Rs.23.10 billion through a Rights issue to fund the equity contribution of the "Cinnamon Life" Project	Invested Rs.113 million in Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air	Invested Rs.4.73 billion in Waterfront Properties (Private) Limited	Invested Rs.4.34 billion in Waterfront Properties (Private) Limited
	KHL invested Rs.899 million in the ITHL Rights Issue to infuse equity to Cinnamon Bey	Invested Rs.100 million in John Keells Properties Ja-ela (Private) Limited	Invested Rs.243 million in Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air	Invested Rs.12.06 million in John Keells Stock Brokers (Private) Limited
	JKH infused Rs.32 million equity to Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air	Invested Rs.585 million in Waterfront Properties (Private) Limited	JKH, together with its subsidiaries, increased its shareholding in Rajawella Holdings Limited (RHL) from 16.9 per cent to 51.0 per cent. The total investment in RHL of Rs.1.04 billion comprised of a release of an existing sublease of land held by the JKH Group in exchange for shares, a partial buyout from existing shareholders and cash infusions into RHL on a staggered basis	Invested Rs.43.17 million in Saffron Aviation (Private) Limited, the operating company of the domestic aviation operation Cinnamon Air
		KHL invested Rs.199 million for the acquisition of a 426 perch land in Nuwara Eliya		
		Entered into a lease agreement with MOT to acquire Kekuraalhuveli Island next to Hakuraa, in the Maldives		
Divestments	JKH disposed its 24.6 per cent stake in Central Hospital (Private) Limited for a consideration of Rs.1.59 billion	JKH disposed its 4.3 per cent stake in Expolanka Holdings PLC which resulted in a capital gain of Rs.389 million		
	JKH divested its 49 per cent stake in Information Systems Associates (ISA) for a consideration of Rs.384 million	JKH disposed its 4.0 per cent stake in Access Engineering PLC which resulted in a capital gain of Rs.593 million		
		Union Assurance PLC (UA) sold a 78 per cent stake of Union Assurance General Limited for a consideration of Rs.3.66 billion which resulted in a capital gain of Rs.1.22 billion		
Mergers and restructuring/other		JKH's 100 per cent stake in Nexus Networks (Private) Limited was divested to JayKay Marketing Services (Private) Limited, resulting in an amalgamation, with the surviving entity being JayKay Marketing Services (Private) Limited.	Share repurchase by Asia Power (Private) Limited resulted in a capital gain of Rs.82 million	
			90.44 million shares held by JKH were repurchased by John Keells Residential Properties (JKRP) at a value of Rs.1.60 billion	
			24.66 million shares held by JKH were repurchased by UA at a value of Rs.4.14 billion	

# Group Consolidated Review

## MATERIALITY AND STAKEHOLDER RELATIONSHIPS

### Sustainability Integration

Over the years, the John Keells Group which operates in seven industry groups, has placed great importance on sustainable development. The Group has an integrated approach to ensuring the interlinks between its financial performance and brand image, its sound corporate governance, product and service excellence, productive workforce, environmental stewardship and social responsibility.

The following section provides an overview of the Group's strategy of entrenching sustainability within its business operations, the policies and methodologies in place for sustainability reporting and defining material sustainability aspects and the scope and boundary of the sustainability content.

#### Group Sustainability Policy

- The Group will strive to conduct its activities in accordance with the highest standards of corporate best practice and in compliance with all applicable local and international regulatory requirements and conventions
- The Group monitors and assesses the quality and environmental impact of its operations, services and products whilst striving to include its supply chain partners and customers, where relevant and to the extent possible
- The Group is committed to transparency and open communication about its environmental and social practices in addition to its economic performance. It seeks dialogue with its stakeholders in order to contribute to the development of global best practice, while promoting the same commitment to transparency and open communication from its partners and customers
- The Group strives to be an employer of choice by providing a safe, secure and non-discriminatory working environment for its employees whose rights are fully safeguarded and who can have equal opportunity to realise their full potential. All Group companies will abide by national laws and wherever possible will strive to emulate global best practice governing the respective industry groups, seeking continuous improvement of health and safety in the workplace
- The Group will promote good relationships with all communities of which we are a part and enhance their quality of life and opportunities while respecting people's culture, ways of life and heritage

### Sustainability Management Framework

The Group's Sustainability Management framework includes strategies for entrenchment of sustainability, facilitated by a sustainability organisational structure, management information processes for benchmarking, gap analysis and reporting as well as awareness creation and sustainability assurance.

This comprehensive management framework is constantly updated and improved to take into consideration the operational requirements of the various companies of

the Group, and includes Standard Operating Procedures, common IT platforms for tracking key sustainability indicators and key risk indicators, internal sustainability assurance in addition to internal audit and external assurance processes.

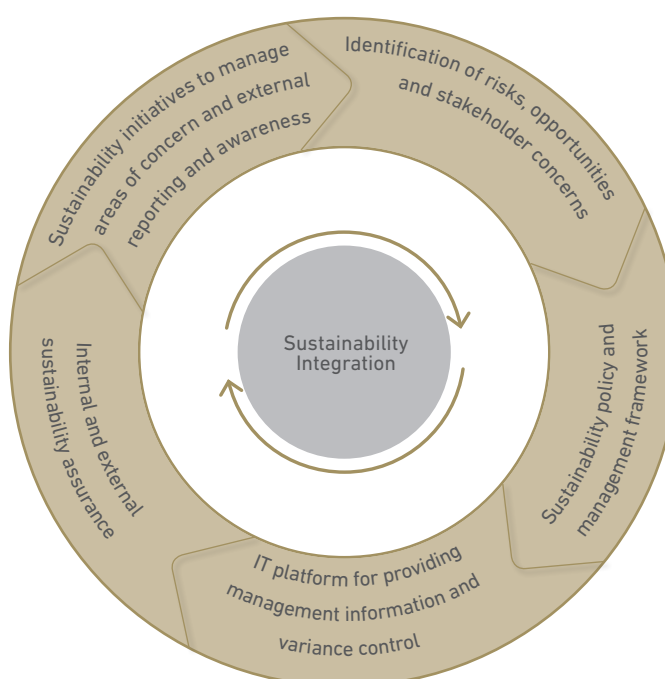
The Group's sustainability performance is tracked on a quarterly basis, compared against local and international benchmarks and then reported internally and externally. This has become a proactive process in assessing a group company's sustainability performance, identification of areas of risk and providing management with timely information for corrective action.

The Group's Sustainability Management framework is also synchronised with the various management systems including environmental management, human resources, health and safety and product quality as well as business processes such as risk management, internal audit, legal and statutory compliance and corporate social responsibility initiatives.

### Sustainability Organisational Structure

The Sustainability, Enterprise Risk Management and Group Initiatives Division, along with the Group Executive Committee and the Group Sustainability Committee

#### Sustainability Integration Process



## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

formulates the Group sustainability strategy. The Division is responsible for the operationalisation of the Group's Sustainability Management Framework under which business units carry out their specific sustainability strategies and initiatives.

The Division is also responsible for the process by which the Group identifies its significant stakeholders, the identification of materiality issues and sharing of best practices, carrying out risk reviews and the overall review and monitoring of the sustainability drive. Awareness campaigns are carried out on a regular basis, with one annual Group-wide awareness campaign being carried out to broadbase knowledge and to inculcate a culture of sustainability.

The Group has in place a robust sustainability structure with oversight from the Group Executive Committee and the Group Sustainability Committee, while task groups for each sustainability aspect are headed by a member of the Group Operating Committee. Additionally, each business unit has a dedicated Sustainability Champion responsible for sustainability initiatives and the overall sustainability performance, under the supervision of their respective Sector Heads and Heads of Business Units. This structure is used in integrating sustainability within the business operations as well as assessing and developing the value chain in sustainable practices.

The strategic planning process and annual plan cycle of Group companies are now based on a holistic approach and include an

**The Group will strive to achieve a 12 per cent reduction in its energy usage and a 6 per cent reduction in its water usage by the year 2020, against its 2015/16 baseline figures.**

integrated strategy of considering all aspects of the triple bottom line whilst striving for optimised financial performance. Business units identify their material impacts and commit to medium-term strategies to minimise such impacts. This has enabled the Group to further integrate their sustainability strategies with their business strategies and has created the need for business units to assess the hidden costs of operations and include sustainability initiatives and other green projects in to their annual objectives. With business unit strategies and goals aligned to triple bottom line results, this has in turn resulted in employee objectives being aligned to such results, which has enabled the Group to truly entrench sustainability into the organisational culture of the Group.

The Group has commenced a focused strategy of encouraging its significant suppliers to embrace sustainability as part of their operations. As such, the Group currently has in place processes to assess risks of environmental, labour and social impacts emanating from its value chain and to carry out internal assessments of supply chain partners. An annual drive to create awareness through supplier fora for the

Group's significant supply chain partners is also carried out and a Code of Conduct for all significant suppliers bidding for the Group's centrally sourced goods and services has been introduced.

#### Sustainability Goal Setting Process

During the year under review, the Group, for the very first time, established energy and water reduction goals for the year 2020, as an innovative stride in its sustainability journey. The Group engaged expert international consultants to conduct in-depth energy and water audits which were carried out effectively covering approximately 90 operational sites over a span of nine months, in order to ascertain reduction strategies and technologies for the setting of the 2020 environmental goals for the Group. The year 2015/16 was established as the baseline for the goal setting process, with the Leisure, Consumer Foods and Retail sectors being identified as the sectors which account for a majority of resource utilisation in the areas of energy and water, and as a result aptly represent the Group's resource utilisation. The feasibility of the proposed strategies were then analysed, with over 300 initiatives being committed by business units and industry groups in delivering internal targets, after which the Group arrived at the final goal for 2020.

As such, the Group will strive to achieve a 12 per cent reduction in its energy usage and a 6 per cent reduction in its water usage by the year 2020, against its 2015/16 baseline figures. These goals represent 15.8 Mn kWh of energy reduction and 188,000 m<sup>3</sup> of water reduction respectively.

#### John Keells Group Sustainability Goals for 2020



## Report Content

The annual report is one of the primary methods used by the Group to respond to stakeholder concerns during the financial year. The process of recognising key sustainability related risks, significant stakeholders, assessment of the material aspects based on relative importance to both the Group and stakeholders, and to formulate policies and management approaches to manage and mitigate these aspects have become an integral part of defining this report.

Engagement of Significant Stakeholders section of this Report explains the process adopted by the Group in determining the information requirements of its stakeholders, prioritisation of issues and establishing materiality. The section titled 'Key Sustainability Concerns' explain the outcomes of the stakeholder engagement process and establishes the relevance of the material aspects and key sustainability indicators that the Group has reported on.

This Report is the Group's second Integrated Annual Report, and has been structured as per the Integrated Reporting framework of the International Integrated Reporting Council, and strives to discuss the inter connections between the six capitals, the Group's business model and the creation of value. Every year, this report provides a holistic overview including the Group's overall strategy, corporate governance framework, risk management processes and financial and non-financial performance covering all aspects of the triple bottom line. Prior to this, the Group published stand-alone sustainability reports, which has gradually evolved over the past four years to reports that strive to disclose relevant information to all stakeholders. During the last four years, the integrated report evolved from a group-centric approach to an approach which provided a sectorial analysis and presentation of relevant material aspects for each industry group. The report which provided the highlights of the triple bottom line performance of each industry group, also provided similar information from a Group-wide perspective. This year, as was the case the previous year, the Report was prepared 'in accordance' -core option of the Global Reporting Initiative GRI G4 Guidelines.

The John Keells Group has been a part of the United Nations Global Compact (UNGC) since 2002 and this report serves as a communication on progress. It also reinforces the commitment to implement the 10 principles of the UNGC initiative. Further enhancing its disclosures to stakeholders, the group has mapped all of its projects carried out by the John Keells Foundation, Group Sustainability, Human Resources division as well as individual businesses, to the Sustainable Development Goals, in turn aligning these with the six Capitals of Integrated Reporting.

This year, each industry group section and the Group Financial and Sustainability Review also strives to capture the interrelationships between identified material aspects and the significance of these aspects in areas such as financial performance, human capital and relationships with community and the environment with a view to providing information with regard to risks and opportunities and strategy going forward.

This annual report strives to provide a clear, concise and balanced overview to all significant stakeholders identified in the Engagement of Significant Stakeholder section of this Report, providing year on year comparisons for both financial and non-financial information relevant to such identified stakeholders. In keeping with the reporting principles for defining report content, and in addition to aspects such as stakeholder inclusiveness and materiality which are further explained in this Report, the disclosures also ensure completeness and contextual information, not only with regards to the Group's performance, but also on sectorial performance of the material aspects identified for each industry group as disclosed in the Industry Group Analysis section of this Report. The Group's material aspects and its aspect boundaries are also covered in the Identification of Sustainability Aspects section of the Report.

The Report, which is published annually, has been externally verified and assured through an independent assurance process undertaken by DNV GL represented in Sri Lanka by DNV GL Business Assurance Lanka (Private) Limited. The data measurement techniques, calculation methodologies, assumptions and estimations applied in the

compilation of the sustainability indicators contained in this Report, are in accordance with standard industry practices and indicator protocols provided under the GRI G4 Guidelines included in the Reporting Principles and Standard Disclosures and the Implementation Manual. Such data measurement techniques, methodologies, assumptions and estimations are detailed in the relevant Disclosures of Management Approach section and can be found online at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr).

The GRI content index has been utilised to refer to specific information and disclosures required by the GRI framework. The John Keells Group has been a part of the United Nations Global Compact (UNGC) since 2002 and this Report serves as a Communication on Progress. It also reinforces our commitment to implement the 10 principles of the UNGC initiative. Further enhancing its disclosures to stakeholders, the Group has mapped all of its projects carried out by the John Keells Foundation, Group Sustainability, Human Resources division as well as individual businesses, to the Sustainable Development Goals, in turn aligning these with the six Capitals of Integrated Reporting.

A year on year comparison is possible subject to the explanations provided with respect to the divestments mentioned previously as well as changes in operational activity as mentioned in the Industry Group Review sections in this Report. In terms of restatements in comparison to the previous year 2015/16, the numbers and statements have been re-arranged wherever necessary to conform to the present year's presentation.

## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

#### Scope and Boundary

84 legal entities of the John Keells Group create the financial reporting boundary of this report of which, 75 companies are directly controlled by the Group. The remaining 9 have not been included for sustainability reporting, as they do not fall within direct control of the Group. Of the 75 companies, 27 have been excluded for reporting purposes as they do not carry out any operations that significantly interact with the environment or society at large. Such companies are either non-operational entities, investment entities, land-only holding companies, managing companies or companies that rent out office spaces. The other 48 companies have been listed in the Group Directory and any other exclusions made have been clearly explained under the relevant sustainability aspects. Apart from Rajawella Holdings Limited (RHL) and 15 new Keells Super outlets being included in the reporting scope during the reporting period, no other significant changes were made to the reporting scope regarding the organisation's size, structure, ownership, or its supply chain, during the year under review.

#### Engagement of Significant Stakeholders

The Group conducts its commercial operations in several industry sectors of the economy across different geographical markets. This diversity necessitates developing and sustaining relationships with various stakeholder groups. Stakeholder expectations of the Group would be diverse and numerous considering the large number of stakeholders that the Group engages with. The Group has therefore considered only the stakeholders who have a significant influence over the Group, or who would be significantly impacted by the Group's operations. These groups are identified in the diagrams in the ensuing sections.

The Group engages with its significant stakeholders through formal and informal consultations, participation, negotiations, communication, mandatory and voluntary disclosures, certification, and accreditation. The various methods of engagement and frequency of engagement with significant suppliers have been shown below:

The Report has been externally verified and assured through an independent assurance process undertaken by DNV GL represented in Sri Lanka by DNV Business Assurance Lanka (Pvt) Ltd.

#### Customers - individual, corporate B2B

**Expectations** - Meeting customer expectations on product and service features, ensuring high quality and safe products and services delivered in an environmentally and socially responsible manner.

Frequency	Methods of engagement
Annually	Road shows, trade fairs and field visits
Bi-annually	One-on-one meetings, discussion forums, progress reviews
Quarterly	Customer satisfaction surveys
On-going	Through information dissemination through printed reports, telephone, SMS, e-mail, corporate website, workshops and business development activities

#### Society, media, pressure groups, NGOs, environmental groups

**Expectations** - Carrying out operations in accordance with social norms, prevailing culture, with minimal impact on society and environment, whilst adhering to all relevant laws and regulations and operating as a responsible corporate citizen adopting sound corporate governance practices

Frequency	Methods of engagement
On-going	Website, press releases, media briefings, correspondence, disclosures, media coverage, participation in NGO forums, certification and accreditation

#### Institutional investors, fund managers, analysts, leaders, multilateral lenders

**Expectations** - Consistent economic performance leading to greater economic value generation

Frequency	Methods of engagement
Annually	Annual reports, disclosures and reviews
Quarterly	Quarterly reports
Regularly	Investor road shows
On-going	Phone calls, e-mail, written communication, websites, one-on-one meetings

#### Community - neighbours, community, community leaders, society

**Expectations** - Stimulating local economy through procurement and providing direct and indirect employment whilst carrying out operations with minimal impact on shared natural resources.

Frequency	Methods of engagement
One-off	Engagement with the community is carried out prior to entry into the community area and on exit via one-on-one meetings, workshops, forums
Monthly	Engagement is then carried out on a monthly basis while operating via one-on-one meetings, workshops, forums
On-going	Corporate Social Responsibility programmes, creating awareness and education

**Employees - Directors, executives, non-executives**

**Expectations** - Providing a safe and enabling environment, equal opportunity and a culture of meritocracy, enhancement of skills and knowledge, continuous engagement, providing feedback and encouraging work-life balance

Frequency	Methods of engagement
Annually	Employee satisfaction surveys and dip stick surveys such as Great Place To Work (GPTW), VOE (Voice of Employee), Group-wide year end get-together.
Bi-annually	Formal performance reviews, skip level meetings
Regularly	Intranet communications through JK Connect and My Portal
On-going	Professional training, development activities and team building through internal and external programmes, joint consultative committees, open door policy at all management levels, sports events, Corporate Social Responsibility programmes

**Government, government institutions and departments**

**Expectations** - Contribution to the country's economy through strategic investments, creating direct and indirect employment, timely payment of taxes and levies and stimulating local economies

Frequency	Methods of engagement
Quarterly	The senior management are members of chambers and industry associations who meet at least on a quarterly basis
On-going	Engagement with the government is carried out on an on-going basis through meetings, business forums, newsletters, circulars, presentations and briefings, advisory meetings of industry associates

**Industry peers and competition**

**Expectations** - Carrying out operations in a fair and ethical manner, active participation in business councils and committees and discouraging anti-competitive behaviour

Frequency	Methods of engagement
Quarterly	The senior management are members of chambers and industry associations who meet at least on a quarterly basis
Regularly	Communication through membership of trade associations, conferences, discussion forums

**Business partners, principals, suppliers**

**Expectations** - Fostering long term business relations and benefitting from the growth of the Group, adherence to contractual obligations, knowledge sharing and active representation in business councils and committees in the relevant industry sectors

Frequency	Methods of engagement
Annually	Distributor conferences, contract renegotiations and reviews, road shows, supplier assessments, supplier fora
Quarterly	Supplier review meetings, one-on-one meetings
Regularly	Market reports
On-going	Conference calls, e-mails, circulars, corporate website and sourcing, contracting and supplier management platform

**Legal and regulatory bodies**

**Expectations** - Carrying out operations in compliance with all relevant laws and regulations and operating as a responsible corporate citizen adhering to sound corporate governance practices

Frequency	Methods of engagement
Quarterly	The senior management are members of chambers and industry associations who meet at least on a quarterly basis
On-going	Engagement with the legal and regulatory bodies is carried out on an on-going basis through meetings, periodic disclosures, correspondence with bodies such as local authorities, municipal councils and other institutions such as Consumer Affairs Authority, Department of Inland Revenue, Customs Department, Securities and Exchange Commission, Colombo Stock Exchange and the Tourist Board of Sri Lanka



## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

#### Key Sustainability Concerns

There is a strong confidence among stakeholders on the Group's corporate and sustainability strategies and performance based on the fact that no adverse reports relating to environmental and social concerns pertaining to the operations of the Group or its companies have been highlighted during the reporting year. This conclusion has been reached by the Group through continuously monitoring print and electronic media throughout the period, which also now forms part of the Group's process of tracking key risk indicators.

Once in every two years, a group-wide comprehensive "Great Place to Work" survey is carried out to obtain timely feedback from employees, while the Group conducts a 'Voice of Employee' survey which is an in-house dip stick study, administered online by an external party to ensure transparency and confidentiality. The findings of the survey are incorporated into an action plan and are used in evaluating manager effectiveness, influencing policy and process changes, employee motivation and morale. In 2016 a VOE survey was conducted to ensure the employee satisfaction status post the GPTW held in 2014. The survey was based on four key drivers namely - Caring, Credibility, Equality and Pride which are assessed through 16 statements. The Group also constantly engages with its employees, identifying areas such as employee welfare, training and retention of talent as focus areas.

The supplier assessments carried out during this year helped us identify material environmental and social concerns emanating from our value chain partners, effectively taking the Group's sustainability focus to our value chain partners as well. In addition, supplier performance management aspects such as quality checks in ensuring that suppliers adhere to regulations and best practices are carried out. In instances where anomalies were found, stakeholder engagements were carried out to ensure the development of such suppliers processes to minimise repetition.

The supplier assessments carried out during this year helped us identify material environmental and social concerns emanating from our value chain partners, effectively taking the Group's sustainability focus to our value chain partners as well. In addition, supplier performance management aspects such as quality checks in ensuring that suppliers adhere to regulations and best practices is carried out.

During the year, the Group has responded to customer feedback in a structured and consistent manner, driven by the centrally developed Corporate Communications policies, especially with regards to social media platforms.

The primary concern of shareholders is to ensure not only return on their investment but consistent returns for the long run. However in addition to the overall economic performance of the company, such investors would also consider the sustainability of the organisation with regards to its environmental performance, social performance and corporate governance. Through its annual reports the Group has responded to concerns raised by stakeholders during the year. During the financial year the Group has strengthened its policy frameworks and management approach, where it has become vital to address its material aspects and identify potential frontier risks.

Stakeholders such as society, pressure groups and regulatory authorities constantly assess the operations of corporate with regard to the responsible utilisation of resources, conservation of bio diversity and environmental protection and these will continue to be high priority areas for the Group.

The John Keells Group has always placed great importance in developing the communities within which it operates. The Group's corporate philosophy has always been to be a responsible corporate citizen; and will continue to do so as done over the years.

#### Identification of Sustainability Aspects

Taking into consideration the key sustainability concerns of significant stakeholder groups, the Group assesses its material aspect boundary as follows. The Group considers its business units and employees as internal stakeholders whilst its external stakeholder consist of shareholders, investors, lenders, customers, suppliers, business partners, government and regulatory authorities, peers, pressure groups media and the community. Continuing from the previous year, this year too, the Group provided greater focus to suppliers and distribution networks in an attempt to assess the risks faced by the Group through its value chain.



### Aspect Grouping

Internal	External	
		Economic Performance
		Procurement Practices, Indirect Economic Impact
		Energy and Emissions
		Water, Effluents and Waste
		Biodiversity and Environmental Compliance
		Employment, Diversity and Equal Opportunity, Labour Relations, Freedom of Association, Training, Occupational Health and Safety
		Non-discrimination, Prevention of Child Labour, Prevention of Forced and Compulsory Labour
		Local Communities
		Anti-corruption and Regulatory Compliance
		Supplier Assessment (Environmental and Labour)
		Product Quality and Compliance, Labelling, Marketing Communications



## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

In defining report content, the Group sought to prioritise the material impacts based on their relative importance to internal and external stakeholders. This prioritisation and identification of material aspects for reporting is shown below.



Colour Code of Category	Material Aspects	Management Approach
Economic	Economic performance, procurement practices, indirect economic impacts	Our Investors
Environment	Energy, water, biodiversity, emissions, effluents, waste, compliance	Our Environment
Employees	Employment, training and development, diversity and equal opportunity, occupational health and safety	Our People
Ethical business and human rights	Anti-corruption, compliance, prevention of child labour, prevention of forced and compulsory labour, freedom of association	Our Ethics
Product responsibility	Product labelling, responsible advertising, product compliance, customer health and safety	Our Products
Supplier assessment	Assessment of suppliers for environment stewardship, labour practices and human rights	Our Supply Chain
Social responsibility	Local community	Our Community



Any clarifications regarding this Report may be obtained from the:

Sustainability, Enterprise Risk Management and Group Initiatives Division, John Keells Holdings PLC  
 186, Vauxhall Street, Colombo 2, Sri Lanka  
 Email : [sustainability@keells.com](mailto:sustainability@keells.com)  
 Website : [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr)

Disclosures of Management Approach can be found on the corporate website at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr).

## Management Approach of Identified Material Aspects

A detailed description of the strategies and approach adopted by the Group in managing its material aspects are contained in the Disclosure of Management Approach section hosted on the Group website [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr). A summary of this management approach to the Group's economic performance, ethics and human capital, environmental responsibility, product stewardship, supply chain management and social responsibility is contained below.

### Our People

Human resources is an appreciating asset bringing continuous returns and constitutes the catalyst for world class performance. Being in predominantly service based industries, productivity, efficiency, customer focus, and skills are of vital importance in obtaining a competitive advantage.

The Group is committed to being "More than just a Workplace" while the foundation of its HR philosophy is to be an equal opportunity employer.

The Group has in place policies with regard to human resources covering all aspects of employment.

- All Group companies adhere to all relevant local labour laws and regulations.
- The Group does not discriminate its employees on the basis of gender, race, nationality, age, social origin, disability, religion, or any other basis.
- The Group recognises the rights of employees and provides forums, support groups and policies to address their concerns and resolve issues and conflicts in a fair and transparent manner.

➤ Details of the Group's human capital can be found in the **Capital Management Review** section.

### Our Investors

The Group's continued success is dependent on its triple bottom line performance, by providing economic value addition, financial value through to its shareholders, pay back on investment to its investors, payment of debt financing to its financiers and benefits to its employees, whilst also maintaining its social license to operate.

The John Keells Group is committed to delivering sustainable economic performance and growth to all its diverse stakeholders.

The Group's sound financial management is based on a diversified approach aiming to increase economic value whilst ensuring stringent internal controls and robust Enterprise Risk Management processes.

- Employees are targeted through a performance centric compensation culture which results in high levels of efficiency and productivity.
- The Group seeks to stimulate the economies through its commitment to developing and working with local suppliers.

➤ The Group's economic performance can be found in the **Capital Management Review** section.

### Our Environment

The Group has significant operations in various sectors which have high environmental impacts such as energy, water consumption, emissions, waste and effluents and bio diversity. The Group is aware that it is a custodian of the environment for future generations and as such take best efforts to minimise negative environmental impacts and comply with all applicable laws and regulations. The Group is also aware of the importance of preserving the country's natural resources which in turn would enhance the unique value proposition of the Group's products and services.

The John Keells Group is committed to promoting sound environmental practices within our key businesses, through the establishment of policies and practices that enable us to conduct our operations in a sustainable and environmentally sound manner.

- The John Keells Group places great importance on the management and reduction of energy, water consumption, carbon emissions, waste generation and effluent discharge in the areas of operations.
- Complementing the overall Environment Policy, the Group has in place several other policies such as its Energy Management Policy, Water Management Policy as well as policies such as the Hazardous Waste Management Policy covering waste management.

➤ The Group's environmental performance can be found in the **Capital Management Review** section.

### Our Ethics

The Group is committed to upholding the universal human rights of all its stakeholders whilst maintaining the highest ethical standards in all its business operations.

The John Keells Group places the highest value on ethical practices and has promulgated a zero tolerance policy towards corruption and bribery in all its transactions.

- All business units and functions of the Group are required to include and analyse the risk of corruption as a part of their risk management process.
- The Group employs stringent checks during its recruitment process to ensure the minimum age requirements are met.
- The Group ensures that all companies are educated on the possible sources of forced and compulsory labour.
- The Group has zero tolerance for physical or verbal harassment based on gender, race, religion, nationality, age, social origin, disability, political affiliations or opinion.

➤ The Group's governance mechanism and internal control procedures can be found in the **Governance** section.

## Group Consolidated Review

### MATERIALITY AND STAKEHOLDER RELATIONSHIPS

#### Our Products

The delivering of optimal levels of quality and ensuring maximum satisfaction to all its customers and clients has always been imperative and material to the Group.

The John Keells Group strives to maintain products and services at the highest standards in line with all relevant local and international statutory and regulatory requirements in the markets we serve.

- The Group develops and markets products and services that meet customer requirements and meet the highest product quality standards which ensure customer health and safety.
- The Group follows the ICC Code of Advertising and Marketing Communication for all its products and services
- The Group adheres to all product labelling requirements specified in all relevant laws and regulations in the countries it operates.

➤ The Group's product related information can be found in the relevant **Industry Group Review** section.

#### Our Supply Chain

Engaging with a vast number of business partners across its various industry groups, the Group recognises the importance of entrenching sustainability across its value chain towards promoting responsible businesses whilst reducing risk.

The Group engages with its significant suppliers in ensuring that their working conditions are safe, workers are treated with respect and dignity, and that operations are carried out in an environmentally responsible manner.

- The Group has introduced a comprehensive Supplier Management Framework including a Supplier Code of Conduct.
- Awareness creation and engagement of suppliers are carried out through supplier fora.
- Significant suppliers are assessed annually on labour practices, human rights and environmental impacts through an internally developed supplier checklist.

➤ Details of the Group's supplier engagements can be found in the **Capital Management Review** and the **Disclosures of Management Approach** found on the corporate website at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr).

#### Our Community

The Group aims to be good neighbours and proactively contributes to the development of the nation through aligning its focus areas to the Sustainability Development Goals (SDGs) adopted by Sri Lanka.

The Group abides by the values of caring, trust and integrity through demonstrating our commitment to the community and environment we operate in staying in line with our CSR Vision "empowering the nation for tomorrow".

- The Group focuses on education, health, environment, community and livelihood development, arts and culture and disaster relief.
- The Group has contributed towards the development of society through infrastructure, public services and local community engagement initiatives.

➤ The Group's social responsibility initiatives can be found in the **Capital Management Review** and the **Industry Group Review** section.



Disclosures of Management Approach can be found on the corporate website at [www.keells.com/sustainability-and-csr](http://www.keells.com/sustainability-and-csr)

# Group Consolidated Review

## RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

### Enterprise Risk Management Process Overview

#### Business Unit/ Sector/ Industry Group Risks

Each group company carries out its respective enterprise risk identification and review process quarterly, bi-annually and annually, based on a pre-agreed structure. As such, company specific related risks as well as sector and industry group common risks are analysed and reviewed at various fora such as the monthly Group Management Committees, the quarterly Board Meetings, and finally at the bi-annual comprehensive risk identification and review carried out centrally by the Sustainability, Enterprise Risk Management and Group Initiatives unit and by the Group Executive Committee. Risks covered at these various levels, include operational risks, cyber risks, hazard risks, financial risks, fraud and corruption, labour related risks, natural disasters, environmental pollution and supply chain risks. Each Group company also identifies its core sustainability risks, which, though having a relatively low probability of occurrence could have a significant impact on the sustainability of its operations.

All business unit risks, once validated and reviewed at the industry group level Group Management Committees, are then presented to the Audit Committees of all listed companies and to the Boards of the unlisted companies, together with risk mitigation plans, at least once a quarter.

The Group's robust corporate governance structure which encompasses the self-linking of risk management, sustainability, corporate social responsibility and internal audit processes ensures that the impacts of all risks identified for both the business unit and the Group are proactively managed. Continuous horizon scanning helps the Group identify both risks and opportunities with regard to global and regional trends.

All business unit risks, once validated and reviewed at the industry group level Group Management Committees, are then presented to the Audit Committees of all listed companies and to the Boards of the unlisted companies, together with risk mitigation plans, at least once a quarter. Business units are the ultimate owners of the risks of that business and are responsible for reviewing and monitoring the agreed risk control measures on an ongoing basis. Some components of the agreed risk control

measures are often subject to audit by the internal audit team which reports to the respective Audit Committee of the listed companies and to the Audit Committee of John Keells Holdings PLC with respect to all Group companies.

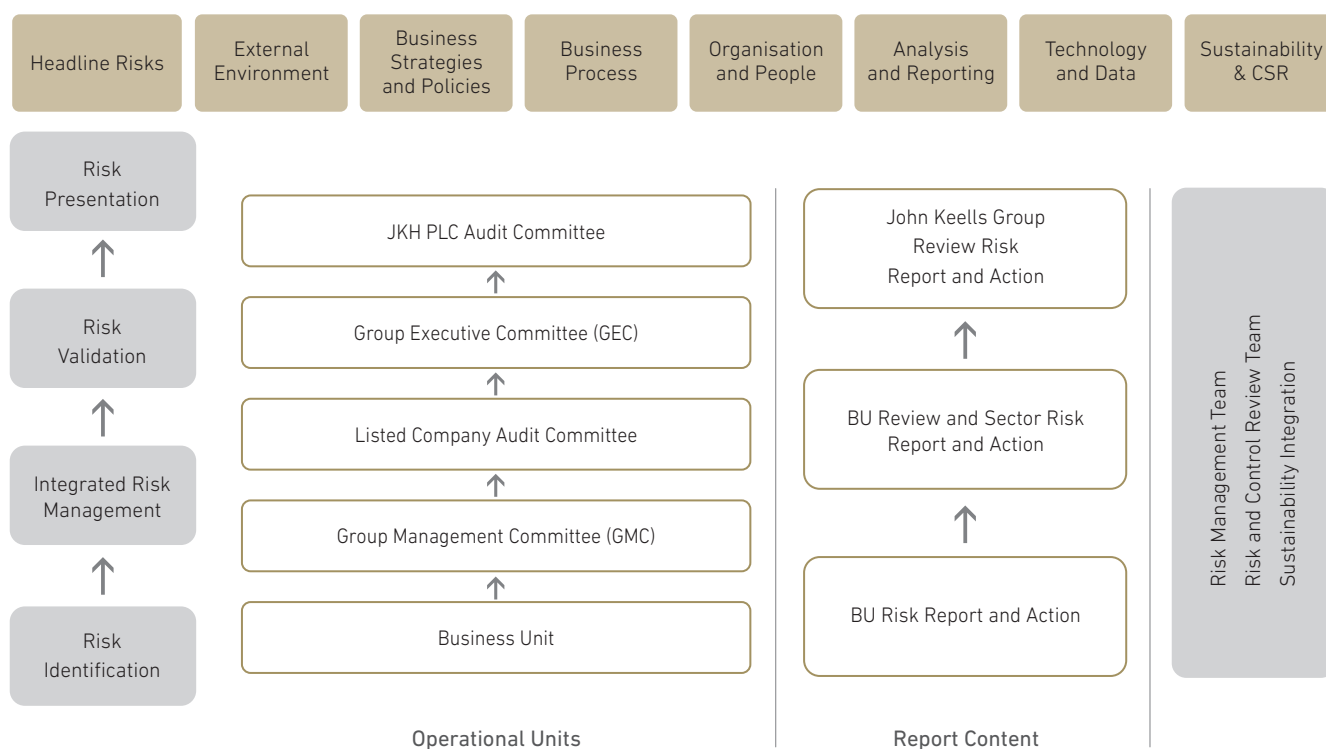
#### Group Risks

Risks pertaining to the Group, and the identified critical operating risks at business unit level, are reviewed bi-annually by the Group Executive Committee. The risk management cycle is concluded with an annual Group Risk Report containing a Group wide risk status, analysis and profile which is presented to the Group Audit Committee and any policy level decisions stemming from this review are incorporated in the next risk review cycle.

#### Risk Management Process

The risk management process and information flow is depicted below.

#### John Keells Risk Management Process Flow



## Group Consolidated Review

### RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

During the reporting year, the Group also enhanced its risk management process by introducing an IT solution to manage its Enterprise Risk, Audit, and Incident Management processes. The IT solution makes the Group's Risk Management functions live and virtual, by enabling the maintenance of live, dynamic risk registers which are linked to business goals and responsible personnel - along with the provision of timely alerts on action plans, and escalation processes for risks where action plans are over-due. Key management personnel at all levels (CEOs, Sector Heads, and Presidents) will have virtual visibility of the risks relevant to them. The platform will also facilitate the sharing of best practices across the group. The Risk Universe, which frames the categorisation of risks, has also been updated for relevance during the year to reflect topical and emerging risks.

#### Key Impacts, Risks and Opportunities

Risk management is a firmly entrenched component of the corporate governance process of the John Keells Group and has been instrumental in successful corporate craftsmanship and the long term sustenance of the Group. The structured process for risk management further enhances the Group's value creation process for all its significant stakeholders by ensuring that Group companies effectively identify and mitigate a range of operational, structural, financial and strategic risks. The Group's risk management process also identifies aspects from a triple bottom line perspective, covering risks and impacts to the Group arising from the socio-economic environment it operates in, as well as the risks and impacts emanating from its own operations as well as that of its value chain. Good risk management has enabled the Group to undertake new projects where the reward to risks factor is optimal.

The Group remains positive about the future of Sri Lanka's economy, and members of its senior management actively participate in key policy making bodies, committed to supporting the Government in its efforts towards creating sustainable and equitable economic growth.

The Group's operational decisions are also influenced by the "Precautionary Principle" and accordingly from an environmental perspective, the Group considers resource consumption, environmental pollution, environmental degradation and its impacts on the local community, as areas of high priority.

As such, the Group focused its attention on key areas such as attracting and retaining necessary skills, maintaining good labour relations, enhancing its product responsibility, contribution to the community through infrastructure projects and the overall creation of value for all internal and external stakeholders, during the year.

The Group's operational decisions are also influenced by the "Precautionary Principle", particularly, from an environmental perspective. As such, the Group considers resource consumption, environmental pollution, environmental degradation and its impacts on the local community, as areas of high priority. As a part of this process, the Group tracks Key Risk Indicators such as natural disasters, emissions, climate change and impacts to biodiversity, ensuring a minimum impact on the environment within which it operates.

Given the pervasive nature of risks, discussion of the same, at a Group Level, are contained inter alia, in the Capital Management section of the Group Consolidated Review section, the Industry Group Review section and the Financial Statements of this Report. Details on risks, opportunities and internal controls specific to business units, sectors and industry groups are discussed in the Industry Group Review section of this Report.

#### Headline Risks

##### Macro-economic and Political Environment

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Moderate

Policy uncertainty and the volatility of the economic environment - both locally and globally - continued during the year. Despite the current lack of clarity, and definition on some of the economic policies, the Group and the Business Community remain positive about the future of Sri Lanka's economy. Several senior management staff actively participate in key policy making bodies,

committed to supporting the Government in its efforts to create sustainable and equitable economic growth. The conditions in the Maldives improved, with the Group working closely with the authorities to support its economic growth. For the aforesaid reasons, this risk remains a Low.

##### Regulatory Environment

	2016/17	2015/16	2014/15
Risk rating	High	High	Ultra High

A degree of uncertainty and volatility still prevails as a result of transitioning legal, regulatory and tax structures. The prolonged prevalence of this uncertainty and impact of the same on our businesses result in the risk rating remaining at a High. The Group's operating model, together with its internal processes, aims to ensure flexibility with, and adaptability to, any unexpected changes in the legal framework. Participation of the Group's senior executives in various industry associations and industry chambers helps to bring clarity and consistency to Government policies and regulations.

##### Financial Exposure

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The central Treasury Division, supported by the Executive and Finance functions of the businesses, is responsible for the management of financial risks through ongoing monitoring. Hedging mechanisms, liquidity management strategies, capital structuring, and other Board approved strategies, where relevant, are applied across the Group. Given the volatility and uncertainty in the global and local macro-economic environment as witnessed in the previous financial year, the ensuing sub-section elaborates on the key elements of financial exposure, the state of the Group's readiness and the general outlook relating to such elements.

### Currency / Exchange Rate

#### Risk rating - Medium

After a volatile move in the first half of the financial year, the USD/LKR exchange rate depreciated at a steady pace in the latter half. The Group adopted prudent measures to manage the financial impacts arising from currency fluctuations, underscoring the importance of matching liabilities with corresponding inflows and constantly evaluating such positions. Some of the initiatives for managing the currency risk included matching routine foreign currency conversions with import bill settlements; matching of Dollar revenue streams with Dollar denominated debt to architect "natural hedges"; accumulation of foreign currency funds, where allowed, and the deferral of conversions; premature settlement of forex denominated trade liabilities; and the regular review of rates and related contractual pricing in the context of competitiveness.

### Interest Rate

#### Risk rating - Low

The Rupee interest rates saw a steady upward movement throughout the year as a result of the Central Bank's revision of policy rates twice during this period. However, this did not have a material impact on the Group since the Rupee share of debt declined for most part of the year. Interest cost did however increase in the last quarter which was commensurate with the increase in short-term debt for premature settlement of USD trade liabilities. This was a more economical alternative to currency hedges. The Group continued its strategy of maintaining floating Dollar denominated debt facilities for a majority of the currency debt where the operations of the subject business unit produced forex denominated revenues. Even so, it continued to evaluate and enter into hedge instruments, where feasible, including the creation of a natural hedge against Dollar denominated short-term deposits on variable rates of return.

Given the current outlook for interest rates in relation to the USD 395 million syndicated loan facility, obtained by Waterfront Properties (Private) Limited for the development of "Cinnamon Life" project, the Group entered

into a partial hedge during the previous year, as a measure to mitigate the interest rate exposure of the Group. The Group will continue to monitor its LIBOR exposure in relation to the syndicated loan facility, make periodic updates and recommendation to the Board as necessary, and take required action to mitigate exposure and potential risks.

### Credit and Counterparty

#### Risk rating - Low

The Group continued to liaise with only reputed creditworthy counterparties. All clients are subject to credit verification procedures. They are required to submit bank guarantees/performance bonds/counter guarantees, where applicable. These clients are regularly appraised and the subject arrangements are frequently reviewed. Internally set up exposure limits mitigate the concentration risk in any single counterparty is mitigated due to internally set exposure limits.

### Liquidity

#### Risk rating - Low

The Group strived to ensure that a product-mix of short-term investments and undrawn committed facilities are sufficient to meet the short, medium and long term capital and funding requirements, unforeseen obligations as well as unanticipated opportunities. The daily cash management processes including active cash flow forecasts, matches the duration and profiles of assets and liabilities, thereby ensuring a prudent balance between liquidity and earnings.

**Note** - For further details and quantification of the aforementioned risks, refer the Notes to the Financial Statements

### Information Technology

	2016/17	2015/16	2014/15
Risk rating	High	High	Low

The majority of the Group's IT systems are centralised to ensure uniformity and standardisation across the Group. Whilst

most servers have now been consolidated into the Group's central data centre, as such increasing utilisation and reduces unit costs, this however also increases the risk of concentration. Such risks are mitigated via strict IT protocols, firewalls, business continuity plans and disaster recovery sites and processes. While the Group is comfortable with the risk management of the aforesaid area, the overall score of the risk remains at a High due to the implications of contextual and potential risks such as cyber security. As a preliminary step, the Group has engaged a reputed third party service provider to establish and manage an "Intelligence Managed Security Operations Center." While the initial commissioning is due in the first quarter of 2017/18, the completion will take place in the second quarter. The Group recognizes that it has to employ new technologies in gaining productive improvements and marketing sales advancements. However this increases the risk element. Given the same, the risk rating remains a High.

### Global Competition

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

In the face of the numerous foreign investments taking place in Sri Lanka, especially by international players, the Group remains alert with regard to ensuring its competitiveness. The Group has sought to match global standards through benchmarking its businesses to global best practices and maintaining the highest quality levels in terms of both products and services. Further, in an effort to keep abreast of digital advancements, the Group is proactively relooking at disruptive and innovative business models, customer engagement and business processes and has put in place a Digitisation Steering Committee to further study emerging practices. In addition, 2016/17 saw the introduction of a Chairman's Award for Disruptive Innovation, for which one of the major criteria was the

### Refer Note 10 of the Note to the Financial Statements

for further details and quantification of the aforementioned risks under Financial Exposure

Given the current outlook for interest rates in relation to the USD 395 million syndicated loan facility, obtained by Waterfront Properties (Private) Limited for the development of "Cinnamon Life" project, the Group entered into a partial hedge during the previous year, as a measure to mitigate the interest rate exposure of the Group.



## Group Consolidated Review

### RISKS, OPPORTUNITIES AND INTERNAL CONTROLS

The Group, over the years, has placed a strong emphasis on retaining key talent through performance recognition and reward schemes, succession planning, leadership and career development programmes, ensuring that high quality employees are retained, despite the highly competitive labour environment.

benchmarking of practices against the best in class, both internationally and locally. The risk rating remains at a Low.

#### Human Resources and Talent Management

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The Group, over the years, has placed a strong emphasis on retaining key talent through performance recognition and reward schemes, succession planning, leadership and career development programmes, ensuring that high quality employees are retained, despite the highly competitive labour environment. Additionally, talent attrition is also tracked as a Key Risk Indicator on a quarterly basis and reported to the Group Executive Committee. The Group conducts many surveys internally to better understand its employee needs and aspirations. Whilst the Group has a robust non-discrimination policy and an effective grievance handling mechanism, it maintains a culture of continuous engagement and dialogue with employees. In addition, the Group's engagement with unions is on a partner basis and this has resulted in better performance oriented outcomes. The Group significantly improved its scores on the GPTW Survey.

Improving competencies and skills is recognised as a vital factor in maintaining current standards and matching global best practice levels. The Group achieves this through targeted, business focused training and development programmes available to all employees across the Group on a needs basis, allowing the Group to retain its ability to position itself as a preferred employer. As a result of these measures, and based on the empirical evidence of past year, the rating for this risk remains a Low.

#### Environment and Health and Safety

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The Group has in place a robust Environmental Management System with emphasis on socio environmental policies with respect to energy, emissions, water, discharge, waste and bio diversity. All companies are required to ensure zero violations of the country's environmental laws and regulations and are encouraged to go beyond compliance, where practicable, in keeping with global best practices such as ISO 14000 Environmental Management certification. The Group continuously strives to reduce its energy consumption, carbon footprint and water consumption and as such, Group companies are encouraged to constantly seek out renewable sources of energy and install energy and water efficient equipment. Responsible waste disposal is a key aspect under management focus, and is carried out through training and awareness, converting of waste to energy and the continuous incremental evolution of processes and systems in reducing/reusing/recycling waste.

The Group makes every effort to ensure a safe working environment for its employees, consumers, customers and third parties, in keeping with its commitment to be a responsible corporate, contributing to the improvement of morale, productivity and efficiency. Whilst the provision of safe and healthy products/services for its customers is a top priority for the Group, where relevant, Group companies have obtained OHSAS 8001 Occupational Health and Safety, HACCAP certification and ISO 22000 certification on food safety management systems. Against this background, the risk of Environment and Health and Safety remains a Low.

#### Reputation and Brand Image

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

The Group's Code of Conduct is the foundation of its uncompromising approach to ethical and transparent business conduct with a "zero tolerance" attitude to any Code of Conduct violations. This is further supplemented and strengthened, through the presence of an independent Ombudsperson, Whistleblower mechanisms and Chairman Direct conduits amongst other measures, supporting the governance structure of the Group.

The Group also identifies and mitigates potential brand reputation risks through the tracking and monitoring of such under a sustainability development framework. The numerous strategic infrastructure and community development projects carried out by the John Keells Foundation contributes to further strengthening its stakeholder engagement process. In addition, stringent quality assurance and product standards are maintained and product quality is continually monitored and tracked. In the few instances where public discontent has been identified, the Group took immediate steps to explain the circumstances. All marketing, and public communications, are vetted in ensuring conformance with the Group Marketing and Communications Policy, based on the ICC Code of Advertising and similar. In this light, the Group is confident that the rating of this risk remains a Low.

The Group makes every effort to ensure a safe working environment for its employees, consumers, customers and third parties, in keeping with its commitment to be a responsible corporate, contributing to the improvement of morale, productivity and efficiency.

Refer Section 5.5 of the Corporate Governance Commentary for further details on Internal Controls

**Supply Chain Risk**

	2016/17	2015/16	2014/15
Risk rating	Low	Low	Low

With a strong focus on integrating best practices within its value chain, the Group believes a comprehensive risk management process must also extend to its value chain partners, through regularly assessing risks associated with its supply chain. As such, supplier performance is reviewed on an annual basis with regard to compliance with labour, environmental and other relevant operating regulations of the country. Concurrently, the Group also provides training and knowledge transfer through supplier fora held annually both in Sri Lanka and the Maldives, for its significant value chain partners, assisting to further entrench sustainability within their own business operations, resulting in cost benefits as well as enhancement of their own brand image. The Group's Supplier Code of Conduct also educates suppliers on the expectations of the Group with regards to sustainable and ethical business practices. As a result of these proactive steps taken by the Group, the risk rating remains at a Low.

**Risks - the interlinkages**

Given the interrelationships between risk management and sustainability, the Capital Management Review of the Consolidated Review section of this Report details the Group's performance with regard to all pillars of the triple bottom line. This is further

reinforced through the Group's corporate governance framework, which in turn ensures a strong focus on compliance to regulatory and ethical guidelines, helping the Group operate in line with the principles of sustainable development continued to focus its efforts on supporting local economies in the geographical areas of its operations. Its sustainable sourcing initiatives ensure, whenever possible and practical, that raw materials for the Group's Consumer Foods sector and goods for the Retail sector are procured locally. This has resulted in the Group contributing to uplifting livelihoods and promoting industry in its areas of operation.

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# Group Consolidated Review

## SHARE AND WARRANT INFORMATION

The following is an overview of the market conditions which prevailed during the year under review, both globally and locally. The section concludes with a discussion on JKH share related information.

### Global Review

The year under review was characterised by significant market volatility and uncertainty, mainly ascribed to global political developments such as Brexit and the US Presidential election. The first quarter of the financial year saw a gradual recovery of global stock markets from a depressed start in 2016, mainly fuelled by China's slowing economic growth and the depreciating Renminbi. Furthermore, the commodities market had a challenging start to the year, as oil prices fell due to worldwide oversupply, which was subsequently resolved by the agreement between OPEC nations in November 2016 to curtail output in 2017.

The UK's decision to exit the European Union (EU) in a landmark referendum in June 2016 marked the first of the unexpected political developments during the year. Global financial markets reacted to the decision through a rapid sell down of its GBP holdings, fueled by concern over the future of British trade, the City of London's position as the main financial services centre in Europe, and the British economy, as a whole. As a result, the GBP depreciated by 10 per cent against the US dollar in a single day's trading post Brexit, marking a 31-year low for the currency.

The outcome of the US Presidential election in November 2016 where President Donald J. Trump Jr. emerged victorious resulted in highly volatile markets given the anticipation of a fundamentally different policy approach as markets priced in rapid execution of deregulation, a stronger US dollar, lowering of corporate taxes and increased infrastructure spending, among others. This momentum carried on into 2017 with the Dow Jones Industrial Average crossing and closing above 20,000 points for the first time in its history. However, the strong performance was not limited to industries, with all major US equity categories making gains in the 4th quarter, with the S&P 500 and NASDAQ Composite cruising to records off the back of upbeat earnings releases from heavyweights.

Heightened volatility and uncertainty in equity markets influenced IPOs in the year under review. The calendar year 2016 saw the most

Total number of shares in issue as at 31/03/2017	1,387,467,137
Global Depository Receipts (GDR) as at 31/03/2017	1,320,942
Public shareholding as at 31/03/2017	97.53%
Stock symbol	JKH.N0000
<b>Newsire codes of the JKH Share</b>	
Bloomberg	JKH.SL
Dow Jones	PJKH
Reuters	JKH.CM



Rs. 191.33 Bn

JKH market capitalisation

A growth of 9 per cent

challenging year for global IPOs since 2003, with new issues marking a decrease of 40 per cent compared to the previous year.

Despite the aforementioned challenges, regional peer equity markets enjoyed promising results during the financial year as valuations tended to be comparatively attractive. India's S&P BSE SENSEX Index (SENSEX) witnessed a strong year posting a growth of 17.2 per cent over the financial year. Furthermore, the Jakarta Composite Index (JKSE) and Singapore's Strait Times Index (STI) both had a positive year, enjoying double digit growth of 15.0 and 12.7 per cent, respectively. Malaysia's FTSE Bursa Malaysia KLCI (KLSE) exhibited slower growth for the year and expanded by 1.7 per cent.

### Local Stock Market Review

During the period under review, the All Share Price Index (ASPI) of the Colombo Stock Exchange (CSE) fell marginally by 0.2 per cent to 6,061.94 points [2015/2016: 6,071.88]. The Standard and Poor's Sri Lanka 20 Index (S&P SL 20), which is the weighted average index of selected counters of the CSE based on market capitalisation, liquidity and financial thresholds, stood at 3,438.88 points as at 31 March 2017, recording an increase of 7 per cent against the previous financial year [2015/16: 3,204.44]. The overall market capitalisation of the CSE was Rs.2,662.86 billion as at the end of the financial year compared to Rs.2,586.16 billion in the previous year, recording an overall increase of 3 per cent. The subdued performance of the CSE, in comparison to regional peers, was a result of dampened investor sentiment due to domestic economic conditions and tax and policy uncertainty, which was exacerbated by global market volatility.

The year under review was characterised by unfavourable macro-economic variables for the local equities market. In the first half of the financial year, the Central Bank of Sri Lanka raised both the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) by 50 basis point each, to 7.00 per cent and 8.50 per cent, respectively, to curb excessive demand to pre-empt the escalation of inflationary pressures and support the balance of payments. This rise in base interest rates made local equities a less lucrative proposition. Alongside the balance of payment pressures, investor concerns over the outlook of the Sri Lankan Rupee and diminishing foreign reserves also contributed to subdued investor participation.

The latter part of the financial year saw yet another interest rate hike with both base rates being raised by a further 25 basis points in March 2017. Government measures to increase revenue collection, which are required for the long-term sustenance of the economy, such as the increase in the value added tax (VAT) from 11 to 15 per cent, and further uncertainty on proposed taxation as part of the Government's fiscal consolidation programme impacted market sentiment. Consequently, the average daily turnover levels declined by 31 per cent over the corresponding period last year to Rs.728 million for the financial year under review.

The CSE recorded 12 corporate debenture issues through which a total of Rs.68.50 billion rupees was raised compared to Rs.83.41 billion raised in the previous financial year. Furthermore, primary activities on the CSE continued to be bleak, with only 1 IPO during the year, raising Rs.75 million [2015/16: Rs.329 million].

### JKH Share

The JKH share appreciated by 6 per cent to Rs.137.90 as at 31 March 2017 from Rs.129.50 on 31 March 2016 (adjusted for the share sub division in June 2016). Furthermore, JKH traded with a strong correlation to the ASPI in the period under review, as illustrated in the adjacent graph. The beta of the JKH share as of 31 March 2017, stood at 1.27 (the beta is calculated on daily JKH share and market movements measured by the ASPI for the five-year period commencing 1 April 2012 to 31 March 2017). On an adjusted basis, the share traded between the range of Rs.128.00 (in April 2016) and Rs.159.00 (in August 2016).

Despite the subdued local market, the JKH share contributed 16 per cent to total market turnover [2015/16: 14 per cent], emphasising its consistency as a preferred instrument with liquidity and as a proxy to the local economy.

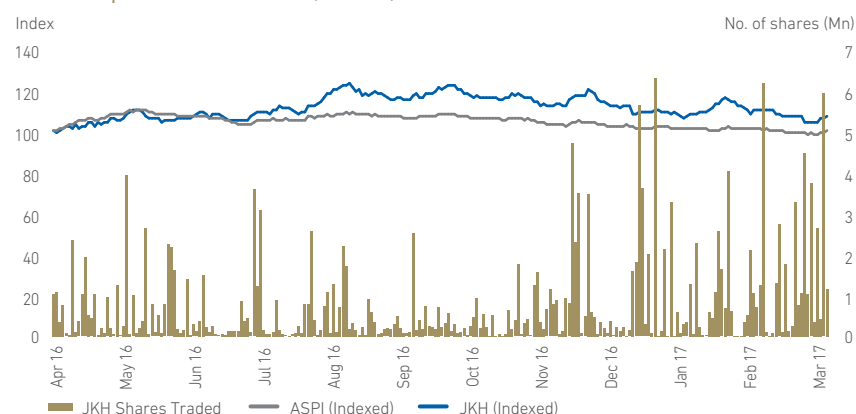
Foreign ownership of the JKH share remained relatively constant during the period under review, as foreign holdings were 52 per cent as at the end of the financial year as against 51 per cent at the commencement of the year. The compounded annual growth rate (CAGR) of the JKH share on a capital basis over the 5 year period stood at 0.4 per cent, compared to that of the market which stood at 2 per cent for the same period.

### 2016 Warrant

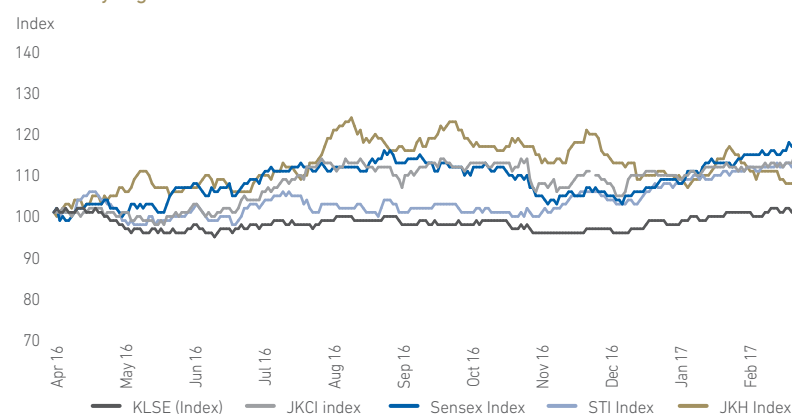
The 2016 Warrant (ticker: W0023) ceased trading on the CSE on 27 September 2016, and was exercisable till 11 November 2016. A total of 57,464,155 2016 Warrants were due to expire in November 2016, of which 21,279,672 Warrants were exercised and accepted at a purchase price of Rs.149.29 per ordinary share (adjusted for the ordinary share subdivision of the Company on 24 June 2016). The Company received a sum of Rs.3.18 billion through the conversion of the 2016 Warrants.

The allotment of the 21,279,672 Ordinary Shares of the Company, and the uploads to the CDS, were completed within the time frames stipulated in the Notice of Exercise and the Shareholder circular dated 5 September 2013.

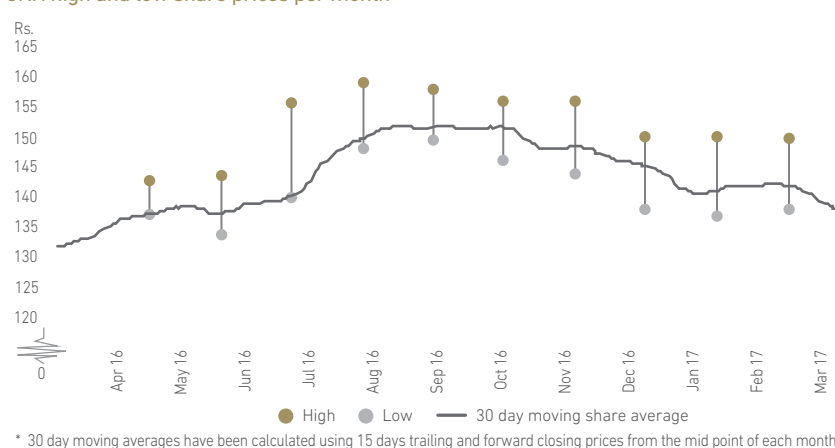
JKH share performance vs ASPI (indexed)



JKH vs key regional indices



JKH high and low share prices per month



### Issued Share Capital

The number of shares in issue by the Company increased to 1,387,467,137 as at 31 March 2017 from 1,189,403,549 as at 31 March 2016. The increase in the share capital was an outcome of the share subdivision, as discussed later in the ensuing section,

the conversion of the 2016 Warrant and the exercise of employee share options (ESOPs).

ESOPs of 7 million equivalent shares were exercised during the financial year. Moreover, out of the 35 million shares equivalent of unexercised ESOPs as at 31 March 2017,

## Group Consolidated Review

### SHARE AND WARRANT INFORMATION

#### Unexpired Employee Share Options

Expiring year	Granted Shares (adjusted)	Outstanding		End/current price
		Vested	To be vested	
2018/19	9,959,017	6,948,058	1,818,312	191.65
2019/20	9,573,018	4,967,439	3,662,626	176.04
2020/21	8,819,207	2,747,662	5,474,817	149.84
2021/22	9,948,581	381,833	9,415,197	142.83
Total	38,299,823	15,044,992	20,370,952	

15 million unexercised ESOPs were eligible for immediate exercise whilst the balance 20 million unexercised ESOPs will be vested based on performance based conditions in accordance with the terms of the Award. The year also marked the conclusion of ESOP Plan 7 which was initiated in 2011 at a grant price of Rs.172.10. Further details of the Company's ESOP plans are found in the ensuing section of this discussion. The Global Depository Receipts (GDRs) balance in ordinary share equivalents increased to 1,320,942 as at the end of the financial year [2015/16: 1,282,364].

#### Subdivision of Shares

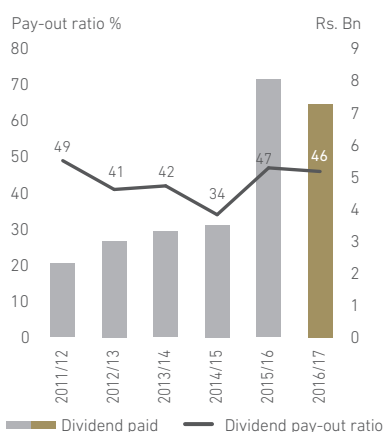
The Company received approval to subdivide 7 ordinary shares in existence into 8 ordinary shares at the Extraordinary General Meeting held on 24 June 2016. On this basis, the 1,189,403,549 shares in issue as at 24 May 2016 were subdivided into 1,359,318,342 shares. Consequently, the ESOP awards granted, and the number of Warrants accruing to the holders of the 2016 Warrant, and their respective exercise prices, were adjusted to reflect the aforementioned subdivision of shares.

#### Dividend

The Company's dividend policy seeks to ensure a dividend payout that corresponds with growth in profits, whilst ensuring that the Company maintains adequate funds to support its investment pipeline and optimise its capital structure, thus ensuring the creation of sustainable shareholder wealth in the short, medium and long term.

At this juncture, the Group believes that a higher dividend per share is warranted given the current, and anticipated, robust cash flows of the businesses. It is pertinent to note that the Group has a sufficient cash balance available to deploy in the funding of new projects, combined with its ability to leverage, if required, even after taking into account the equity commitments of the "Cinnamon Life" project and other investments in the pipeline.

#### Distributions to shareholders and payout ratio



To this end, the Company increased its dividend per share, paid out of profits for the financial year 2016/17, to Rs.6.00 from Rs.3.50 per share (excluding the special dividend of Rs.3.50 per share which was paid on account of the cash inflow of Rs.4.14 billion to the Company from the share repurchase of Union Assurance PLC) paid out of profits in the previous year. Excluding the special dividend paid in the financial year 2015/16 (Rs.3.50 per share), from a cash flow perspective, the total dividend paid in the financial year 2016/17 (Rs.5.50 per share) increased significantly by 88 per cent to Rs.7.28 billion from Rs.3.88 billion in the previous year.

It should be noted that the Company profits in 2016/17 included a one-off gain of Rs.2.58 billion pertaining to the exercise undertaken to rationalise the Group's shareholding structure, which is discussed in detail in the Other including Plantation Services Industry Group Review section of the Report. Excluding this gain, the dividend payout ratio for 2016/17 stands at 55.8 per cent.

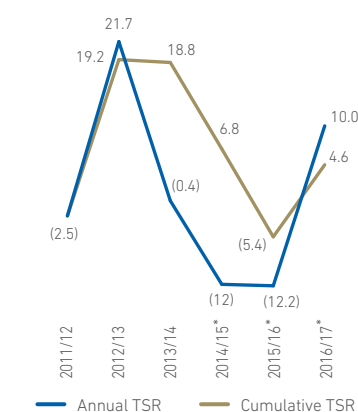
#### Earnings Per Share

The fully diluted earnings per share (EPS) for the financial year, adjusted for the share subdivision in June 2016, increased by 13 per cent to Rs.11.84 per share [2015/16: Rs.10.52 per share] due to an increase in total profit attributable to equity holders. On a recurring earnings basis, the diluted EPS after adjusting for changes in fair value of investment property, has decreased marginally to Rs.10.31 in the period under review from Rs.10.94 (after adjusting for the share subdivision) recorded in the previous financial year. The items affecting the rise in profitability are discussed in depth in the Group Consolidated Review and Industry Group Review sections of this Report.

#### Total Shareholder Return

As discussed previously, the ASPI fell marginally by 0.2 per cent and the JKH share increased by 6 per cent. The total shareholder return (TSR) of the JKH share stood at 10.7 per cent for the period under review, which outperformed the market with the total return index of the ASPI recording a return of 0.1 per cent.

#### Total shareholder return (%)



\* Includes the proportionate impact arising from the ownership of Warrants

TSR for a holder of a single share after the rights issue in 2013 with proportionate ownership over the 2015 and 2016 Warrant, assuming full conversion of the 2015 and 2016 warrants, improved to 10.0 per cent [2015/16: negative 12.2 per cent]. This was caused by the aforementioned rise in the JKH share price on an adjusted basis along with the increase in the standard dividend per share.

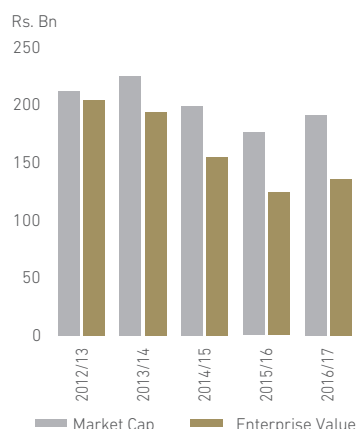
On a cumulative basis, over a five-year holding period, the share inclusive of dividends and warrants issued posted an annualised total return of 1.4 per cent.

### Market Capitalisation and Enterprise Value

The market capitalisation of the Company increased by 9 per cent to Rs.191.33 billion as at 31 March 2017 [2015/16: Rs.176.03 billion]. At the financial year end, JKH represented 7.2 per cent of the total market capitalisation of the CSE [2015/16: 6.8 per cent].

The enterprise value of the Group increased by 10 per cent to Rs.136.02 billion [2015/16: Rs.124.18 billion] as at 31 March 2017. This increase was caused by the previously discussed increase in market capitalisation that outweighed the effects of the Company's strengthened cash position consequent to the 2016 warrant conversion.

Market capitalisation and enterprise value



### Price to Earnings Ratio

The price to earnings ratio (PER) of the JKH share was 11.6 times as at the end of the current financial year compared to 12.3 times recorded in the previous financial year. The decrease in PER was attributable to the 13 per cent increase in earnings per share that was only partially offset by the increase in share price. The JKH share, which has historically traded at a premium, was at a discount compared to the market PER of the CSE of 11.9 times as at the end of the financial year [2015/16: 15.3 times].

Given the domestic economic conditions that prevailed during the year, the CSE traded at a PER that was significantly lower than its regional peers. At the end of the financial year, the SENSEX Mumbai traded at 17.9 times, Kuala Lumpur's FTSE Bursa Malaysia KLCI was 16.6 times, Jakarta's Composite Index was 16.2 times and Singapore's STI was 14.8 times.

### Price to Book

The price to book value of the Group as at the financial year end was 1.0 times [2015/16: 1.1 times].

The ratio decreased on account of the increase in the net asset per share to Rs.140.06 [2015/2016: Rs.130.30], which was only partially offset by the increase in share price.

### Liquidity

During the financial year, 191 million shares changed hands over 30,106 transactions as against 177 million shares over 37,000 transactions in the previous financial year. The average daily turnover of the JKH share was Rs.115 million, in comparison to the Rs.132 million recorded in the previous financial year.

The average daily turnover of the JKH share represented 16 per cent of the average daily turnover at the CSE during the financial year. The share turnover ratio for the financial year decreased to 0.14 from 0.16 because of market conditions.

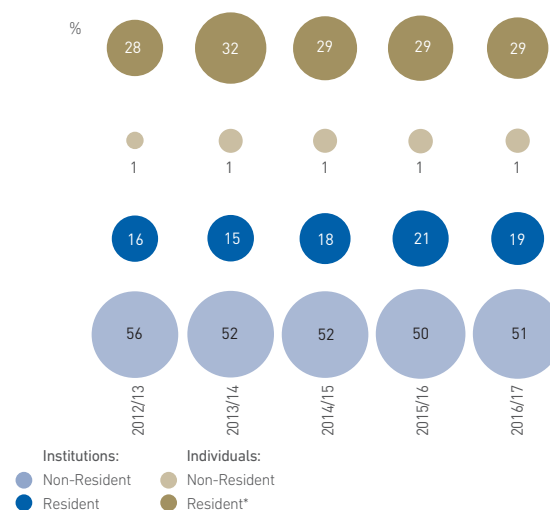
	2016/17	2015/16	2014/15
Market cap (Rs. bn)	191.3	176.0	198.9
Enterprise value (Rs. bn)	136.0	124.2	155.7
Market value added (Rs. bn)	12.7	21.1	61.1
EV/EBITDA (times)	5.0	5.0	6.6
Diluted EPS (Rs.)	11.8	10.5	12.4
PER (diluted)	11.6	12.3	12.3
Price to book (times)	1.0	1.1	1.4
Price/cash earnings (times)	9.9	10.6	13.3
Dividend yield (%)	4.0	5.4	2.3
Dividend payout ratio (per cent)	45.9	46.7	33.5
TSR (%)	10.0	(12.2)	(12.0)

### Distribution and Composition of Shareholders

The total number of shareholders of JKH as at 31 March 2017 increased to 11,988 from 11,515 recorded at the end of the previous financial year. Out of the total number of shares, 98 per cent of the shares were held by the public whilst the remaining 2 per cent were held by Directors, spouses and other connected parties.

In terms of residency of the shareholders, 46 per cent of the free float was held by 11,574 resident shareholders whilst the remainder was held by 406 non-resident shareholders, of which most shares were owned by institutional shareholders.

Trend in composition of shareholders



\* Includes Directors, spouses and connected parties



## Group Consolidated Review

### SHARE AND WARRANT INFORMATION

#### Composition of Shareholders

	31 March 2017			31 March 2016		
	Shareholders	No. of shares	(%)	Shareholders	No. of shares	(%)
<b>Institutions:</b>						
Non-Resident	147	714,471,877	51	137	592,427,458	50
Resident	710	265,969,422	19	681	247,554,155	21
<b>Individuals:</b>						
Non-Resident	259	9,246,781	1	272	8,551,053	0
Resident*	10,872	397,779,057	29	10,425	340,870,883	29
Total	11,988	1,387,467,137		11,515	1,189,403,549	

\* Includes Directors, spouses and connected parties

#### Distribution of Shareholders

	31 March 2017				31 March 2016			
	Number of Shareholders	(%)	Number of shares held	(%)	Number of Shareholders	(%)	Number of shares held	(%)
Less than or equal to 1,000	6,801	57	1,591,711	0	6,692	58	1,635,940	0
1,001 to 10,000	3,373	28	11,918,429	1	3,191	28	11,329,474	1
10,001 to 100,000	1,395	12	41,300,569	3	1,258	11	36,392,126	3
100,001 to 1,000,000	281	2	87,123,469	6	242	2	73,799,873	6
1,000,001 and over	138	1	1,245,532,959	90	132	1	1,066,246,136	90
Total	11,988	100	1,387,467,137	100	11,515	100	1,189,403,549	100

#### Market Information of the Ordinary Shares of the Company

	2016/17	Q4	Q3	Q2	Q1	2015/16
<b>Share information</b>						
High	165.00	150.00	158.00	159.00	165.00	170.80*
Low	133.90	133.90	143.00	135.00	135.00	122.50*
Close	137.90	137.90	145.00	154.00	135.00	129.50*
Dividends paid (per share)	5.50	2.00	2.00	0.00	1.50	7.00
<b>Trading statistics of the JKH share</b>						
Number of transactions	30,106	8,290	6,896	8,618	6,302	37,287
Number of shares traded ('000)	191,372	86,828	35,606	32,560	36,378	177,182
Value of all shares traded (Rs. mn)	27,955	12,157	5,341	4,804	5,653	31,391
Average daily turnover (Rs. mn)	115	196	88	79	94	132
Total market turnover (%)	15.7	26.7	12.9	10.0	13.3	13.8
Market capitalisation (Rs. mn)	191,332	191,332	200,970	209,155	183,310	176,032
Total market capitalisation (%)	7.2	7.2	7.3	7.5	6.8	6.8

\* Adjusted for the 2016 share subdivision

## Director's Shareholding

	31 March 2017	31 March 2016
S. Ratnayake	9,241,144	7,177,893
A. Gunewardene*	10,989,350	8,721,491
R. Peiris	2,966,800	2,074,755
K. Balendra*	10,914,400	8,019,934
G. Cooray	207,105	121,654
H. Wijayasuriya	-	-
A. Omar	-	-
N. Fonseka	-	-
A. Cabraal	137	120
P. Perera	-	-

\* Includes shares owned by related parties

## Director's Share Dealings

	No. of 2016 Warrants converted to shares	No. of ESOPs converted to shares
S. Ratnayake	366,101	671,737
A. Gunewardene*	434,166	587,768
R. Peiris	91,858	503,794
K. Balendra	364,139	377,851
G. Cooray	4,162	63,910
H. Wijayasuriya	-	-
A. Omar	-	-
N. Fonseka	-	-
A. Cabraal	-	-
P. Perera	-	-

\* Includes Warrants converted by related parties

## Executive Director's Shareholding in Group Companies

	Number of shares as at 31 March 2017				
	S. Ratnayake	A. Gunewardene	R. Peiris	K. Balendra	G. Cooray
Ceylon Cold Stores PLC	3,344	30,800	668	80,232	-
Trans Asia Hotels PLC	400	400	400	-	1,200
John Keells Hotels PLC	142,877	-	-	-	-
Asian Hotels and Properties PLC	20,000	-	-	-	10,600
Keells Foods Products PLC	-	-	-	-	-
Union Assurance PLC	-	8,562	-	-	-

## Top Twenty Shareholders of the Company

	31 March 2017		31 March 2016	
	Number of shares	(%)	Number of shares	(%)
Mr. S.E Captain	149,425,524	10.77	119,937,442	10.08
Broga Hill Investments Limited	141,854,717	10.22	124,122,878	10.44
Paints & General Industries Limited	96,064,501	6.92	92,726,824	7.80
Schroder International Selection Fund	53,706,223	3.87	38,491,960	3.24
Melstacorp PLC	52,023,842	3.75	43,616,626	3.67
Lux-Aberdeen Global Asia Pacific Equity Fund	31,257,908	2.25	26,234,282	2.21
Aberdeen Institutional Commingled Funds, LLC	29,706,813	2.14	23,772,318	2.00
HWIC Asia Fund	29,164,753	2.10	25,519,159	2.15
Lux-Aberdeen Global-Asian Smaller Companies Fund	26,913,338	1.94	28,979,913	2.44
Lux-Aberdeen Global-Emerging Markets Smaller Companies Fund	25,263,481	1.82	19,932,286	1.68
Employees Trust Fund Board	23,366,748	1.68	16,438,392	1.38
Mr. K. Balendra	19,606,476	1.41	18,111,218	1.52
London-Edinburgh Dragon Trust PLC	17,947,390	1.29	15,062,970	1.27
Deutsche Bank AG-London	15,837,770	1.14	35,868,199	3.02
London-Aberdeen Asia Pacific Equity Fund	14,891,083	1.07	12,497,857	1.05
Edgbaston Asian Equity Trust	13,971,919	1.01	-	-
Norges Bank Account 2	13,746,333	0.99	-	-
Mrs. C. S. De Fonseka	12,894,788	0.93	11,282,940	0.95
Mrs. S.A.J. De Fonseka	12,825,666	0.92	11,069,333	0.93
Somerset Small Mid Cap Em All Country Fund LLC	11,591,877	0.84	10,558,280	0.89

## Group Consolidated Review

## SHARE AND WARRANT INFORMATION

## Employee Share Option Plan as at 31 March 2017

	Date of grant	Employee category	Shares granted	Expiry date	Option grant price (Rs.)	Shares adjusted <sup>2</sup>	Vested	Exercised	Cancelled		Expired	Outstanding	End/ current** price (Rs.)
									Due to resignations	Due to performance			
PLAN 7	07.12.2011		6,306,182	06.12.2016	172.10	9,246,138	-	8,254,798	336,308	-	655,032	-	-
		GEC <sup>1</sup>	2,602,482			4,075,093	-	4,075,093	-	-	-	-	-
		Other Executives	3,703,700			5,171,045	-	4,179,705	336,308	-	655,032	-	-
PLAN 8 <sup>3</sup>	01.07.2013		6,426,719	30.06.2018	265.18	9,959,017	6,948,058	-	969,884	222,763	-	8,766,370	191.65
Award 1		GEC <sup>1</sup>	2,712,919			4,276,837	3,287,565	-	-	69,580	-	4,207,257	-
		Other Executives	3,713,800			5,682,180	3,660,493	-	969,884	153,183	-	4,559,113	-
PLAN 8 <sup>4</sup>	01.07.2014		7,428,128	30.06.2019	229.93	9,573,018	4,967,439	-	854,868	88,085	-	8,630,065	176.04
Award 2		GEC <sup>1</sup>	2,816,845			3,654,358	2,127,797	-	-	-	-	3,654,358	-
		Other Executives	4,611,283			5,918,660	2,839,642	-	854,868	88,085	-	4,975,707	-
PLAN 8 <sup>5</sup>	25.06.2015		6,781,282	24.06.2020	195.71	8,819,207	2,747,662	3,224	542,198	51,306	-	8,222,479	149.84
Award 3		GEC <sup>1</sup>	2,244,342			2,931,378	1,109,733	-	-	-	-	2,931,378	-
		Other Executives	4,536,940			5,887,829	1,637,929	3,224	542,198	51,306	-	5,291,101	-
PLAN 9 <sup>6</sup>	15.08.2016		9,948,581	14.08.2021	142.83	9,948,581	381,833	-	151,551	-	-	9,797,030	142.83
Award 1		GEC <sup>1</sup>	2,625,000			2,625,000	250,000	-	-	-	-	2,625,000	-
		Other Executives	7,323,581			7,323,581	131,833	-	151,551	-	-	7,172,030	-
Total			36,890,892			47,545,961	15,044,992	8,258,022	2,854,809	362,154	655,032	35,415,944	-

1 GEC comprises of the Executive Directors and Presidents

2 Adjusted for bonus issues/right issues/subdivisions

3 Plan 8 (Award 1) - 75% of the options had vested as at 31 March 2017 with the exception of retirees

4 Plan 8 (Award 2) - 50% of the options had vested as at 31 March 2017 with the exception of retirees

5 Plan 8 (Award 3) - 25% of the options had vested as at 31 March 2017 with the exception of retirees

6 Plan 9 (Award 1) - None of the options had vested as at 31 March 2017 with the exception of retirees

## Options Available to Executive Directors Under the Employee Share Option Plan

Expiring year	S. Rathnayake			A. Gunewardene			R. Peiris			K. Balendra			G. Cooray		
	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested	Granted shares <sup>1</sup>	Immediately vesting	To be vested
2018/19	685,167	513,875	171,292	599,523	449,642	149,881	513,875	385,406	128,469	385,405	289,053	96,352	111,844	83,883	27,961
2019/20	606,377	303,188	303,189	530,580	265,290	265,290	454,784	227,392	227,392	341,086	170,543	170,543	105,710	52,855	52,855
2020/21	446,686	111,671	335,015	390,851	97,712	293,139	335,014	83,753	251,261	251,261	62,815	188,446	251,261	62,815	188,446
2021/22	350,000	-	350,000	325,000	-	325,000	300,000	-	300,000	300,000	-	300,000	300,000	-	300,000
Total	2,088,230	928,734	1,159,496	1,845,954	812,644	1,033,310	1,603,673	696,551	907,122	1,277,752	522,411	755,341	768,815	199,553	569,262

1 Adjusted for share subdivisions

## Share Capital

Year ended 31 March	Number of shares in issue (million)
2005	331.63
2006	400.00
2007	552.94
2008	635.99
2009	611.35
2010	619.47
2011	629.69
2012	844.12
2013	857.24
2014	990.29
2015	997.49
2016	1,189.40
2017	1,387.47

## GDR History (in terms of ordinary shares, million)

Year ended 31 March	Opening balance	Issued*	Converted/repurchased	Closing balance
2005	0.65	0.06	-	0.71
2006	0.71	0.14	-	0.85
2007	0.85	0.12	-	0.97
2008	0.97	0.14	-	1.11
2009	1.11	-	0.12	0.99
2010	0.99	-	0.01	0.98
2011	0.98	-	0.03	0.95
2012	0.95	0.32	0.08	1.19
2013	1.19	-	0.06	1.13
2014	1.13	-	0.01	1.12
2015	1.12	-	-	1.12
2016	1.12	0.16	-	1.28
2017	1.28	0.18	0.14	1.32

1 GDR is equivalent to 2 ordinary shares

\* First issued in FY1994 and subsequently increased along with bonus issues and subdivision of shares

## Dividend

Year ended 31 March	DPS* (Rs.)	Dividends (Rs. '000)
2005	3.00	1,027,497
2006	3.00	1,199,460
2007	3.00	1,412,306
2008	5.00	3,176,302
2009	3.00	1,883,442
2010	3.00	1,843,642
2011	3.00	1,868,707
2012	3.00	2,313,519
2013	3.50	2,982,421
2014	3.50	3,266,718
2015	3.50	3,475,947
2016	7.00	8,037,790
2017	5.50	7,280,497

\* Includes special dividends where applicable

## History of Scrip Issues, Rights and Repurchases

Year ended 31 March	Issue	Basis	Number of shares (million)	Ex-date
2005	Bonus	1:10	30	13 May 2004
2006	Bonus	1:5	66	11 May 2005
2007	Bonus	1:7	57	13 June 2006
2007	Rights @ Rs.140*	1:5	92	23 January 2007
2007	Bonus	1:7	79	13 March 2007
2009	Repurchase	1:25	26	11 October 2008
2012	Sub division	4:3	210	30 June 2011
2013	Rights @ Rs.175*	2:13	132	3 October 2013
2015	Share subdivision	8:7	143	3 July 2015
2016	Share subdivision	8:7	170	30 June 2016

\* Unadjusted prices

## 2016/17 Financial Calendar

	Date
Interim Financial Statements	
Three months ended 30 June 2016	28 July 2016
Six months ended 30 September 2016	4 November 2016
Nine months ended 31 December 2016	26 January 2017
First interim dividend paid on	24 October 2016
Second interim dividend paid on	16 February 2017
Final dividend proposed to be paid on	16 June 2017
Annual Report 2016/17	31 May 2017
38th Annual General Meeting	30 June 2017

## 2017/18 Financial Calendar

	Date
Interim Financial Statements	
Three months ended 30 June 2017	On or before 27 July 2017
Six months ended 30 September 2017	On or before 2 November 2017
Nine months ended 31 December 2017	On or before 25 January 2018
Annual Report 2017/18	On or before 1 June 2018
39th Annual General Meeting	On or before 29 June 2018