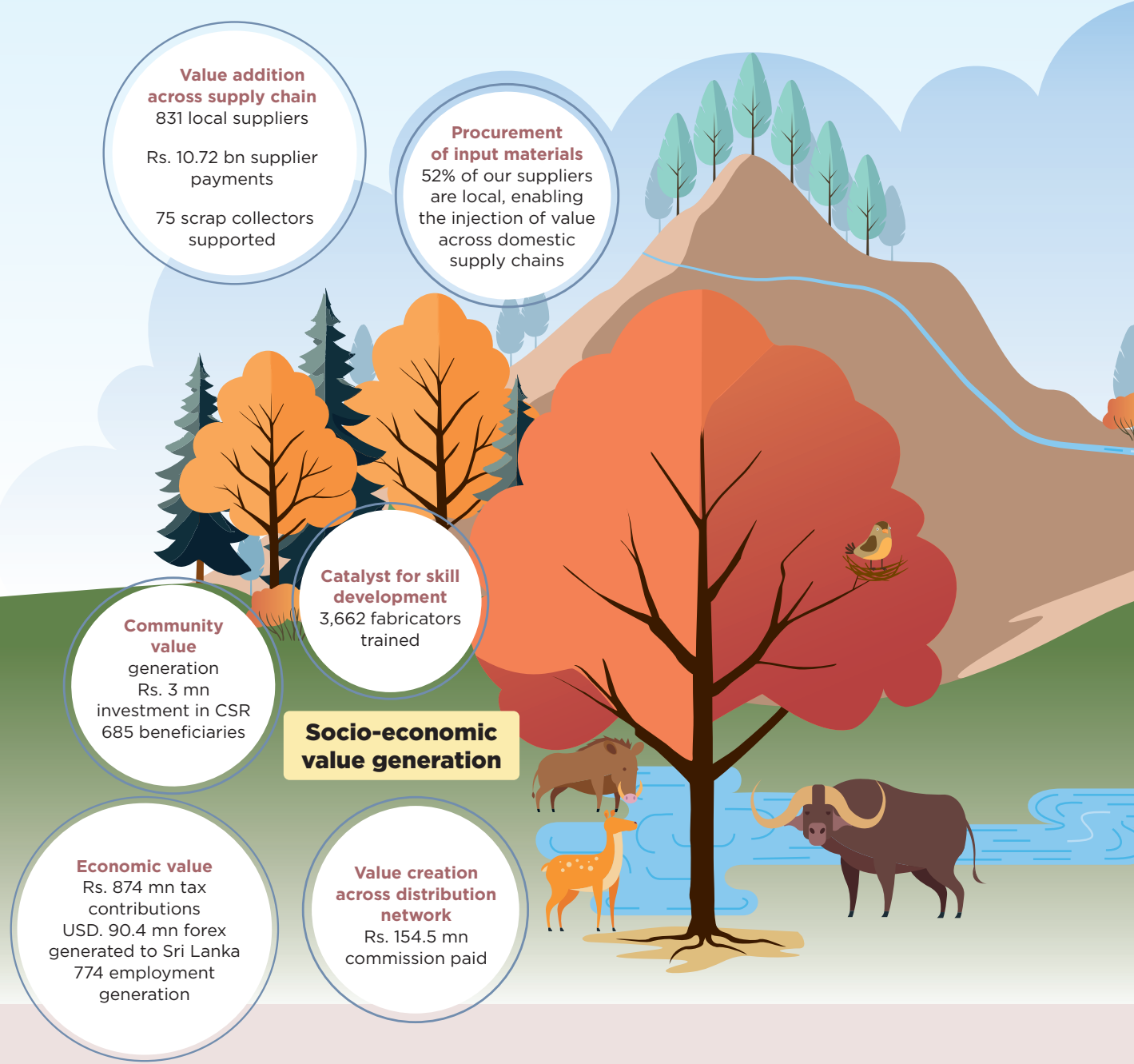




CONSTRUCTION MATERIALS

As the largest manufacturer and exporter of aluminium extrusions in Sri Lanka, the Sector is a significant value creator to the local economy through direct and indirect employment creation, foreign exchange generation and skill development and capacity building across the Sri Lankan aluminium products value chain

CONSTRUCTION MATERIALS



Rs. 3.60 bn
Economic value creation



2%
Contribution to Group's value creation










Employment generation
 One of the main employers in the locality, with 75% of our employees being from a 10 KM radius
 Indirect employment generation through network of 49 fabricators and 368 distributors

Manufacturing an array of aluminium extrusions to the domestic and export markets

Commitment to quality
 Transfer of global best practices to the local market through access to 8 globally reputed proprietary systems

Our products are effective substitutes for wooden fixtures and cater to multiple applications across the industrial and retail segments

-  **Architectural**
Architectural aluminium solutions including doors and windows
-  **Dwelling**
Ready-made doors and windows
-  **Household products**
Range of every day products such as cabinets, wardrobes and ladders
-  **Industrial products**
Catering to the solar industry through solar ground mounting and solar roof mounting systems

						
Revenue Rs. 9.94 bn (-2%)	Profit Before Tax Rs. 231.72 mn (+51%)	Profit After Tax Rs. 186.07 mn (+1923%)	Assets Rs. 12.87 bn (+22%)	Liabilities Rs. 8.39 bn (+25%)	Employees 774 (+5%)	Carbon footprint 9,519 tCO ₂ e (+7%)

+ denotes y-o-y growth - denotes y-o-y decline

CONSTRUCTION MATERIALS

SECTOR OVERVIEW

The Sector is represented by Alumex PLC, Sri Lanka's pioneering and largest manufacturer of aluminium extrusions. With a market share of over 46%, the Sector has built a strong reputation for product design, quality and innovation. The Sector's world-class design and manufacturing capabilities has also enabled it to enter overseas markets and Alumex is currently the largest Sri Lankan exporter of aluminium extrusions.



5%
Decline in global Aluminium prices

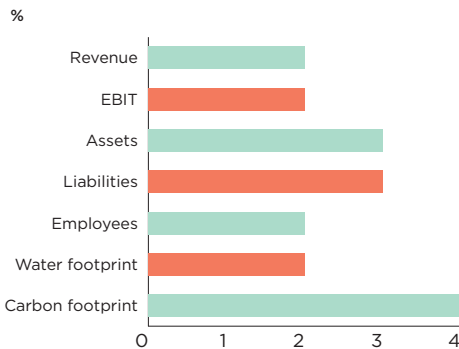


21%
Contraction in construction industry

OPERATING ENVIRONMENT

The Sector's performance is correlated to the country's construction industry, which experienced yet another year of multiple challenges. Construction industry activity contracted by over 21% in 2023 reflecting protracted impacts of the country's economic crisis of 2022 which saw sharp depreciation of the Sri Lankan Rupee, subdued consumer sentiments inflationary pressures and tightening monetary policy.

CONTRIBUTION TO GROUP



Meanwhile, construction sector value chains remained cash strapped for most part of the year, although improving by December 2023 following a liquidity injection by the government. The cost of construction materials remained elevated for most part of the year, although easing from the unprecedented highs of 2022 as import restrictions were eased. Accordingly, aluminium prices in Sri Lanka declined by 8% during the reviewed period, while global prices eased off around 5% to end the year at around USD2,200/MT. The outlook, however, remains promising for 2024/25, as evidenced by the gradual pick up of demand and volumes in the last quarter of the financial year.

COMPETITIVE POSITION

A host of **local and international certifications** including QMEA, QUALANOD, QUALICOAT and several ISO Standards

Manufacturing rights for 8 globally renowned **proprietary systems for Aluminium windows**

Strong presence in South Asia and pursuing growth in high-value added markets in Europe and North America, Australia and New Zealand

As the **largest manufacturer in Sri Lanka** the Sector has an annual capacity of 22,0000 MTs. Infrastructure includes

- Extrusion, melting, powder coating and anodising plants
- 9 distribution centres
- 13 Lumin Concept centres



Summary of external drivers

	Driver	Driver Significance of impact	Implications on Sector
Economic and geo-political context	Contraction of the Sri Lankan economy	H	- Weak consumer sentiments - Curtailment of discretionary expenses amidst reduced purchasing power
	Inflationary pressures	M	- Relatively high (albeit easing) cost of construction materials
	Reduction in interest rates	M	+ Reduction in borrowing costs
	Volatile and uncertain global construction landscape	M	- Subdued demand from export markets
Industry context	Government efforts to revive sector through liquidity injections	H	+ Tepid recovery of demand towards the latter part of the financial year
	Strong growth in Sri Lanka's solar market	H	+ Increased demand for aluminium components required for solar installations
	Long-term trend of increased sophistication of customers	M	+ Customers are increasingly placing more value on design, durability and aesthetics
Sustainability context	Increasing ESG consciousness along the construction value chain	M	- Push towards decarbonising value chains
	Increasing stringency of environmental regulations	M	- Regulations such as the Carbon Border Adjustment (CBAM) mechanism will reduce global competitiveness unless efforts are made to cut emissions

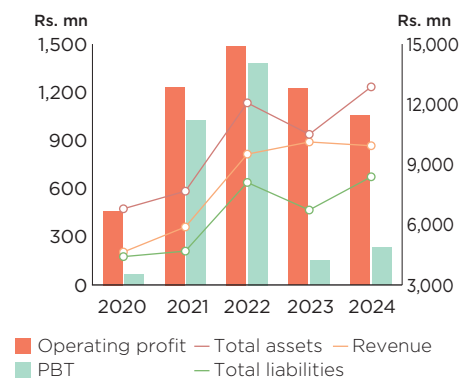
H-High, M-Medium, L-Low. Brown circle represents adverse effect while yellow circle represents positive affect

STRATEGY AND INTEGRATED PERFORMANCE REVIEW

The Sector's performance inevitably reflected the dynamics of the country's construction sector. However, strategic focus on exports together with relentless pursuit of operational efficiencies and a gradual recovery in demand during the last quarter of the year enabled the Sector to post turnaround during the year. Despite the conditions that prevailed, the Sector achieved a commendable volume growth of 17%, reflecting continued growth in exports as well as complementary demand stemming from the growth in the solar segment. Capacity utilisation levels improved

marginally from 27% the year before to 30%. Despite volume growth Revenue declined by 2% to Rs. 9.94 bn increased by 8% to Rs. 10.98 bn, as the Sector passed on the benefit of cost reduction to customers in an increasingly price conscious and price competitive market. Resultantly, the Sector's operating profit margins also narrowed to 10% from 12% the previous year. Ongoing focus on cost efficiencies continued to accrue benefits, with the Sector generating cost savings of approximately Rs. 271.2 mn through over 12 cost reduction projects across the organisation. Overall, the Sector generated a Profit Before Tax of Rs. 231.72 mn compared

SECTOR FINANCIAL PERFORMANCE



CONSTRUCTION MATERIALS

to Rs. 153.54 mn the previous year, while Profit After tax amounted to Rs. 186.07 mn (2022/23: Rs. -10.21 mn)

Growing exports continued to be a strategic focus for the Sector as it pursued new customer acquisition and deeper relationships with existing customers in key markets in the USA and European Region. Accordingly, the Sector achieved a 21% growth in export volumes during the year, contributing approximately 35% to total Revenue. The Sector intends to double contributions from exports over the short-to-medium term, leveraging its design and manufacturing capabilities to drive increased penetration of value-added products.

Over the years, Alumex has built a strong reputation for innovation introducing several 'firsts' to the Sri Lankan industry. The year under review, saw the addition of several value-added products catering to export markets, including fences, balconies and artificial walls among others. The Sector also expanded offerings under the Dwellings range (the do-it-yourself range for the domestic market) while also launching several products catering to the industrial segment. Commendable growth was also seen in the aluminium kitchen cabinets market, given its durability and sustainability compared to timber solutions.

The Sector's people strategy for the year centered on improving succession planning and building leadership capabilities, particularly given the exodus of middle management employees due to migration. Employee turnover amounted to 18% during the year, while attraction remained a challenge given the country's

talent migration as well as industry dynamics. Employee engagement also remained a priority, with considerable investments directed towards recreation and well-being.

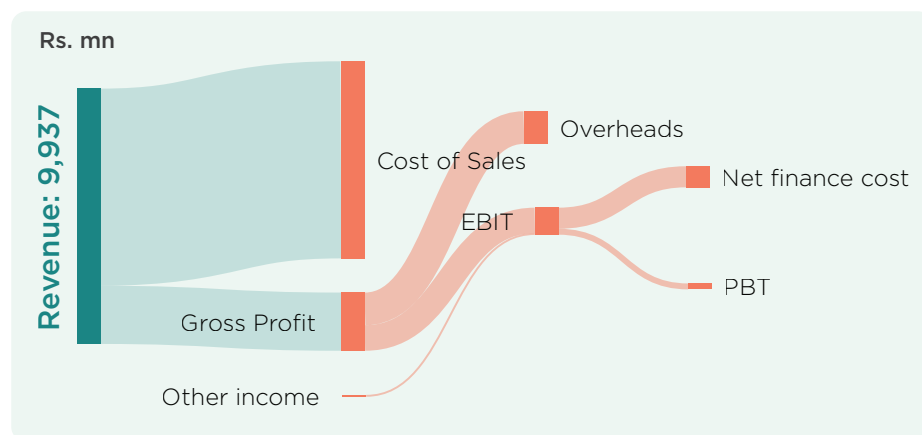
Alumex is a catalyst for skill development across the aluminium value chain, delivering training sessions to diverse industry stakeholders including fabricators, dealers, engineers and students of the Vocational Training Authority and NAITA among others (refer to table below for further information). Alumex also entered a MOU with the Department of Technical Education and Training during the year to develop a state-of-the-art technical aluminium fabrication training center, with the objective of uplifting the industry. During the year, the Sector also sought to develop a new channel of fabricators for the Dwellings range, thereby facilitating economic opportunity and empowerment of nearly 150 fabricators across the island.

ESG IN ACTION

The Sector's ESG aspirations are aligned to the Hayleys Lifecode as well

as the industry-specific requirements of the Aluminium Stewardship Initiative (ASI)- a global collaboration which aims to foster responsible production, sourcing and stewardship of aluminium. The Sector's ESG agenda centers on curtailing emissions through energy efficiencies, reducing reliance on virgin aluminium and developing the aluminium ecosystem in Sri Lanka. Key developments in integrating ESG are listed below:

- Establishment of Sector ESG Steering Committee
- Commence formulation of the Sector's ESG Roadmap, which will be launched in 2024/25
- Strengthen ESG risk assessment and integration with existing risk processes
- Monthly and quarterly monitoring and reporting of performance against ESG targets with the participation of relevant personnel from manufacturing facilities
- Third-party verification of GHG emissions (2022/23)



HOW WE DEFINE VALUE



HOW WE CREATE VALUE

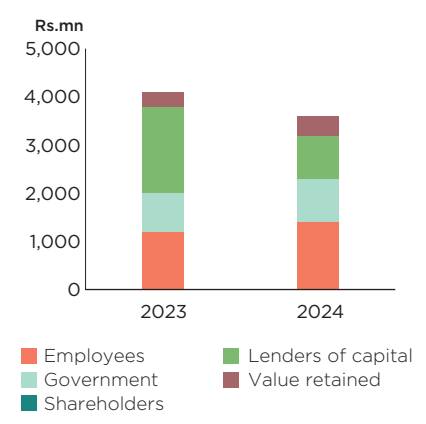
Strategic priorities	Export drive	Innovation and product development	Cost management and efficiencies
Resource Allocation	Rs. 23 mn Sales and marketing expense in export markets 27 New products for the export market	Rs. 9.5 mn Investment in research and development	12 Lean projects across the organisation 125 Employees engaged through 12 teams
Strategic KPI/Pre-financials	21% Growth in export volumes 18 New export customers acquired	29 New products developed 67 Products in the pipeline	Rs. 271 mn Cost savings generated

HOW WE DELIVER AND PRESERVE VALUE

- Total economic value generated during the year decrease by 12% in view of the challenging industry conditions
- Payments to employees increased by 18% during the year
- Value generated to Governments amounted to Rs. 874.01 mn (accounting for 24% of value)
- Payments to lenders of capital decrease by 49%
- Value retained in the business for future investment amounted to Rs.412 mn compared to Rs.325 mn the previous year



VALUE DISTRIBUTION



CONSTRUCTION MATERIALS

FINANCIAL PERFORMANCE

Rs.mn	2024	2023	% y-o-y	2022
Revenue	9,937	10,124	(2%)	9,518
Earnings before interest and tax	1,053	1,222	(14%)	1,488
Net finance income/(cost)	(821)	(1,069)	(23%)	(106)
Profit before tax	232	153	51%	1,382
Profit after tax	186	(10)	1923%	1,152
Assets	12,866	10,503	22%	12,070
Liabilities	8,390	6,736	25%	8,108
Operating cash flow	(1,366)	542	(352%)	(820)
Performance against targets				
	Target	Actual	Reason for variance	
GP of products	>12%	6%	Price reduction during the year	
Gearing	<50%	66%	Loans obtained for investment in working capital	
OPERATIONAL HIGHLIGHTS				
	2024	2023	% y-o-y	2022
Production volumes (MT)	5926	4,831	23%	8,602
Capacity utilisation (%)	27%	22%	23%	44
Energy intensity (GJ/Revenue Rs.mn)	8	8	-	12
Water intensity (Litres/Revenue Rs.mn)	11,744	8,666	36%	11,441
Carbon intensity (tCO2e/Revenue Rs.mn)	0.96	0.88	9%	1
No. of employees	774	734	5	879
Revenue per employee (Rs.mn)	13	14	9%	11
Remuneration per employee (Rs.mn)	1.82	1.62	75%	2

ESG HIGHLIGHTS



CLIMATE ACTION AND ENERGY EFFICIENCY

While the use of recycled aluminium is expected to drive a reduction in the Sector's Scope 3 emissions, the reduction in direct emissions during the year has been supported by,

- Modifications to rectifiers to enable higher energy efficiency
- Replacing existing compressors with new screw type models which enable considerable energy savings
- Exploring alternative fuel sources to diesel

	2024	2023	Y-o-y
Energy consumption (GJ)	81,117	82,654	-2%
Carbon footprint (tCO2e)	9,519	8,880	+7%

Fabricator training through Alumex Training School

Established in 1998, the Training School provides both in-house and offsite fabricator training courses free of charge to diverse industry stakeholders with the aim of,

- Developing skills of apprentices, fabricators and consultants
- Raise awareness on modern methods in fabrication
- Introduction to appropriate equipment, accessories and safety

Driving circularity

61%

Reliance on recycled aluminium

Target: 80%

The Sector increased the use of used beverage cans through 50 collection points in the Western Province

181 MT

Use of beverage cans



Employee value creation

The Sector continues to invest in long-term CSR and community development projects including the following:

- Give the Gift of Sight campaign 2023 with Helpage Sri Lanka: 260 cataract surgeries
- Book and stationary donations to impoverished schools
- Reforestation Project at Rathambale Kanishta Vidyalaya in partnership with the Department of Wildlife Conservation

PROSPECTS AND PLANS

Despite the short-term volatilities Sri Lanka’s construction sector is poised for recovery in 2024/25, supported by the stabilising macro-economic fundamentals, improved tourism earnings and conducive interest rates. With the recovery of private sector investments in the construction industry, we are optimistic that the residential and industrial segments will record gradual growth over the next few months. Key risks and opportunities that are likely to shape the industry landscape over the short, medium and long-term are given below:

INDUSTRY RISK AND OPPORTUNITY LANDSCAPE

+ Stabilising macro-economic conditions

The gradual recovery of the economy and tapering inflation is expected to support the recovery of residential projects

Response

Leverage on brand, customer relationships and customer touchpoints to offer attractive pricing and innovative solutions catering to emerging demands

+ Commencement of large-scale projects

Most suspended large-scale projects are expected to recommence in the near term, following more conducive macro-economic conditions

Response

Leverage on brand, customer relationships and customer touchpoints to offer attractive pricing and innovative solutions catering to emerging demands

+ Demand for alternatives to wood fixtures

With customers increasing preference for sustainable, lightweight, corrosion free and durable solutions, the demand for alternatives to wood fixtures is expected to record continued growth

Response

Widen product range beyond conventional applications to new segments such as kitchen cabinets and wardrobes

+ Customer demand for convenience

Busy lifestyles and shortage of construction sector labour is fuelling demand for DIY solutions

Response

Expansion of product offerings under the Dwelling brand

Sustainability related risks and opportunities (SRRO)

Industry decarbonisation

The Aluminium Sector is a significant emitter of greenhouse gas emissions and the regulations pertaining to tackling emissions along the value chain is evolving rapidly

< 1 year	Transitional phase of CBAM with exporters to EU expected to commence reporting
1-5 years	Taxes correlated to the carbon emissions of exports to EU could reduce competitiveness if emissions are unabated
>5 years	Businesses who are unable to comply with these evolving requirements will be challenged to survive
Response	Widening the scope of the carbon footprint computation to include Scope 3 emissions and formulating a roadmap for curtailing emissions

Sustainability as a competitive edge

Strategic integration of sustainability presents significant opportunities for market access, particularly in the EU region



< 1 year	Limited opportunities in the short-term, although demand patterns are showing signs of shifting
1-5 years	More pronounced demand for sustainable products in line with more stringent environmental regulations from the EU
>5 years	Organisations with weak sustainability practices are likely to face severe competition and be challenged to survive
Response	Formulation of the Sector’s ESG Roadmap to identify avenues for strategic integration

Sri Lanka’s shift to renewable energy

According to Sri Lanka’s Net Zero plan, the country is gearing to scale up renewable energy to be 70% of total energy consumption by 2030

< 1 year	Gradual increase in fossil-fuel based energy prices and resultant shift to solar power
1-5 years	Anticipated price revisions to fossil fuel costs to drive increased investments in renewable energy.
>5 years	Energy intensive industries are likely to shift entirely to renewable energy, generating both economic and environmental benefits
Response	Driving energy efficiency initiatives as a strategic focus on pursuing investments in solar and other renewable energy sources

CONSTRUCTION MATERIALS

The Sector remains optimistic on the medium-to-long term growth potential of the country's construction sector and given current capacity utilisation levels of around 30%, Alumex is well positioned to capitalise on the release of pent-up demand. The Sector will seek to further strengthen its leadership position in the local market, while driving aggressive penetration in exports.

FUTURE PLANS	
Short-term	Medium-to-long term
<ul style="list-style-type: none"> Develop existing and new export markets with focus on US, Europe and Oceania Strengthen value added propositions in export markets Grow solar market in both residential and industrial segments Increase contributions from premium products such as satin finish and die cast 	<ul style="list-style-type: none"> Develop customers across 5 continents and set up sales offices in key markets Increase dealership network to drive regional penetration Widen brand portfolio to include premium brands Development of fabricators to manage proprietary systems
Short-term goals ROE>15%	Medium-to-long term goals ROCE>30% Gearing< 40%

SASB DISCLOSURES

Table: Construction Materials Standard- Sustainability Disclosure Topics & Accounting Metrics

TOPIC	ACCOUNTING METRIC	UNIT OF MEASURE	CODE	DISCLOSURE/Pg. reference
Greenhouse Gas Emissions	Gross global Scope 1 emissions, percentage covered under emissions-limiting regulations	Mt	EM-CM-110a.1	4,248
	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	-	EM-CM-110a.2	We plan to increase reliance on renewable energy by installing more solar panels, and we hope to drive reductions in energy intensity by investing in machine upgrades and implementing power analysers.
Air Quality	Air emissions of the following pollutants: (1) NOx (excluding N2O), (2) Sox	Mt	EM-CM-120a.1	Not available
Energy Management	(1) Total energy consumed	GJ	EM-CM-130a.1	81117GJ
	(2) Percentage grid electricity	%		92.05%
	(3) Percentage alternative	%		7.95%
	(4) Percentage renewable	%		7.95%
Water Management	(1) Total fresh water withdrawn	(m3),	EM-CM-140a.	84458 m3
	(2) Percentage recycled			1.69%
	(3) Percentage in regions with High or Extremely High Baseline Water Stress	Percentage (%)		Not available
Waste Management	Amount of waste generated	Metric tons (t),	EM-CM-150a.1	974.32MT
	Percentage hazardous	Percentage (%)		76.01%
	Percentage recycled			34.15%
Biodiversity Impacts	Description of environmental management policies and practices for active sites		EM-CM-160a.1	None
	Terrestrial acreage disturbed, percentage of impacted area restored	Acres (ac), Percentage (%)	EM-CM-160a.2	None
Workforce Health & Safety	(1) Total recordable incident rate (TRIR)	Rate	EM-CM-320a.1	01.a 1.16 / 01.b -0
	(2) Near miss frequency rate (NMFR) for (a) full-time employees and (b) contract employees	02. N/A		