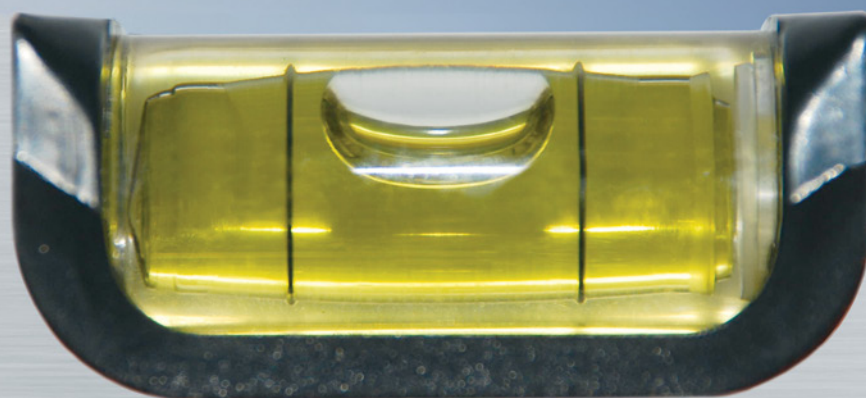




## Corporate Sustainability Report 2010





The **balanced** view

Maga Engineering is a national leader, a world-class engineering company delivering engineering and construction solutions for diverse projects—from the Bawa-designed Lighthouse Hotel in Galle and the Cargo Complex at Katunayake International Airport—to the premier Lanka (Apollo) Hospitals in Colombo and the Tsunami-rehabilitation of 158km long Matara-Wellawaya Road.

And our portfolio keeps growing.

Since 1983, we are proud to have expanded rapidly, winning the accolades of our peers, our clients as well as international agencies such as the World Bank and the European Union. Yet we remain a soundly governed, socially and environmentally conscious organisation where business excellence is a hallmark, as we ingrain sustainability into every aspect of our core business.

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Throughout the past year, the construction sector continued to mirror — and to a certain extent—shape the country's future economic progression. Within this sector in particular, the opportunity to actively propel sustainable development in the country has never been greater. However, our capacity to do so hinged not only on our collective experience, knowledge and skills, but also on our ability to compete with international construction firms, manage the impact of various socio-economic conditions, whilst attracting much needed investment during a period of global economic recovery.

Against this backdrop, becoming 'sustainable' required us to make our production processes leaner, provide more security and training to our employees, identify immediate risks in relation to our environment, whilst actively seeking investment. The challenge was to infuse sustainability ideals into all aspects of our core business—and vice versa— i.e. create sustainable development through our core business: the provision of social and economic infrastructure that is well designed, highly functional and long lasting, thus adding value to the real economy.

Our sustainability framework continued to offer a heightened sense of direction and purpose to our ongoing relationship with our environment, employees and external stakeholders. As the focus on nurturing these relationships grew, it also created a profound impact on the quality of our end-product and service—the development of infrastructure.

This report, the third of its kind, is an effort to shed more light on how we have tackled key challenges on several frontiers.



Construction activities invariably cause damage to the environment and deplete many non-renewable resources. In order to meet this challenge we have to clearly understand the social impacts, risks and opportunities of development and successfully integrate the social dimension of development with due consideration to economic, ecological and inter-generational equity. As such, we have made a sincere effort to integrate sustainable development practices throughout the company and its development strategies. Our moral and legal obligations to do so have been clearly spelled out in all our company codes and procedures.

The construction industry is still recovering from the slow-down created by the global economic downturn and the depletion of the real estate market in Sri Lanka. Maga has been able to withstand these turbulent times and register better financial results due to the firm entrenchment in our corporate belief that all our acts should be ethical and contribute towards elevating the quality of life of all people. Our resolve to engage in lean production practices at all levels together with the commitment and contribute of all our stakeholders have contributed immensely to this ideal.

It is with a sense of contentment we note our achievements in the year 2009/10. Particular reference should be made to the securing of the Platinum rating and number three ranking in the Corporate Accountability rating from Sting Consultants, in recognition of our sustainable construction practices as well as social, environmental and

financial accountability. We have achieved continued success in realizing our vision "to be the most competitive construction company in Sri Lanka" by laying emphasis on improving our knowledge, skills and resource utilization pertaining to our industry. This has helped us not only to improve productivity but also to minimize the utilization of resources and to eliminate waste as well as defective and abortive work.

The company has been able to secure several contracts in competition with renowned foreign contractors, due to our competitiveness achieved through lean production practices which form an integral



Our hopes for a resurgent Sri Lanka are greater than ever before. Yet the challenges, too, are as huge as the opportunities created by this new environment. As the market leader in the construction industry, we are ready to grasp this opportunity with a continued sense of responsibility.

part of our sustainability focus. One such project is the longest road rehabilitation project in the country of recent time, the 158 km long Matara-Wellawaya Road completed at a cost of Rs. 5.6 Billion. Innovative construction management enabled Maga to deliver this project ahead of schedule, garnering the praise of the European Union, the project's funding agency. The company has also completed the 9-storey, 450,000sqft 'Kandy City Center' complex in the heart of the hill capital. Maga is presently constructing the new headquarters of Sri Lanka Customs in Colombo 01, the 32-Storey Fairmount Residences in Rajagiriya and the 45-storey Celestial Residences in Colombo 03. Rehabilitation of 78 km Siyabalanduwa-Akkaraipattu Road is another landmark project in the Eastern Province which is slowly emerging from the destruction caused by the Tsunami and war. Rehabilitation of Puttalam-Anuradhapura Road at a value of Rs. 4.2 Billion is currently underway, in conjunction with project-specific Environmental Management Action Plans (EMAP). The company is also executing one of the largest Water Supply and Drainage Projects of the country, the 2nd stage of the Greater Kandy Water Supply Project, which aims to provide drinking water to over 250,000 residents.

The creation of a low-carbon society by reducing our carbon footprint whilst preserving, protecting and co-existing with diverse forms of life is pivotal to sustaining the environment around us. Our company is currently in the process of obtaining ISO 14001:2004 and OHSAS 18001:2007 accreditation as an initial step. We have already commenced companywide awareness programmes to inculcate a deep sense of social responsibility and accountability amongst all our employees. Our focus on employee development is reinforced by our efforts to establish internal controls to strengthen the corporate structure, promote a work/life balance, create a culture of safety, encourage recycling of materials, develop good relationships with local communities, act as a positive catalyst in society and provide continuous training to our employees so that these traits can be passed on to the next generation.

Although our nation has been liberated from the shackles of strife, investor confidence is yet to sprout. In order to overcome this setback we have taken measures to engage in Public-Private Partnerships which can provide investment to revitalize the local construction industry. We are sure the infusion of capital into construction projects can generate momentum whilst reactivating production and supply chains. We also intend to raise the profile of the construction industry, to make it more attractive to the younger generation. To achieve this it is necessary for construction companies to be more competitive and more profitable whilst enhancing their image and stature in order to establish their brands.

Our hopes for a resurgent Sri Lanka are greater than ever before. Yet the challenges, too, are as huge as the opportunities created by this new environment. As the market leader in the construction industry, we are ready to grasp this opportunity with a continued sense of responsibility in preserving the environment for the present and future generations whilst providing environment friendly, durable products and services to the people of this country, so that their quality of life could be elevated in turn.

  
M.G. Kularatne  
Chairman & Managing Director

20th August 2010

Organization Profile

Background

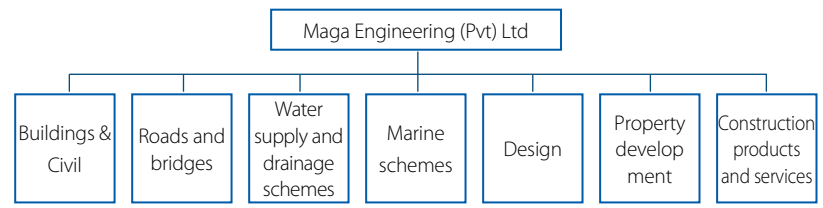
Maga Engineering was founded by Mr. M.G Kularatne in 1983 as a private limited liability construction company. It seized the opportunity created by the high demand for construction activities sprouting from the free market economy pursued in the early 1980s. Maga took up the challenges the industry offered, gaining construction managerial and technological exposure from working alongside international contractors. Over the last three decades, the organization has built up its human financial, and technological resources as well as its project management know-how to become Sri Lanka’s market leader in construction.

Products and Services

Maga’s core business centers around the design, construction and rehabilitation of buildings, roads, bridges, water supply and drainage schemes and marine structures. The company is also involved in the production and supply of ready mixed concrete and asphalt concrete as well as the leasing of scaffolding. Further more, property development is carried out through Maga Developments Lanka (Pvt) Ltd. The organization currently operates only in Sri Lanka.

The above products (buildings, roads, bridges, water supply & drainage schemes and marine structures) are delivered primarily through a construction project management process that carry a project from its conceptual stage right up to its commissioning and maintenance phases. All design, construction and rehabilitation work components relating to the above mentioned fields are carried out by our internal workforce, with the exception of certain specialized services and construction work which are executed through specialized subcontractors under our construction supervision.

Operational Structure



Headquarters and Regional Offices

Maga Engineering is headquartered at 200, Nawala Road, Narahenpita, Colombo 05, Sri Lanka. The company has regional offices in Hambantota, Kandy and Nochchiyagama.

Markets

Our construction work serves customers in diverse sectors. They range from education and healthcare facilities to office buildings, commercial buildings, residential buildings, industrial facilities, roads & bridges and water supply & drainage schemes. We serve customers in public, private and NGO sectors.

Sector	Customers	Geographic Location
Education Facilities	Public/Private/NGO	Southern Province
Healthcare facilities	Public/Private/NGO	Western Province
Office Buildings	Public/Private	Western Province, Central Province
Commercial Facilities	Private	Western Province
Residential Buildings	Private	Western Province
Industrial Facilities	Public/Private	Western Province
Roads & Bridges	Public	Western Province Northern Province, North Western Province, Central Province, Southern Province, Uva Province, Eastern Province, North Central Province
Water Supply & Drainage	Public	Central Province, Uva Province, Western Province
Supply of Construction Products	Public/Private/NGO	Western Province, North Central Province, Southern Province, Eastern Province, Central Province

Scale of Operations

No. of Employees (Direct)	5012
Revenue	Rs. 9,013.4 million
Total Capitalization	Rs. 5,202.8 million
Composition of Capitalization	Debt Rs. 16.0 million Equity Rs. 5,186.8 million
Quantity of Products and Services	Construction of Buildings 11 Nos Construction/rehabilitation of Roads 359.2 km Construction/rehabilitation of Bridges 51 nos Construction of Water Supply Schemes 03 Nos Production of Readymix Concrete 70,440 m³ Production of Asphalt Concrete 184,986 MT

Significant changes during the reporting period

There were no significant changes with respect to the company’s scope and location of operations, aside from the commencement and completion of several projects together with investments in the acquisition of land. No corporate restructuring and acquisitions have taken place. Further, no significant changes have occurred in relation to share capital structure, other capital formation, maintenance and alteration operations.

Awards – Received during the reporting period

LMD’s Most Respected Business Entities, 2009  
No 47

Corporate Accountability, 2010 by Sting Consultants  
Platinum rating

National Chamber of Commerce Business Excellence Awards, 2009  
Construction Sector – Winner

ICTAD (Institute of Construction Training & Development) Construction Performance Awards, 2009  
Rehabilitation of Padeniya–Puttalama Road  
Rehabilitation of Jayanthipura–Tirukkondaimadu Road  
Improvements to Nawala–Welikada Road  
Effective Adaptation of Safety Measures in Construction

Membership of Professional Bodies

Maga is currently a member of the following external organizations:

- International Federation of Asian and Western Pacific Contractors’ Associations
- Institute for Construction Training & Development, Sri Lanka
- National Contractors Association, Sri Lanka
- Major & Specialist Constructors, Sri Lanka
- Sri Lanka Standards Institution, Sri Lanka
- Chamber of Construction Industry, Sri Lanka
- Ceylon Institute of Builders, Sri Lanka
- Institution of Engineers, Sri Lanka
- National Chamber of Commerce, Sri Lanka
- Lanka Readymix Concrete Association, Sri Lanka



Our governance system is our instrument to continually advance our business operations whilst contributing to the development of society. Through it, we aim to actualize our fundamental stance on corporate governance, which is to ensure fair and transparent corporate conduct through the Board of Directors, senior management and external auditors, whilst enhancing our internal control systems to maintain accountability and manage risks. It is used to formulate and implement measures for strict compliance, thus earning us the trust of all stakeholders.

### Governance Structure

#### Board of Directors

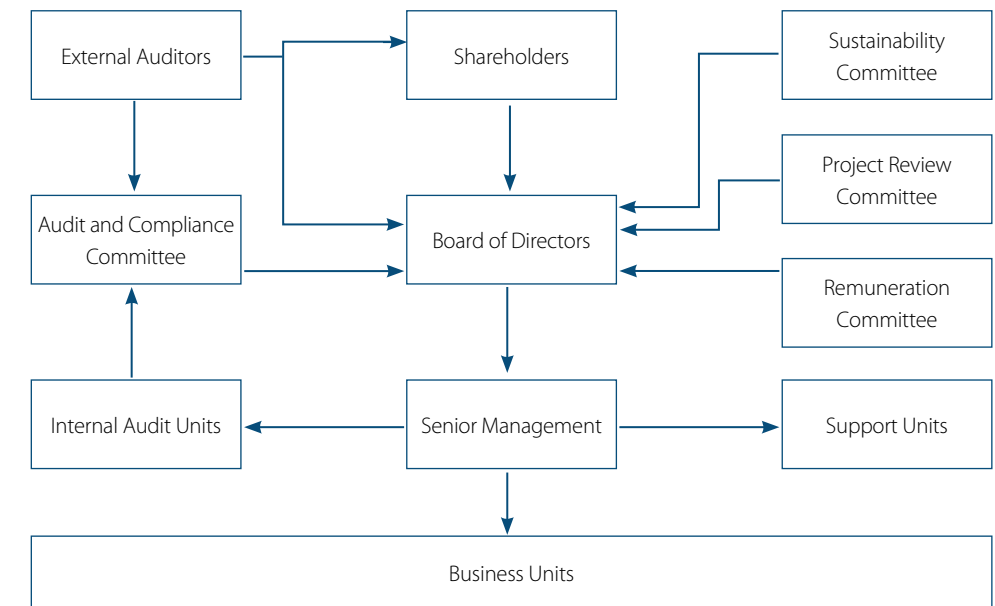
The Board of Directors consists of seven Executive Directors and one Independent Non-Executive Director. It makes decisions concerning overall strategy, investments, major construction projects, organizational structure, compliance, conduct and operations. The Board of Directors meets monthly to discuss business strategy, management policies, critical risks, opportunities and matters requiring board resolutions. Further, the Board of Directors supervises business execution and monitors the progress of management plans, sustainability initiatives and sector progress through the relevant business units.

#### Special Committees

The Board has established four special committees, namely, the Audit and Compliance Committee, the Sustainability Review Committee, the Project Review Committee and the Remuneration Committee. These committees periodically report to the Board of Directors and possess the Board's mandate to make decisions.

#### Audit and Compliance Committee

The Audit & Compliance Committee primarily assists the Board in overseeing financial management as per reporting procedures and monitoring the auditing of accounts. The Committee also evaluates the company's internal controls



and reviews the feedback from our external auditors in order to formulate further action for future improvement.

#### Remuneration Committee

The Remuneration Committee carries the responsibility of formulating policy and action to attract, retain, encourage and equitably compensate people who have the requisite skills, knowledge, drive and potential to achieve the objectives of the organization. It further assists the Board in making decisions relating to the employment of the Senior Management Team, and decides on salary structures and incentive programs.

#### Project Review Committee

The Project Review Committee takes decisions on major investments, major construction and infrastructure development projects and property development ventures. It also assesses and takes decisions on the viability of project financing proposals.

#### Sustainability Review Committee

The Sustainability Review Committee consists of all directors, as well as representatives from internal auditors and senior management. It is responsible for the formulation of the sustainability strategies of the company and periodically reviews and reports on key sustainability issues. The committee oversees the identification and management of economic, environmental and social performance, including relevant risks and opportunities, as well as compliance with relevant standards and principles of conduct. The formation of this Joint Committee of Directors, Senior Managers, internal auditors and executive officers has been carried out so that robust and practical action plans could be developed to generate a substantial impact on our stakeholders.

### Role of the Chairman / CEO (Managing Director)

The Chairman of Maga Engineering presides over the Board of Directors and the business execution of the Company is headed by a Chief Executive Director. This creates a system under which the Chairman is responsible for overall company vision, business strategy and decision-making whilst he oversees overall business execution through the Chief Executive Director.

Due to the Chairman and CEO (Managing Director) being one and the same, there is a greater degree of integration between the organisations operations and macro vision. Future aspirations of the shareholders are constantly translated and transmitted through the Board of Directors via the senior executive team towards the rest of the organization. Both roles (of Chairman and CEO) require 'macro' understanding, as well as a strong focus on

shareholder value. They further entail leadership qualities such as establishing a vision, building and motivating a team, and setting the tone of the organization in integrity, ethics and human resources development.

The CEO (Managing Director) needs to be more abreast of the details within the business in a more 'hands on' role. However, due to the availability of a very strong Board of Directors and Executive Team at Maga to manage each aspect of these operations (Finance, Administration, Development, Design & Quality Assurance and Operations etc.), the role of our CEO is limited to overseeing and reviewing their performance.

### Competence, Performance and Compensation

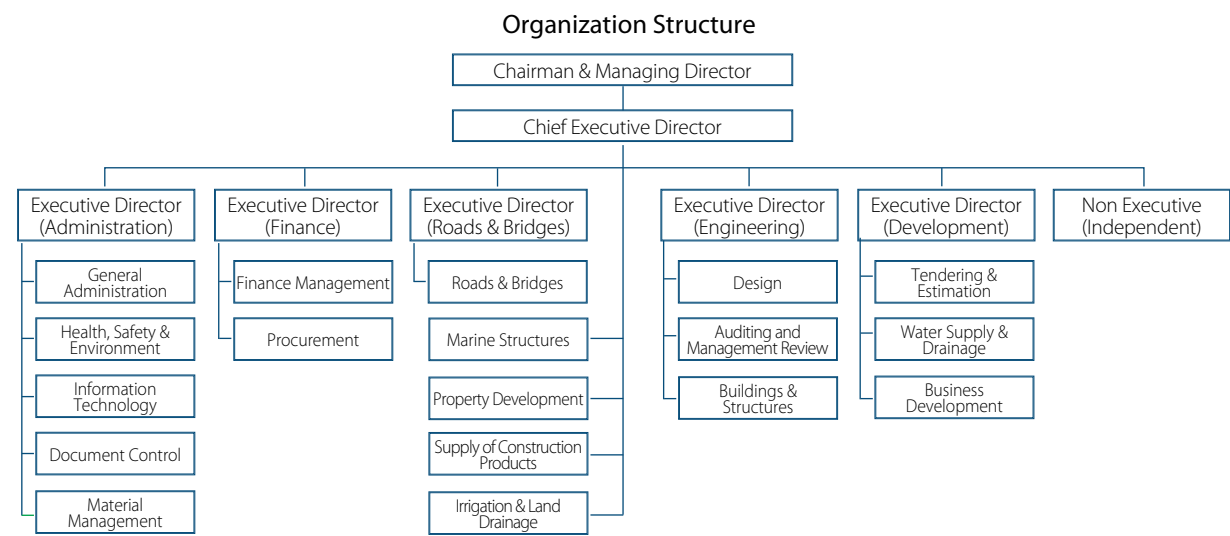
Maga being a professional business organization, all members of the senior management are required to possess educational and professional qualifications pertaining to his/her field of responsibility. If certain gaps are identified, they are advised and encouraged to acquire these qualifications. Several of our senior management members have recently acquired post-graduate qualifications in their field of work to fulfill this requirement.

Since the members of the governing body are responsible for the performance of the entire company, each member's scope is often evaluated in terms of short-term performance (monthly reviews) and long-term performance (annual reviews). The company assesses the performance of each sector/department managed by our senior management and they are accountable to the Chairman of the Board for their performance.

Maga has been structured on a unique model of cultivating a sense of ownership and bonding coupled with guaranteeing the wellbeing and security of its members, through both direct and indirect means. The performance-based compensation of our governance body is primarily directed towards ensuring the long-term remuneration and wellbeing of the individual, coupled with the short-term compensation in terms of salary and other benefits.

### Organizational Structure

The organizational structure of Maga is based on decentralization with clear delegation of authority and responsibility to Business Divisions through the Senior Management. Each Business Division is headed by a Divisional/Departmental Director or Manager aided by other support divisions in order to carry out its operations. Each business unit carries out a structured risk



management process depending on the nature, size and geographic location of projects before taking decisions.

The major Business Divisions of Maga are Design, Buildings & Structures, Roads & Bridges, Water Supply & Drainage, Marine Structures, Property Development and Production of construction materials. In addition, our Support Divisions provide services to the business divisions on General Administration, Finance Management, Tendering & Estimation, Procurement, Management of Sub Contractors, Inspection & Testing, Services & Maintenance, Calibration, Human Resource Management, Health & Safety Management, Training, Stores Management, Document Control, Record Control, Auditing and Management Review.

Risk Management

Strategies of risk management are discussed at the Monthly Progress Review Meetings chaired by the Chairman, with the Board of Directors and the senior management in attendance. The meetings promote dialogue to identify all major risks and create risk awareness amongst employees. The forum takes into consideration risks in operational planning and development as well as the risks and opportunities of venturing into new projects. Further, it offers our senior management, including our departmental, project and activity center managers, the opportunity to discuss risk management strategies for their operations.

The risk management process is further strengthened by the Audit & Compliance and Project Review Committees. The composition of these two committees has enabled the amalgamation of management expertise in order to arrive at swift decisions when required, and provide guidance to other areas of operation.

Maga’s Code of Ethical Conduct has been formulated by the highest governance body and is another tool for risk management. Prior to the formulation of this Code, members of the governance body and all Senior Managers had to embrace the culture of the organization which compelled all its members to behave and conduct themselves ethically. With the expansion of the organization, the need to introduce controls to identify conflict of interest was recognized and the Code of Ethical Conduct was imposed on all employees.

Employee Involvement and Consultation

We have identified the benefits of actively involving the employees in the decision making process. We have established a programme named ‘Employee Involvement in Improvement’ to harness employee creativity and innovation to improve procedures and practices. We have also created working committees made up of representatives from the management and staff in order to collectively address problems identified through various fora. At present we have working committees on improving purchasing, stores and transportation processes and the implementation of the Japanese ‘5S’ concept.

Maga has a whistleblower system that allows employees direct access to the Chairman and the Board of Directors to report unethical behavior and suspected criminal activity. The company strictly prohibits retaliation or harassment against whistleblowers. Furthermore, employees are constantly encouraged to contact the highest authority on incidents of unethical conduct.

Vision	To be the Most Competitive Construction Company in Sri Lanka.
Mission	We are excellence driven and committed to ensure the satisfaction of customer needs with utmost care, by constantly providing quality products and services at affordable prices, thus creating a fair and growing return to our organization, an inspiring workplace and a continued sense of security to our employees, enabling us to contribute to society in elevating the quality of life.
Belief System	We passionately believe in what we do, and we do it with the utmost care, speed and accuracy and to the best of our ability. We never compromise our standards and values for temporary gains. We take care of our Clients, members of our team and society at large. We believe in being ethical in everything we do and consider it the primary road to our personal and organizational success.
Workplace Motto	We strive to achieve ‘Constancy to Purpose’ in the workplace, through unrelenting and unwavering adherence to the Company objectives.
Quality Policy	We are dedicated to provide quality products and services satisfying the needs and expectations of each customer with a creative, self motivated and dedicated team united under a rewarding and healthy environment ensuring continual improvement, with a view to establishing a lasting social and environmental sustainability.
Human Rights Policy	<p>We are committed to maintain an organizational culture which upholds internationally recognized human rights while actively engaging in the prevention of human rights abuses and violations. We continually identify, evaluate and manage human rights impacts on all stakeholders, and play an active role in the achievement of human rights within our direct spheres of influence, as per the following:</p> <ul style="list-style-type: none"><li>- Uphold the human rights of our employees, including non-discrimination, prohibition of child and enforced labour and freedom of association</li><li>- Set up and maintain fair and appropriate procedures to evaluate and select suppliers and subcontractors, and review their performance with fairness</li><li>- Have open discourse with stakeholders and engage in community activities</li><li>- Respect the values, customs and culture of local communities amongst whom we operate</li><li>- Contribute to the promotion of human rights by improving socio-economic and environmental conditions and function as a catalyst in these communities</li><li>- Uphold ethical conduct and integrity in doing business and support governing authorities where necessary in enforcing high ethical standards for businesses.</li></ul>
Workplace Policy	We are committed to create a workplace where the performance and behaviour of our employees are governed by a strong organizational culture supported by the procedures laid down by the Management. The company culture revolves around the continuous improvement of quality in all aspects and at all stages of construction, collective decision-making, friendly but firm disposition towards employees, employee welfare and fostering an informal organizational environment. Our workplace policy enables the best people to produce their best work in a safe and healthy workplace free from discrimination and harassment, whilst heeding their grievances and providing for their welfare.

Social Policy	We recognize that we must integrate our business values and operations to meet the expectations of our stakeholders and that our social, economic and environmental responsibilities to these stakeholders are integral to our business; we aim to demonstrate these responsibilities through our actions and within our corporate policies; we positively respond to all feedback that we receive from our stakeholders and, where possible, maintain open dialogue to ensure that we fulfill the requirements outlined within this policy; and we aim to be open and honest in communicating our strategies, targets, performance and governance to our stakeholders in our continual commitment to sustainable development.
Health, Safety and Environment Policy	We are committed to excellence in Health, Safety and Environmental practices requiring all our operations to: protect the health and safety of employees and others involved in its operations and the sustainability of the environment with which it interacts; operate business with a deep concern for health and safety and in an environmentally responsible manner; comply with all legal and other requirements to which the Company subscribes on health, safety and environment; promote awareness among all its employees on health, safety and environmental aspects, their impacts and control measures; and ensure continual improvement of health, safety and environmental performance.
Financial Policy	We believe in ethical and transparent financial conduct based on sound accounting practices implemented in accordance with universally accepted accounting principles, thus enabling the maintenance of true and accurate financial records of our transactions, assets and liabilities whilst facilitating sound monitoring and consistent reporting of our financial performance. We have zero tolerance on unethical and unlawful action such as illegal disbursements, procurement, manipulation and bribery.
Equal Employment Opportunity & Affirmative Action Policy	<p>We ensure that all decisions on employees are in line with our company principles, policies and procedures and are devoid of discrimination, enabling all employees to gain equal access to opportunities within the organization based on individual merit. Accordingly, we ensure that equal opportunity is given to qualified individuals from all backgrounds during the selection, recruitment, assignment, training and development, remuneration, promotion, transfer, reinstatement and termination. We actively prohibit discrimination based on an individual's age, sex, colour, race, religion, marital status, nationality, medical condition, disability or other legally protected characteristics or conduct.</p> <p>We believe in treating all employees fairly, and actively engage in developing and utilising their full potential. We trust that our human resource practices, equitable access to employment opportunities and continuous training will bolster employee motivation, confidence and morale. We believe in the creation and propagation of income generation opportunities for all segments of society within our developing economy. For that reason, we are committed to taking affirmative action in the workplace to promote social equity, and strive to employ and develop qualified individuals from disadvantaged sections of the society.</p>
Open Communication Policy	We promote a culture of teamwork, where all employees work in unison for the attainment of common goals with the use of open and honest communication through upward, downward, and lateral communication channels across different levels of organisational hierarchy. We foster the sharing of new ideas and success stories, invite feedback on deficiencies and encourage open discourse in search of recommendations for continual improvement.



Maga’s Corporate Sustainability Philosophy is based on achieving organizational and societal growth simultaneously: i.e. to achieve organizational development in the course of providing high quality social infrastructure. As such, Maga’s Corporate Sustainability framework aims to merge four key attributes that govern the operation of the company (as embodied in our logo, displayed above) with five key sustainability ideals.

These sustainability ideals are:

- 1) sustaining the quality of our products and services thus ensuring sound economic performance whilst reinforcing our economic responsibility;
- 2) the development and sustenance of the Maga community, the livewire of the organization;
- 3) enhancing compliance and conformity to norms and ideals within the company ranging from ethical conduct to health & safety management;
- 4) creating sustainable built environments whilst reducing our impact on the environment; and
- 5) strengthening our relationships with our stakeholders and local communities through close dialogue and engagement.

Our CSR framework was formulated on the basis of this philosophy, which guides the CSR activities of the Company.



Impacts on Sustainability

Collectively, the global construction, civil engineering and infrastructure sector generates significant economic, social and environmental impacts. As a global industry, it represents 10% of global GDP and accounts for 28% of the world’s employment. On the other hand, the sector uses 37% of the world’s energy and generates 40% of its waste and 40% of its CO<sub>2</sub> emissions. It also consumes 40% of world’s resources and 14% of the world’s water.

Our operations have a four-fold impact on sustainability – energy usage, material usage, waste generation and pollution. The practical implementation of sustainable development include:

- Considering the needs of the stakeholders by engaging in dialogue with investors, suppliers, employees and customers.
- Having a broader outlook on sustainability by progressing from internal to external stakeholders, especially the suppliers and customers to commit to sustainable development.
- Considering how we can begin to report on our targets and on our achievements on a structured basis.
- Talking to suppliers about where and how materials are sourced and trying to achieve a balance between the benefits of using renewable resources and energy.
- Ensuring that the operatives at sites are trained to understand the importance of minimizing waste, energy use and pollution during construction.
- Engaging with local communities and being more transparent.
- Taking specific action to reduce the negative impact on sustainable development by implementing action plans to reduce energy, material, waste and pollution.

Sustainability Trends, Opportunities and Risks

We have continued to identify challenges and risks as well as opportunities and trends in relation to sustainability and the triple bottom line of Economic, Environmental and Social factors.

Some key market trends relevant to sustainability include:

- The availability and cost of raw materials and water as population grows and key natural resources dwindle
- The physical and economic impacts of climate change
- Increasing cost of energy
- The engagement and retention of skilled workers
- Infrastructure development in the Northern and Eastern provinces

There are several challenges and risks involved that require continuous evaluation and analysis. The ensuing table explains our findings in relation to key opportunities and challenges.

The construction contractor has been presented with several opportunities, especially due to the growth in renewable energy such as wind, tidal, and solar power; waste infrastructure such as waste-to-energy plants; upgrading of transmission grids; and the increased demand for more sustainable buildings – to be newly built as well as to be refurbished.

Key Challenges, Opportunities and Risks

Area	Challenges	Opportunities	Risks
Economic	The global financial crisis and the lack of investor confidence	The possibility of exploring new markets within construction industry (in Wastewater, Irrigation and Power & Energy sectors)	Dearth of work leading to unhealthy bidding wars, resulting in non-conformance of quality, safety and environmental standards within the industry
	The credit crunch and the fluctuation in foreign exchange rates and imported construction material		
	Delays in infrastructure development implementation due to socio-economic factors and environmental concerns		
Social	Employee retention and recruitment due to brain drain	Increasing employability due to the practice of high standards and adaptation of voluntary codes to set up our own benchmarks; Participation in community building activities in order to ensure upliftment of education, health and environmental standards of local communities	Difficulty in sourcing and retaining skilled workforce due to increasing social and economic expectations and attractive foreign labour markets
	Ensuring the protection of human rights and respectable work practices of workers employed by our subcontractor and suppliers		
	Ensuring Health and Safety of employees at all our workplaces		
	Availability and retention of skilled workers		
Environment	The availability and cost of raw materials	Exploring the potential for use of renewable and cleaner energy as well as waste and emission reduction methodologies; Altering design and construction methodologies to accommodate energy efficient construction products; Designing and constructing Green rated buildings	Environmental degradation due to our increased energy consumption and carbon footprint
	Physical impacts of climate change, (increasing flood risks, limited local raw materials)		
	Ensuring that the sub-contractors and suppliers comply with current environmental standards and act in line with our benchmarks		
	Lack of waste management facilities to sort and dispose waste generated during our operations		

<sup>1</sup> Organization of Economic Co-Operation and Development (OECD), Global Impacts of Construction (www.oecd.org)

When prioritizing our sustainability initiatives, we have established a system where our attention is focused on issues and concerns raised by our stakeholders. We believe that though this process, our stakeholders would be better served in receiving specific solutions for their concerns.

Concerns raised by stakeholders and actions taken to address them

Area	Stakeholder	Concern	Action
Economic Responsibility	Clients/developers	Achieving the required quality of product with a reduced amount of time, cost, material and energy usage	Lean production
	Pressure groups, NGOS	Gauging the indirect economic impact of our activities, thereby allowing us to focus on enhancing positive impacts whilst reducing adverse impacts	Study of indirect impact across all projects
	Clients/developers, consultants, regulatory authorities	Sustaining the quality of our products through the value chain of subcontractors and suppliers	Comprehensive pre-qualification processes in assessing their capability, stringent monitoring of their quality processes, as well as programs to promote local suppliers/subcontractors
Human Resources	Employees	Continuous training and development to suit career path progression	Training academy initiatives in conducting appropriate courses of training and instruction
	Board of Directors and senior management	Upgrading of knowledge and skill levels to match the demands of the future	Continuous training through both internal and external bodies
	Board of Directors and employees	Ability of performance evaluation system to identify performance deficiencies	Implementation of new performance management systems
Enhancing compliance	All	Ethical conduct	Reviewing and reinforcing the code of ethical conduct as well as conducting programs to educate employees on it, newly structured induction programs etc
	Funding agents and other investors	Improving the safety & health standards of construction workforce	Implementation of the final phase of Health and Safety Action Plan for Excellence which began in 2008: OHSAS 16001
Environment management	Funding agents and other investors	Necessity of mitigating environmental impacts in a systematic way	Implementation of ISO14001:2004
	Local communities, environmental authorities	Concern regarding energy and waste intensive operations	Lessening such impacts as much as possible using innovative techniques (eg. at batching plants and crusher plants), whilst communicating to relevant parties the actions taken
Stakeholder Engagement	NGO and local community based organizations, local communities	Welfare of local communities	HIV prevention programs, health and welfare programs
	Shareholders, Board of Directors	Strengthening ties with local communities	Contributing to the development of social infrastructure facilities of the region

We follow an annual reporting cycle for our Corporate Sustainability Report and this report covers the period from 1 July 2009 to 30 June 2010. The most recent previous report was published on 31 august 2009.

Defining Report Content

This report outlines our sustainability policy framework and illustrates our sustainability objectives with respect to Economic Responsibility, Human Resources, Enhancing Compliance, Environmental Management and Stakeholder Engagement. Under these key segments, we have broadened our scope whilst narrowing our focus on certain critical issues. The report essentially expands on the ideals of last year's report, further strengthened by the addition of key performance indicators based on the concept of materiality, as per the guidelines of the Global Reporting Initiative. As such, the report covers the key strategies and targets which have been adopted in our management approach, as well as performance indicators which have become a measure of efficiency of these strategies. The implementation of these strategies is further illustrated with the help of specific case studies. We have also identified our future goals and targets under each section. All data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report are in accordance with the indicator protocols.

The report has been shaped by the needs of the main stakeholders of the company that have come to light through the process of our engagement. These stakeholders are our customers, our employees, government and regulatory authorities, local communities, non-governmental and community-based organizations, our shareholders and the end-users of our products and services – viz. the community at large. This multi-stakeholder framework combines elements of three sustainability philosophies: corporate accountability, stakeholder theory and sustainable development. Corporate accountability deals with the responsibility of being accountable for all our activities in relation to corporate ethics, rules and regulations. Stakeholder theory pertains to identifying all our stakeholders and strategically managing our organization so as to bring

those stakeholders optimum returns with respect to their common goals of fair economic return, environmental protection and social benefits. Sustainable development envelops the two philosophies above into a broader framework, by stressing the need for development that caters to present generations without compromising the ability of future generations to meet their own needs.

Materiality was defined as aspects that may impact or influence the company, and has the potential to influence our stakeholders. Our approach to Materiality Analysis consisted of the following:

- Review stakeholder groups and compile issues raised from engagement activities and by interest groups and media
- Review issues raised from internal risk assessments and through the recommendations of our sustainability review committee
- Review requirements of voluntary as well as regulatory initiatives
- Review sustainability issues raised in the industry in general
- Rate the level of importance to Maga and all stakeholders through the application of Materiality Tests
- Rate the level of awareness and importance to each stakeholder group based on our assessment

Accordingly, subjects of greatest importance to our stakeholders are further analyzed through this report.

Scope and Boundary of the Report

This report covers all divisions and departments of Maga Engineering (Pvt) Ltd, and all activities within the company over which we have substantial control and influence, and thus carry accountability towards. It covers our main business processes of Tendering, Design Work,

Construction Project Management, Production and supply of construction materials, Procurement Management of Sub Contractors and Customer Feedback Management, as well as their supporting business processes. Since the whole scope of the operations is covered in the report, there are no specific limitations to its scope or boundary.

Data on financial performance has been gathered from the audited financial statement. All other information has been compiled based on data provided by the business units. Data measurement and calculation have been based on GRI (G3) compilation guidelines given in Indicator Protocols.

During the period of reporting, Maga carried out four projects in Joint Ventures with other companies. The full scope of these projects is considered in the report. Some of the activities of the projects are carried out by sub-contractors, both general and specialized, and some of the functions are outsourced. The operations and contributions of these sub-contractors are included in the report.

This is a stand-alone report which is a progression from the previous year. Significant changes from previous reporting periods have not occurred in the scope,

boundary, or measurement methods that have been applied. Furthermore, there have been no re-statements of information provided in the earlier report.

Structure of the Report

The structure of this Sustainability Report does not strictly adhere to the order of indicators as found in the GRI G3 Sustainability Reporting Guidelines. The report uses an assemblage of related indicators clustered in a meaningful way to the organization, to facilitate readability, while maintaining the structure of the previous reports. The indicators are, therefore, grouped accordingly to highlight Maga’s holistic approach to Corporate Sustainability. The GRI Index found on page 69 of this report allows easy navigation of the relevant pages of the report.

The contact point for any queries regarding the report or its contents is Mr. Mega Kularatne, Director Development who can be reached on +9411 2808835 or mega@maga.lk. This report is available online at www.maga.lk.

In our Corporate Sustainability Report 2009, we specified several targets to be achieved in the year 2009/10. The following table summarizes the progress achieved with regard to these targets.

Target	Key deliverable in 2009/10	Current status
Performance-based performance management system	The new system was implemented in January 2010	Recommendations from the performance analysis are being implemented
Establishing benchmarks to monitor production processes	Benchmarks were developed for productivity of crusher plant and asphalt plant and efficiency of readymix concrete distribution	Benchmarks are being developed for wastage of crusher plants
Making construction more attractive	Recruitment policies were revised to facilitate more women and ethnic minorities to be employed and professionals from the local communities to be recruited	Proposals are being considered to encourage more work-life balance
ISO 14001 and OHSAS 18001 certification	Preparation of documentation was completed, adequacy audit conducted by the certifying body and approved	Implementation of the management system in progress, Stage I and Stage II scheduled to be conducted in October 2010
Adopting GRI guidelines for reporting	The current report is prepared in accordance with GRI G3 guidelines and meets the requirements for level B reporting	Report to be externally verified





## Stakeholder Engagement

“ Given the diversity of our stakeholders, we have recognized the need to be systematic and proactive in our efforts to engage all stakeholders with the organization. ”





1 | Stakeholder Engagement

- 22 Customers
- 23 Employees
- 25 Business partners
- 26 Suppliers and sub contractors
- 26 Local Communities and Society
- 27 Government and Regulatory Authorities



We are committed to foster a two-way mechanism of engagement between all our stakeholders.

Stakeholders are those individuals, groups of individuals or organizations which affect and/or are affected by an organization’s activities, products or services and associated performance. At Maga we strongly believe in treating our stakeholder with integrity and professionalism.

Construction being our core business, we reach wide across the country, at times beyond its borders. Our customer base expands from direct customers, who are the investors or the owners of the developments, to indirect customers, who are the end-users of the roads, bridges, buildings and water schemes we construct. Given the diversity of our stakeholders, we have recognized the need to be systematic and proactive in our efforts to engage all stakeholders with the organization.

We have identified six groups of stakeholders important to our operations – customers, employees, business partners, suppliers and subcontractors, local communities and government and regulatory authorities. All stakeholders with whom we interact have been identified through a process of evaluating their impact on our operations, and the stakeholders who deserve particular attention have been selected.

Our stakeholder engagement efforts rest on three pillars – open communication, ethical conduct and mutual benefit. The main focus of our stakeholder engagement is open and transparent communication. We do not believe in gaining advantage by withholding information during our interactions with stakeholders. We believe in understanding the other party whilst making them aware of our commitment to

them. Ethical conduct is the second pillar on which our philosophy of stakeholder engagement rests. We believe in being ethical in everything we do and consider it pivotal to our personal and organizational success. We make a conscious effort to pass on the sentiment of ethical business to the next generation of employees, who in turn will behave in an ethical manner with all stakeholders in future. The third pillar of our stakeholder engagement philosophy is mutual benefit. The sustainability of our company depends on the benefits we can deliver to the stakeholders, which in turn ensure their sustainability. As such, we promote a ‘win-win’ approach in our dealings with all stakeholders.



1.1 Customers

Customers and investors sustain us, and we seek to have a thorough understanding of their needs and processes and to achieve outstanding levels of customer satisfaction. A substantial proportion of Maga’s business is conducted with establishments with whom we have long-standing relationships, and regular customer feedback is obtained through a two-way communication system.

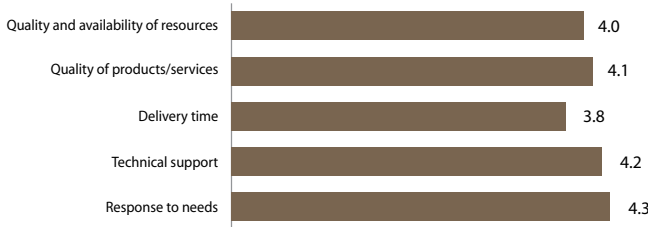
For example, we have implemented a detailed customer feedback process for our readymix concrete and asphalt concrete businesses. A customer feedback form is sent to each customer, and feedback is sought on five aspects – response to customer needs, technical support, delivery time, quality of products and services and quality and availability of resources. A space is provided to indicate any suggestions for improvement.



Our aim is to create a safe, healthy, challenging, rewarding, pro-active and fair working environment for all our employees.

During the reporting period there have been a total of 642 customers (608 for readymix concrete and 34 for asphalt concrete). 247 customers completed and returned the feedback form. The average response to the five areas of customer satisfaction is summarized below.

Customer Feedback on Concrete and Asphalt Supply



\* The feedback obtained on a scale of 1-5

While we can be reasonably satisfied with the feedback from customers, attention has to be paid to improving our ‘delivery time’. Since both products carry a risk of quality failure if there is a prolonged delay, achieving better delivery times becomes critical. In the future, quarterly analysis of customer feedback will be carried out to make better use of this valuable tool. Discussions are currently underway on how to encourage and obtain a higher response rate from the customers, such as enabling support for a multi-lingual feedback mechanism.

Issues and concerns

Compliance with relevant codes and design standards, fitness for purpose, compliance with statutory regulations, issues regarding buildability, durability and workmanship

How we engage

- We conduct project oriented progress review meetings
- We review and ensure the ‘Fitness for Purpose’ of our products with the use of up-to-date construction and building standards
- We regularly review buildability, durability and workmanship related concerns with the help of the above process

1.2 Employees

Our employees are our backbone. They carry our ideals to the outside world. Our aim is to create a safe, healthy, challenging, rewarding, pro-active and fair working environment for all our employees. We endeavor to give our employees a ‘Voice’ in order to create a unified culture where our employees feel motivated and understand the direction in which the Company is heading.

Being receptive to the ideas and attitudes of employees is a sure way of improving their job satisfaction and work performance. Understanding their way of thinking helps the management to make better informed decisions and identify potential occurrences of problems. It also gives





## Our stakeholder engagement efforts rest on three pillars – open communication, ethical conduct and mutual benefit.

employees a sense of belonging and a stronger attachment to the organisation. Several formal employee surveys are conducted yearly by the HR Department in addition to the informal dialogue that takes place on a daily basis at every level of the organization.

The first such survey of the reporting period was conducted to identify the level of acceptance of the Performance Evaluation System and to identify the factors that determine the acceptance. The survey identified the need to include measures that are high in validity and reliability; involve the employee more in the evaluation process; carry out performance planning and enabling before conducting the evaluation; train the evaluators in the process; and make use of the results of the evaluations for financial and other benefits. A new Performance Management System was developed to address these issues and was implemented in early 2010.

The second formal survey focused on the factors that govern the accuracy of rating in performance

measurement. The accuracy of the rating, as indicated by rate discrimination, criteria discrimination, central tendency and leniency, was found to have the strongest correlation with knowledge of the performance management system, followed by the belief about the system and the skills in conducting a performance review interviews. These are very encouraging findings because all three factors can be improved by proper training programmes aimed at the appraisers, which is planned to be held during the second half of 2010.

A company-wide climate survey is currently being planned and will be carried out before the end of this year. Through this survey, we aim to quantify attitudinal factors such as job satisfaction, organizational commitment, job involvement, employee engagement and teamwork. Once benchmarks have been set, the survey will be carried out annually to identify trends in employee attitudes. The survey, as well as follow-up action based on the findings, will be conducted by our Training Department.

### Issues and concerns

Continuing Professional Development (CPD) is directly linked to company achievements and productivity, Personal Development, Health and Safety, and synergy between personal and professional life

### How we engage

- We use a variety of methods to communicate our business goals and issues through monthly meetings and employees have the opportunity to use our 'Open Communication Policy' where they can meet the top management regarding their concerns.
- We have our own 'Performance Based Evaluation System' to evaluate our employees in relation to their performance
- 'Maga Puwath', a quarterly newsletter by employees for employees, publishes work on construction related issues as well as on common interests
- Our Code of Ethical Conduct and our Training Academy aims to ensure that all the employees are equipped to make right decisions
- Our 'Zero Harm Vision' is aimed at our employees to ensure a safe workplace for them

- Maga provides a health insurance plan identified as 'Ceylinco Suwa Sampatha' for our permanent employees

### 1.3 Business Partners

Our business partners have ranged from international contractors to local construction companies in the field of civil engineering construction. Our policy on business partnerships is one of mutual trust, growth and benefit, as well as equitable sharing of responsibilities and rewards. We strive to develop cooperative relations that enable us to bring out the best in each member of the partnership. By focusing on the strengths of each party, Maga aims to optimize the quality, range and scale of our products and services whilst making use of opportunities that otherwise would have been out of reach for a single party of the partnership. We uphold mutual trust and maintain the highest standards of impartiality and fairness in our dealings with our partners.

During the reporting period we have developed Joint Venture partnerships with two construction companies in carrying out several large-scale infrastructure projects. The formation of each partnership has been based on project-based considerations. As such, the allocation of responsibilities and share of work of members of the Joint Venture have depended on the nature of work, location, scale and special features of each project (eg. bidding/pre-



qualification criteria, project financing etc.) considered in relation to the individual strengths of the parties involved.

In the areas of environment and health & safety management, we work with our Joint Venture partners in implementing Environmental Management Systems and carrying out health & safety initiatives at each project.

Issues and concerns

Share of Responsibilities, and adherence to Joint Venture Standards on product quality and sustainability

How we engage

- We listen to and incorporate our business partners ideas during project initiation as well as implementation stages through constant dialogue
- We conduct regular meetings on progress where we address critical concerns
- Each member of the Joint Venture reviews their own as well as the other parties performance in key areas

1.4 Suppliers and Sub Contractors

Subcontracting and supplying of services and materials is pivotal to our industry, in the face of increasingly diverse skills for construction operations. From a financial and a social point of view, outsourcing the supply of material and specialized workforce can enable the mitigation of certain risks we face, through organizations which are better equipped to manage them. From a technical point of view, subcontracting may be required to cater for work of high technical complexity, entailing an ever-increasing need for specialist inputs into construction processes.

As such, we rely on our subcontractors and suppliers to deliver major segments of our projects. Thus mutual understanding and consistent engagement with our subcontractors and suppliers helps us to deliver our products to the required standards of quality.

Ensuring the health and safety of our employees is central to what we do—and this applies equally to our subcontractors and suppliers. From an environmental point of view, we ensure that our suppliers and subcontractors adapt the same environmental standards as we do, in order to ensure the conduct of sustainable business across the value chain.

Issues and concerns

Competency of the employees of the subcontractors, adherence to the time and cost schedules, concern for health, safety and environmental practices

How we engage

- We undertake continuous subcontractor and supplier evaluations on fulfilling compliance
- We conduct regular progress review meetings to address supplier and subcontractor performance, including the conformity of their products and services to quality, safety and environmental standards
- We legally engage our suppliers and subcontractors in relation to health, safety and environment standards by entering into formal contract agreements with them that incorporate our own, as well as international standards on the above
- We provide the necessary training and awareness

1.5 Local Communities and Society

We aim to make a lasting positive impact on the communities in which we operate. By engaging with local communities, we believe we protect and reinforce them. In most of our projects, we undertake self-initiated programs that contribute to social and economic development of these communities. The project management teams are given the authority to engage with local interest groups and identify potential engagement opportunities and to carry them out with the assistance of the head office. There are two main areas that we look at when engaging local communities – infrastructure development and knowledge dissemination. We have selected these areas because of the enormous potential to add economic and social value to local communities through these projects.

Recently we have expanded our operations into the Northern Province and we look forward to every opportunity to make our contribution in alleviating the hardships faced by the residents of those areas. We also engage the local communities by providing them employment opportunities in both direct work (of skilled and unskilled labor) and indirect work in material supply. As such, we rely on these communities for our manpower and material requirements, thus highlighting the mutual benefits gained.

Moving beyond local communities, we also focus on pressure groups, media and society at large. A large portion of our operations relate to the creation of and sustenance social infrastructure—i.e. hospitals, schools, highways and bridges. Thus we always have the welfare and wellbeing of the people of the country in mind when carrying out our business. Whenever our operations have created adverse impacts on the environment and the society at

large, we are quick to listen, and actively seek opinions of members of the society, pressure groups and media. Subsequently, we utilize this feedback in the formulation and implementation of mitigation measures and corrective & preventive action.

Issues and concerns

Adoption of voluntary processes to mitigate adverse impacts on local communities

How we engage

- We conduct and participate in regular meetings with community based organisations, religious dignitaries, NGOs and other non-profit organisations
- Our project based teams constantly work to identify concerns of communities and direct them to the attention of the senior management for further evaluation and action
- Our project based teams work hand in hand with local communities on specific programmes (eg. HIV Prevention Workshops)

1.6 Government and Regulatory Authorities

The government and regulatory authorities give us direction with respect to compliance and standardization that are central to any business. Moreover, a substantial part of our work is undertaken for the public sector of Sri Lanka. We seek to operate fully within the current legal regulatory boundaries. Further, we wish to engage with regulatory authorities to understand the issues that have the potential to impact our business, with particular attention given to those that affect our customers and local communities in which we operate.

Issues and concerns

Obtaining relevant licenses for compliance purposes (e.g. Environment Protection Licenses, Mining and Quarry Licenses, Hydrological Licenses), Taxes, EPF and ETF Payments

How we engage

- We maintain active relationship with regulatory bodies which regulate our sector to ensure industry practices meet key standards
- We maintain lawful and ethical conduct in all our activities, and ensure consistency through our Code of Ethical Conduct and internal procedures

## Economic Responsibility

“Maga’s economic responsibility has manifested itself through the provision of products and services that have generated true economic value in relation to itself opportunity costs.”





## 2 | Economic Responsibility

- 30 Provision of Products and Services
- 34 Direct Economic Impact
- 35 Indirect Economic Impact



The Sri Lanka-Singapore Friendship College at Weeraketiya will facilitate 1,200 students from this Tsunami Affected region.

The economic policy of Maga is geared towards sustainable growth and performance. As a responsible corporate entity, Maga is distinctly aware of its responsibility in the field of financial performance to all its stakeholders. Whilst shareholder returns are a priority, equal importance is given to our responsibility towards the society governed by ethical business conduct, a critical element of all our operations.

Maga's economic responsibility has manifested itself through the provision of products and services that have generated true economic value in relation to the opportunity costs that are associated with this production. It is embodied in the key policy statements of the company, i.e. our Vision, Mission, Belief System and Quality Policy.

As such, this economic responsibility to our stakeholders is founded on several key aspects, namely our economic performance, quality management system, ethical conduct, financial discipline, economy (price/value ratio) and functionality of our products, sustainable production technologies, minimization of material and resource wastage, sound supplier relations, supply chain management, technology transfer and transparent reporting.

Our operations have a direct impact on shareholders, employees and suppliers. We have reviewed our economic responsibility towards these stakeholders in relation to the above mentioned aspects. We have further illustrated this responsibility by analyzing the indirect economic impacts of our key operations.

In the long-run, we plan to develop several Key Performance Indicators to measure direct and indirect economic impacts on all our business activities.

### 2.1 Provision of Products and Services

We have set high standards for maintaining our product and service responsibilities across all our operations and projects. As a general construction contractor, we strive to ensure both our in-house as well as external architectural and engineering designs give rise to products fit for their intended purpose, as well as to ensure they do not bring harm to users, directly or indirectly. This is primarily achieved through a mechanism of constant dialogue and discourse with project architects and designers, at both technical and managerial levels. This process has also encompassed our duty to critically assess and offer suggestions as well as warnings, in the case of designs not carried out in accordance with current industry practices and standards.

Our construction activities are carried out in strict compliance with international design and construction standards including British Standards (BS), European Standards, American Standards (ASTM), Australian Standards (AS), Indian Standards (IS) as well as Sri Lankan Standards (SLS). During the reporting period, there have been no incidents of non-compliance with laws and regulations concerning the provision and use of products and services, which further substantiate our commitment towards quality of construction.

Over the last few years, there has been a shift in the industry from construction



Whilst shareholder returns are a priority, equal importance is given to our responsibility towards the community.



contracting to design and built projects. Identifying this as an opportunity as well as an emerging strength of our organization, we have moved into this new market with swift progression. This has in return created new challenges with regard to product responsibility. In the light of this development, we have strengthened our design department with more in-house design engineers in the fields of structural, electrical, mechanical and water supply and drainage work. The safety and integrity of our designs are further reviewed through third-party verification from external design consultants in the relevant fields.

As such, product responsibility is ensured through diligent design and verification measures that guarantee the ultimate product meeting both designer intent and fitness for purpose.

### Quality Management System

Economic value is generated through our products and services. Optimum value generation is achieved by maximizing value-addition during the production process coupled with minimizing waste. A quality control process is geared to eliminate waste and thereby minimize the economic value that is unused. On the other hand a quality assurance process maximizes value-addition. Therefore, a proper quality management system is the cornerstone of optimizing the value generation of our products and services.

Our Quality Management System (QMS) developed in accordance with ISO 9001:2008 standards, encompasses

our main business process of Tendering, Design Work, Construction Project Management, Production and Supply of Construction Materials, Procurement, Management of Sub Contractors and Customer Complaint Management, as well as their supporting business processes such as General Administration, Financial Management, Inspection & Testing, Services and Maintenance, Calibration, Resource Management, Health and Safety Management, Training, Stores Management Non Conformance Management, Corrective Action, Preventive Action, Document Control, Record Control, Auditing and Management Review.

### Primary issues considered in the quality planning processes are:

- Identification of needs and expectations of customers by means of direct interviews.
- Availability and allocation of the resources within the timeframe required.
- Required level of quality of the product and process performance within allocated budgets.
- Maintenance of proper interaction of the processes.
- Identification and analysis of risks concerning manpower, material, machinery, methods etc.
- Formulating individual Quality Plans / Appraisals for Performance.



Maga's Senior Management is committed to develop and implement this QMS and to continually improve the effectiveness of the system. In order to achieve this, whilst being aware of the related regulatory and statutory requirements, the company

- communicates to employees the importance of satisfying customer requirements;
- analyzes potential technical problems arising during the implementation of QMS;
- ensures the availability of resources to meet the above-mentioned requirements;
- formulates a Quality Policy and makes revisions as and when necessary;
- establishes Quality Objectives which shall be revised as and when necessary
- periodically reviews the structure of the company and the effectiveness of the QMS.

Maga also ensures that necessary controls are maintained over the outsourced processes, such as hiring specialized services and labour. Continual improvement of our QMS is achieved through an effective review process.

Economy of Production

Maga ensures economy of production through its Lean Production philosophy governing all production processes. Lean Production is practised at all projects, production facilities and activity centers. The philosophy revolves around the optimum use of materials, energy and resources at our disposal. We value it as pivotal to maintaining our competitive advantage. Moreover, we consider Lean Production as being at the heart of our economic responsibility to society, by allowing us to offer products with a lower price/value ratio: i.e. offer better economic value through products that have drained a lesser amount of resources.

Ensuring Functionality

Maga strictly engages in the design and construction of facilities under accepted international standards and norms of design and construction practice. In the process of creating construction products which possess fitness for purpose, our Design and Construction Project Management Teams work with an array of external parties ranging from architects and designers to product suppliers and regulatory authorities.

Sustainable Production Techniques

During the past year, Maga continued its drive to actively promote sustainable buildings within the local construction sphere. A major constraint against the development of sustainable buildings was the reluctance of most developers and investors to consider the savings in lifecycle operational costs compared to their excessive capital costs. A shift in perception has to occur in terms of customers/occupants valuing this reduction of operation expenses (primarily due to energy savings and the better use of natural resources) at the time of purchase or lease. This would in turn allow the building developers to factor in, at the time of investment, this value addition in terms of lifecycle cost reduction.

As an effort to gradually formulate the groundwork for future sustainability issues, the Green Building Council of Sri Lanka was formed in September 2010. The Council consists of representatives from academic, legislative, financial, investor, construction and supplier backgrounds. Number of key constrains for current development, as well as future plans are expected to be identified and discussed through this forum.

Key Projects of Sustainable Design

Situated in Colombo 02, [Nelung Arts Center](#) is a 4-storey arts facility that has incorporated several sustainable design and construction practices. A structural design-and-build project, the construction of the building involved the use of eco-bricks, rainwater harvesting techniques, natural ventilation and lighting, innovative structural design that optimized material usage, as well as construction techniques that minimized construction waste.

MAS Holdings' [Thurulia Green Factory at Thulhiriya](#) was the first newly constructed building of the country to earn the LEED platinum certification in early 2010. The industrial facility has exemplified both the technical and managerial capacity within both the apparel and construction industries in Sri Lanka to reach best-in-class international standards in terms of sustainable buildings.

[Fairmount Residencies](#) in Rajagiriya has demonstrated the successful application of certain sustainability concepts to high-rise buildings. The coexistence of a state-of-the art high rise structure within the sensitive ecosystems of the surroundings necessitated an architectural and structural solution that minimized the impact of the building's footprint. Furthermore, it also required its sub-structural work (consisting of a pile foundation) within the wetlands to be carried out with great care and precision.

Fairmount Residencies in Rajagiriya has demonstrated the successful application of sustainability concepts to high-rise buildings





2.2 Direct Economic Impact

The direct economic impacts of our operations focus on the immediate consequences of monetary flow between the organization and its stakeholders. The stakeholders of Maga who are most significantly affected by the direct economic impacts of our operations are our shareholders, employees and suppliers. Whilst shareholder returns are a priority, equal importance is given to our responsibility towards our employees, through proper employee compensation and our suppliers/subcontractors, through proper supply chain management.

Shareholders

During the year 2009/10, Maga reinvested 89% of the post-tax profits in business. Similarly, we plan to re-invest the major portion of our post-tax profits during the next three years in an effort to broad base our organization. Our sound reinvestment policy coupled with enhanced productivity has resulted in an increase in our retained earnings by 41% from the previous year. According to the new Inland Revenue regulations, dividends to shareholders should exceed 25% of the distributable profit and compliance with this new regulation will reduce the percentage of reinvestment which in turn might affect our growth unless properly planned and managed.

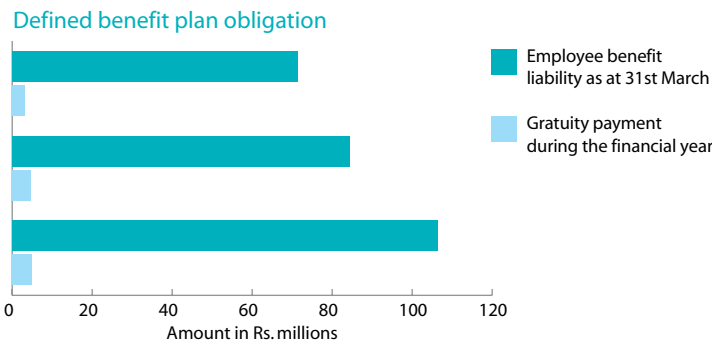
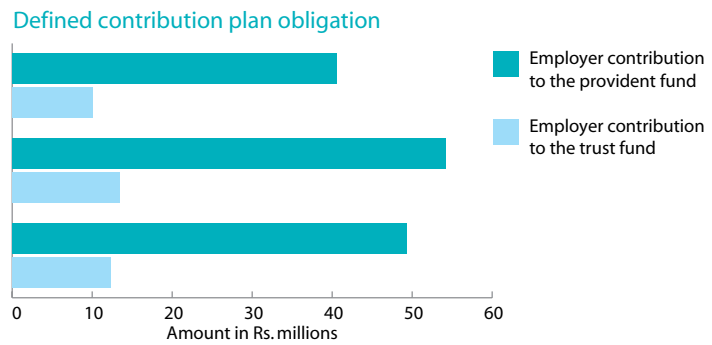
Employees

Maga has aligned employee rewards to organizational performance and has provided superior rewards to superior performers with the ‘pay for performance’ culture. This has led to increased productivity and better performance, greater employee recognition and consequently better rewards and the alignment of employee, management and stakeholder interests. At the same time, Maga is committed to ensure its compliance with all statutory laws and regulations and that all dues as per these requirements are paid within the specified time frames.

Employees are eligible for Employees’ Provident Fund (EPF) contributions according to the terms of the Employees’ Provident Fund Act No. 15 of 1958 and its subsequent amendments and for Employees Trust Fund according to the terms of the Employees’ Trust Fund Act No. 46 of 1980 and its subsequent amendments. Maga contributes 12% and the employee contributes 8% of the gross pay which is deposited in the fund managed by the Central Bank of Sri Lanka. Further, the company also contributes 3% to the Employee’s Trust Fund managed by the Department of Labour, Sri Lanka.

Employees are entitled to retirement gratuity, payable under the Payment of Gratuity Act No. 12 of 1983. Employees with more than 5 years of service receive half

a month’s salary for every year of service on retirement or termination of service.



Suppliers and Subcontractors

Maga strives to work with responsible suppliers and subcontractors who understand the nature of the products, materials and services they supply and who recognize their responsibility to protect the environment and foster good relations with their employees and local communities. In selecting subcontractors or suppliers, the magnitude of the work, standards expected by the client, technical complexity of the work, their past performance, reliability, experience as well as their financial capabilities are considered. The awarding of subcontracts/ contracts to suppliers is carried out only after analyzing the subcontractors/suppliers capability in terms of the parameters identified above.

The influence an organization can have on a local economy goes beyond direct jobs and payment of salaries and wages. By supporting local business in the supply chain, an organization can indirectly attract additional investment to a local economy. Maga has identified local sourcing as a strategy to help ensure supply, to support a stable local economy which has proven to be more efficient for remotely located projects. The managers of projects outside the Western Province have been given directives to procure at least 60% of material and machinery from the local community. During the reporting period, Maga have sourced 72% of their material, construction products

and machinery relating to projects from respective local suppliers of the region.

2.3 Indirect Economic Impact

Indirect economic impacts are an important part of an organization’s economic influence in the context of sustainable development. Whereas direct economic impacts and market influence tend to focus on the immediate consequences of monetary flows to stakeholders, indirect economic impacts include the additional impacts generated as money circulates through the economy. Direct impacts are often measured as the value of transactions between the organization and its stakeholders, while indirect economic impacts are the results and prolonged effects of the transactions.

We have identified indirect economic impact as an important aspect of our role as a participant in socio-economic change, particularly in underprivileged communities. Most of the construction projects undertaken by Maga fall under the category of infrastructure development, including roads, bridges, water supply facilities, schools, hospitals and sports facilities and therefore have significant indirect economic impacts. Most infrastructure development projects have been designed to maximize the economic impact to the local communities with the help of feasibility studies. As a responsible

contractor, we engage in a continuous dialogue with our clients and developers to propose ways and means to maximize these positive impacts and minimize the negative impacts of each project.

Further to the construction projects carried out by us, we have engaged in self-initiated projects that contribute to the economic development of the community at both national and local levels. These projects are often initiated by the project management teams and supported by our head office. In order to maintain equity and transparency in community development projects, they have to be approved by our Sustainability Review Committee. These projects and programmes can be clustered under infrastructure development, knowledge dissemination and contribution towards education.

Local Community Development & Knowledge Dissemination

In addition to generating and distributing economic value, an organization can support an economy through its contributions to local community development and knowledge dissemination. The impacts of initiative for local infrastructure development can extend beyond the scope of the organization’s own business operations and over a longer timescale.

Construction projects : Indirect Economic Impacts

Sector	Projects	Positive Economic Impacts
Roads & Bridges	Palavi-Kalpitiya road Matara-Wellawaya road Siyambalanduwa-Akkaraipattu road Padeniya-Puttalam road Puttalam-Nocchiyagama road Jayanthipura-Tirikkondaimady road Sooriyawewa-Meegahajandura road	Savings in vehicle operation cost; savings in time; creation of new job opportunities; better prices for agricultural products and increase in land value
Educational Institutions	Sri Lanka-Singapore Friendship School, Weeraketiya Nelung Arts Center, Colombo 02	Employment opportunities; reduction in anti-social activities; increase in knowledge base; increase in vocational skills
Healthcare	Neuro Trauma Unit, National Hospital of Sri Lanka	Employment opportunities; reduction in health cost; increased productivity
Water Supply & Drainage	Kirindi Oya Water Supply Scheme Greater Kandy Water Supply Scheme, Phase I, Stage II	Provision of high quality drinking water and thus reduction in water-borne diseases; Increase in agricultural products
Sports Facilities	None during the period of reporting	Creation of employment opportunities; Increase in individual productivity



Contribution to Local Community Development

Improvement of Roads, Katupotha

All sub-roads surrounding the Asphalt Plant, Katupotha have been rehabilitated and they are being maintained regularly. Materials such as ABC & Asphalt were provided to the RDA to maintain other B Grade Roads such as Katupotha - Kurunegala Road.

Impact:

Improved local transport infrastructure for 1,500 people of the region.



Auditorium at Middeniya Maha Vidyalaya, Middeniya

Maga constructed a new auditorium, able to facilitate 600 students, at Middeniya Maha Vidyalaya. The facility was successfully handed over to the Principal of the school on 25th July 2010. This project is not only beneficial to the Middeniya Maha Vidyalaya but also to the surrounding schools for their day-to-day symposiums.

Impact:

Auditorium facility for around 5000 students of the region.



Infrastructure Facilities at St. Anne's College, Katupotha

Our project team improved total infrastructure facilities of the school including internal roads, access and security for the students. This project was successfully carried out within an accelerated time period, with minimum disturbance to the ongoing school activities.

Impact:

Improved school infrastructure for 500 students.



Ruhunu Cultural Centre, Pitakotte

Maga fulfilled the need for this office building which was intimated by Secretary of the Ruhunu Cultural Centre. The building now functions as administrative facility to cater to the local community.

Impact:

Serves 800-1000 people within the area.



Water Storage Tank and Agricultural Wells, Nochchiyagama

In the dry season, the neighbouring villages were suffering from a severe water shortage for cultivation. Some areas even lacked sufficient drinking water facilities. In order to overcome this, our project team constructed several water collecting ponds and dug wells (for drinking water).

Impact:

Water facilities to around 1200 villagers.



Tree Plantation, Nikaweratiya

Maga launched a tree planting program with the support of the communities of the region. The program began at Thumbulla, Nikaweratiya on 06th of July 2009, targeting the enhancement of quality and aesthetic value of the region through the promotion of a green environment.

Impact:

Growth of 200-300 new trees within the region.



Knowledge Dissemination

Awareness Programmes on HIV/AIDS, Nochchiyagama

HIV/AIDS is identified as a emerging health risk in the area and we took the initiative of conducting a programme focused on needs assessment, awareness, education and training of trainers in HIV/AIDS prevention & control. The programmes were carried out with the assistance of the local Police, Ministry of Health office and other community leaders.

Impact:

HIV - Awareness and prevention skills for 600 people.

Support for Department of Earth Resources Engineering, University of Moratuwa

In 2006, the Department of Earth Resources Engineering initiated the Student Mentoring Program to uplift the soft skills of its undergraduate students. From the inception of the program to date, many members of our organization have been actively involved in this program as mentors to Level 2 undergraduate students. Members of the senior management including Directors and General Managers have devoted their time, in an effort to contribute to the uplifting of the standards of future engineers of the country.

The Department-Industry Consultative Board provides an interface to exchange ideas and inputs between the department and the industry, to enhance cooperation and find solutions to academic and related issues. We have continuously had a member of our top management in this forum to provide feedback from an industry perspective on the future progression and development of tertiary education in engineering.

A requirement of final-year undergraduate students is to carry out a research project with the involvement of the industry. Through our representative in the Department-

Industry Consultative Board, we have proposed research topics with industry significance that would offer impetus within the much needed sphere of Research and Development. We have supported and also co-supervised a final year research project on 'Cleaner Production Assessment of Nochchiyagama Quarry Mine'. This project is a breakthrough study in this specific study area and the department has been highly appreciative of the research collaboration.

Industrial Training for Students

As a step towards uplifting the competence of future industry professionals, and benefiting the society at large, Maga provides students from various institutes with industrial training, which is a requirement for them to complete their study programme. We provide industrial training in civil engineering, mechanical engineering, automobile engineering, electrical engineering, quantity surveying, draughtsmanship and business management. During the reporting period we have trained 153 students from 27 institutions. This is a significant increase from 2007/08, in which we trained 68 students and 2008/09, in which we facilitated 96 students.



# Human Resources

“ From inception, Maga has identified the pivotal role that human resources plays in business success. ”





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From inception, Maga has identified the pivotal role that human resources plays in business success. Maga began its operations in an era when the local construction industry was dominated by international construction companies who were engaged in major development projects. We faced a challenge in recruiting qualified and experienced personnel as well as upgrading their knowledge and skills to meet the requirements of this fast-growing industry. We were able to achieve extensive growth from the year 2004 onwards and it presented real opportunities to develop and expand our HR management practices. This gave rise to several important improvements in our HR practices.

A comprehensive Human Resource Policy and Human Rights Policy were drafted as part of the 'Operational Excellence' initiative, which was the strategic theme for the year 2009. The HR practices of the organization are governed through several procedures included in the Quality Manual, Internal memos issued by the Board of Directors and the in Code of Ethical Conduct. These procedures outline the objectives, scope, responsibilities and authorities and include a detailed description of how procedures should be implemented. The contents of the procedures are further elaborated through internal memos on certain issues that need further clarification. The HR department maintains a record of all the internal memos pertaining to specific procedures.

3.1 Personnel Administration

Maga is committed to develop and maintain personnel policies and procedures that are in compliance with applicable labour laws and regulations of the country and

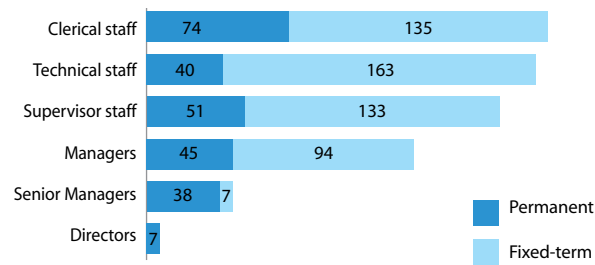
administer them in a consistent and impartial manner. These policies and procedures are designed to enhance the relationship between the Company and its employees and subscribe to the mission of the Company.

Good employment practices are essential to the sustenance and growth of our business and our ultimate goal is to create a workplace where the 'best people can do their best work under the best conditions'. In order to achieve this goal, we have realized that attention has to be paid to three areas in particular – type of employment, remuneration and turnover.

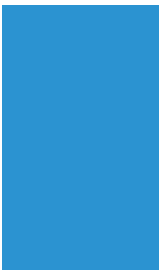
Types of Employment

The size of the workforce provides insight into the scale of impacts created by issues relating to labour. Breaking down the workforce by employment contract and employment type demonstrates how the organization structures its human resources to implement its overall strategy. It also provides insight into the organization's business model, and offers an indication of job stability and the level of benefits the organization offers.

Total Workforce by Employment Contract



our ultimate goal is to create a workplace where the 'best people can do their best work under the best conditions'.



For staff grades, our Training Academy carried out detailed job analysis to develop Job Descriptions and Job Specifications which form the benchmark for their continuous development

In addition to the above staff-grade employees, there are 4,229 manual-grade employees of whom 1,052 can be considered permanent, i.e. who have been with the company for more than 2 years and have moved from one project to another.

In the construction industry, new business is acquired through competitive bidding and there are many external factors that have the potential to shape the future workload of a construction company. Business is generally acquired on project or contract basis for specific short-term periods. As such, the majority of employees are on fixed-term contracts which are offered for the duration of a construction project. There is an ongoing program to absorb high performers into the permanent cadre and during the year of reporting 27 fixed-term staff grade employees have been made permanent (5.1%). With the recovery of the industry, we plan to absorb another 50 fixed-term employees in the next year.

At present, our total workforce consists of full-time employees. The possibility of outsourcing certain work (documentation, database management etc) to part-time employees is being currently explored. This initiative is believed to enhance the quality of the work due to the specific skills these part-time employees would possess, whilst offering cost and time savings in certain routine clerical work.

Recruitment

The main aim of recruitment and selection is to attract employees who demonstrate potential to make a positive and valued contribution towards the work of Maga through relevant skills and experience. Every individual appointed is selected on merit. The aim of all our recruitment or selection exercises is to find the best person for the job. Maga is committed to being an equal opportunity employer which values its staff and workers who come into contact with the organisation, irrespective



of gender, marital status, sexuality, race, ethnic or national origin, political or religious belief, disability or age. We ensure that there is no discrimination, either direct or indirect, in all of our recruitment and selection procedures.

During the last year we placed emphasis on correcting an imbalance in the composition of our workforce by giving more opportunities for women and applicants over 50 years. With the expansion of our operations to remote locations of the country, recruitment from local communities became a priority, both for the benefit of the Company (due to savings in accommodation and transport) and the local community (through generation of employment opportunities for local professionals who can contribute back to their communities). As at 30 June 2010, there were 6 senior managers (13.3% of total) who have hailed from the local community of the respective project.

Remuneration

Maga has a Remuneration Committee which overlooks the remuneration of all grades of employees – from the Board of Directors to unskilled work personnel. The Committee is composed of all Directors and the senior management which includes a General Manager and three Deputy/ Assistant General Managers.

For the year 2010, the remuneration process started with the performance review which was carried out in January. The performance review findings acted as discussion inputs during the Remuneration Committee meetings which discussed the necessary salary revisions for the year. Overall, the staff grades were granted a salary increment of 13.1% and the non-staff grades were granted an increment of 16.9% from the previous year. Despite the unpredictable nature of the construction industry with respect to provision of new work, as well as the significant impact on our returns, the continual sustenance and development our workforce in the face of increasing cost of living formed the basis of formulating the above increments.

Ratio of Basic Salary of Men to Women

Category	Ratio of basic salary of men to women
Directors	N/A
Senior Managers	1.3 : 1
Managers	1.1 : 1
Supervisory staff	N/A
Technical Staff	1.2 : 1
Clerical Staff	1.2 : 1

The starting salary structure is based on the entry qualifications and the salary increments thereafter are based on performance and experience. Therefore, we have been able to keep the gender difference in basic salary to a negligible level. The slight difference in the basic salary of women to men has been created mostly due to the higher remuneration for strenuous and physically demanding work at construction sites, higher percentage of which is carried out by men.

Turnover

A high employee turnover can indicate levels of uncertainty and dissatisfaction among employees, or may signal a fundamental change in the structure of the organization’s core operations. An uneven pattern of turnover by age or gender can indicate incompatibility or potential inequity in the workplace.

Employee Movements During the Last Three Years

Only for staff grades



A rise or fall in net employment, evidenced by data over the course of three or more years is an important element of the organization’s contribution to the overall economic development and sustainability of the workforce. Over the last three years, there has been a gradual increase in net employment – 19.8% in the year 2008/09 and 6.8% in the year 2009/10. This has been in the midst of a global economic downturn which has drastically affected investment in property and infrastructure development.

As a general practice in the organization, there have been no retrenchments, and once projects had completed we have assigned employees to other ongoing projects. For employees who were awaiting future work and did not have any productive work, we have paid the full salary for up to 12 months on several instances. Some such instances were after the completion of Puttalam-Padeniya and Matara-Wellawaya road projects and the suspension of work of Ceylinco Celestial Residencies Project in Colombo.



The main aim of recruitment and selection is to attract employees who demonstrate potential to make a positive and valued contribution.

Total number and rate of employee turnover

Age group	Male		Female	
	Number	Rate	Number	Rate
Below 19 years	-	-	-	-
20 – 29 years	71	34.30%	20	27.03%
30 – 39 years	44	22.80%	8	15.09%
40 – 49 years	23	15.65%	-	0.00%
Above 50 years	16	18.82%	-	-
Total	154	24.37%	28	18.54%

Only for staff grades

The turnover rate is high in the construction industry due to several reasons – the inherently transient nature of the workforce, the migratory nature of the workstations, employment opportunities abroad, the influx of international contractors who pay higher salaries in the short-term, etc. Thus, a majority of these concerns have

been found to be beyond our control. There is a high turnover of young employees in the 20 – 29 years age group – especially technical categories such as engineers and quantity surveyors. In order to mitigate the effect of employee turnover on productivity, a comprehensive exit interview process was implemented recently, which aims to identify the reasons for resignations and to recommend solutions.

3.2 Performance Management

Maga is committed to fostering a high performance culture. In order to achieve this, we strive to provide each member of our community with clear performance objectives, ongoing training and feedback, opportunities for professional development and recognition for outstanding work.

Appraising employee performance against common targets aids the personal development of individual employees and contributes to both skills management and the development of human capital within the organization.



Employee satisfaction can also be enhanced, which correlates to improved organizational performance. The emphasis on a robust performance management system demonstrates how the organization works to monitor and maintain the skills of its employees. The percentage of employees receiving regular performance and career development reviews demonstrates the extent to which this system is applied throughout the organization.

Performance targets and reviews are based on criteria known to the employee and his/her superior. This review is undertaken with the knowledge of the employee at least once per year. It includes the employee’s direct superior as well as several other managers, which is process-unique to the construction industry. Since employees move from one project to another, one employee could have worked under two or even three managers during a given year. Therefore, input for the performance review is sought from a panel of managers. This review also involves managerial personnel from the human resources department.

100% of our employees receive regular performance and career development reviews. There are several stages at which performance reviews are provided – at the time of employment confirmation, at the end of fixed-term contracts and at yearly performance reviews.

3.3 Training and Development

Maga is committed to train and develop current and future employees, whilst developing the capacity of in-house trainers and infrastructure needed to meet the human resource needs of the organization and reinforce Maga’s position as the most competitive construction company in Sri Lanka.

Induction Programems are periodically carried out in order to ensure new employees are welcomed and integrated into their working environment, understand their responsibilities and rights as well as learn relevant aspects of the organisation’s mission, culture, policies, procedures and methods of working.

Induction

Our induction guidelines were reviewed to highlight the following aspects:

- Planning the induction and involve other employees in the process
- Introduce the recruit to the organisation’s history and culture
- Emphasising the importance of organisation policies and procedures

- Highlighting our workplace policies and practices and offer assurance
- Planning a balanced introduction to the work
- Clarifying performance standards
- Conducting regular progress review

Training

Maintaining and improving human capital, particularly through training that expands the knowledge base of employees, is the key element in organizational development. This indicator provides insight into the scale of the organization’s investment in this area and the degree to which the investment is made across the entire employee base. Access to training opportunities can also support progress in other areas of social performance, such as ensuring equal opportunity in the workplace. It also contributes to motivating improvement at the personal and organizational level.

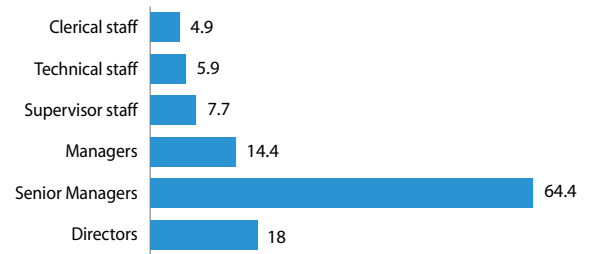
During the last year, the scope of our Training Academy was expanded to include career management and was further strengthened by the recruitment of HR graduates. Specific objectives were developed, which include:

- Ensuring an adequate supply of trained personnel for all categories
- Building capacity of foremen, executives and managers in training and development
- Developing career success skills of all staff
- Developing managerial skills of executives and junior managers
- Developing leadership skills of senior managers
- Offering National Vocational Qualification (NVQ) for craftsmen
- Providing professional development opportunities

In response to the observations of an internal audit, we initiated a programme to formalize the process of Training Needs Analysis (TNA). For manual grades, the TNA was based on well-established NVQ competency lists. For the staff grades, our Training Academy was required to carry out detailed job analysis to develop Job Descriptions and Job Specifications which form the benchmark for the development of Competence Inventories.

We have recognized that classroom-based training alone would not fulfill the training needs of our employees. Apart from in-house and external classroom-based training, we have been conducting formal case study discussion sessions in addition to the informal on-the-job training. Providing opportunities for engineering graduates to undergo training in civil engineering design work towards obtaining Professional Engineer status (Charter) is another method of training which benefit both the employee and the Company. Granting Study Leave to follow external courses at the request of the employee with personal expenses, has also been a successful method of sharing the responsibility of training.

Average Hours of Training (Per year)



Only for staff grades

We have implemented both short-term and medium-term action plans to train and develop Senior Management in order to equip them with the skills and capacity needed to face future challenges in taking the Company forward. This initiation is reflected in the above table. While continuing to provide sufficient training to all categories of employees, the main focus has currently been on Senior Management.

Continuing Professional Development

Continuing Professional Development (CPD) is the means by which members of professional associations maintain, improve and broaden their knowledge and skills and develop the personal qualities required in their professional lives. It is a commitment to being professional, keeping up to date and continuously seeking to improve. It is the key to optimizing a person’s career opportunities, both today and for the future. For it to be successful, CPD should be engaging, informative and progressive, embracing ‘best practice’ and easily digestible knowledge. It should neither be excessively demanding nor uninteresting. It should stimulate a desire to learn more about your profession and participate in it. With these broad principles in mind, we have launched our CPD programme, initially targeting our engineering staff.

Since 2005, our Design Department has been recognized by the Institute of Engineers of Sri Lanka as an approved training center to provide professional engineering training to Graduate Engineers in order to obtain the Institute’s Corporate Membership (i.e. Professional Engineer status). The department has provided the opportunity for 14 engineers to pursue their professional engineering training. At present four young engineers are undergoing their ‘charter training’ in the fields of building, highway and bridge design.

Keeping abreast of the rapid developments at the cutting-edge of engineering and construction is vital. Rather than shifting the responsibility for professional development to the employees themselves, we have initiated a scheme to actively seek seminars and workshops intended for professional development and to nominate our engineers for such programmes. The feedback from the participants has been very positive and they have appreciated Maga’s initiative and contribution for their professional development. During the year of reporting our engineers have participated in the following CPD programmes:

CPD Programmes Attended by Maga Staff

Programme	Institute
Highway material testing	University of Moratuwa
Pavement design of roads under Sri Lankan conditions	CETRAC
Achieving the maximum performance of construction equipment	CETRAC
Asphalt overlay design	University of Moratuwa
Design and construction of highways and bridges	University of Moratuwa
Contract management and administration	ICTAD

Providing assistance to pursue postgraduate qualifications is another aspect of CPD. At present eight of our employees are following Masters degrees, with sponsorship contributions and study leave to attend lectures and sit for examinations provided for all.



3.4 Health Enhancement

Maga is committed to improve the physical, psychological, emotional, social and spiritual health of our employees by providing advice and opportunities for enhancement of their health. A broadened definition of health from ‘the absence of disease’ to ‘total wellbeing with the ability to lead a productive life’ has been adapted. This philosophy has enabled us to take a more holistic approach to health enhancement of our employees.

‘Healthy Heart’ Programme

With the objective of improving the cardio-vascular health of the employees, the ‘Healthy Heart’ programme was launched in May 2010. As a start, Body Mass Index (BMI) testing was carried out for 103 Head Office staff employees. BMI results were categorized as underweight, optimal weight, overweight and obese. The average BMI is in the optimal range but 34% of employees were in the ‘overweight’ category and a further 2% of the staff were found to be ‘obese’. Control measures were applied through recommendations for achieving optimal body weight and promotion of the physical health facilities at the Head Office as well as continual monitoring measures.

The programme will be expanded to all other locations of the Company and more detailed risk assessments will be carried out, which include medical history and examination, cardio-vascular risk assessment and lipid profile and blood sugar investigations. After the categorization of the employees according to their risk status, specific health education programmes, supplemented by a newsletter, a web page and lecture demonstrations, will be carried out.

‘Work In Comfort’ Programme

The ‘Work in Comfort’ programme was initiated with the objective of making the work activities more comfortable to perform. The programme includes anthropometric measurements, ergonomic discomfort surveys, ergonomic assessment of workstations, correction of ergonomic problems in work areas, training on proper posture and movements, stretch exercises and exercises for musculoskeletal discomforts. The tools needed for the discomfort survey and assessment of workstations have been developed and the survey will commence in January 2011.

3.5 Employee Rights

An Anti-discrimination policy is a key requirement of international conventions and social guidelines. At Maga we define discrimination as the act and the result of treating a person unequally by imposing unfair burdens or denying benefits, as opposed to treatment on the basis of individual merit. An effective monitoring system has been established to ensure compliance throughout the organization’s operations. The guidelines are provided through the Code of Ethical Conduct and the need to have a fair and equal treatment for all employees is emphasized at appropriate forums. There have been no reported cases of discrimination during the reporting period.

The abolition of child labour is a key principle and objective of major human rights declarations and legislation and Maga fully supports this concept. The presence and effective implementation of policies on child labour are a basic expectation of socially responsible conduct. We have identified some operations that have a risk of child labour and have taken precautionary measures to prevent such occurrences. The quarries, crusher plants and road construction projects may carry a risk of employment seeking by underage persons, due to the poor economic conditions and unemployment prevalent in these areas. We have ensured prevention of such through the process of age verification through official identification before deployment coupled with special attention granted by senior management of such projects.

Not to be subjected to forced labour or compulsory labour is considered a fundamental human right which is also a provision of the UN Universal Declaration of Human Rights. Maga strictly condemns the use of forced/ compulsory labour. Our employees may be required to perform reasonable overtime in order to fulfill customer requirements. The Company adheres to the law of the land concerning labour which automatically sets limits on the working hours of the employees. We have identified that construction projects nearing completion, especially during the last three months, carry the risk of forcing the employees to perform longer hours against their discretion. The project coordinators are instructed to monitor the total working hours of the employees to ensure that they remain within reasonable limits and that they get adequate rest between workshifts.

3.6 Workplace Diversity

Maga is committed to maintain a diverse workplace that promotes mutual respect and professionalism, free from all forms of discrimination, harassment and violence, thus having a positive influence on creativity, satisfaction and motivation whilst empowering and enhancing the performance of the employees.

New policies on Affirmative Action and Equal Employment Opportunity were drafted in 2009. These policies continue to serve as the foundation for Maga’s workplace diversity initiatives, which plans to tie together our current human resource development activities with our future goals of actively encouraging, supporting and empowering women in the engineering and construction trades, as well as making the industry attractive to individuals from a diverse range of backgrounds.

We have identified the relatively low percentage of women and employees above 50 years amongst our cadre. While acknowledging, as previously stated, the physically demanding nature of most jobs in the construction sector due to its inherent nature, the HR Department has recognized this as a disparity, and action is underway to provide more opportunities for these groups.

Breakdown of employees per category according to gender and age group

Category	Age Group									
	Below 19 years		20 – 29 years		30 – 39 years		40 – 49 years		Above 50 years	
	M	F	M	F	M	F	M	F	M	F
Directors	-	-	1	-	-	-	-	-	6	-
Senior Managers	-	-	1	-	5	-	22	2	15	-
Managers	-	-	27	5	48	10	25	8	12	-
Supervisory staff	-	-	46	-	53	-	52	-	33	-
Technical Staff	-	-	72	26	46	19	21	8	11	-
Clerical Staff	-	-	60	43	41	24	27	6	8	-
Manual grades	120	-	2,156	28	990	75	612	57	175	16
Total	120	-	2,363	102	1,183	128	759	8’1	260	16

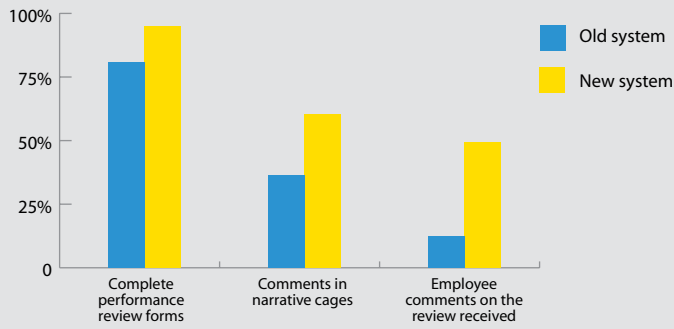


Case Study : Beyond the Performance Review

A survey was carried out in early 2009 to identify areas that needed improvement in the Performance Management System. The survey identified the need to include measures that are high in validity and reliability; involve the employee more in the evaluation process; carry out Performance Planning and Performance Enabling before conducting the evaluation; train the evaluators in the process; and make use of the results of the evaluations for financial and other benefits.

Training programmes were conducted for all stakeholders of the Performance Management System which covered both appraisers (86% covered) and appraisees (62% covered). Performance Planning and Performance Enabling commenced at the beginning of 2009 and Performance Measurement and Analysis were carried out in January 2010 which formed parts of the new Performance Management System developed to meet the needs identified in the above survey.

The new system along with the training has dramatically improved the acceptance of the system and the interest and trust shown by the appraisers and appraisees.

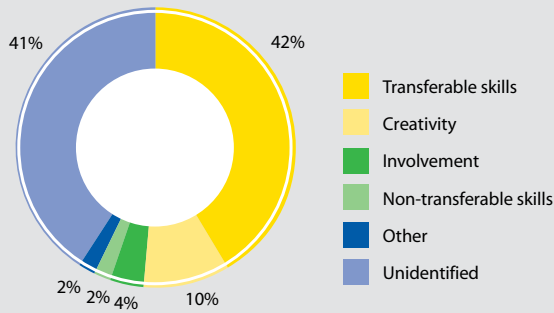
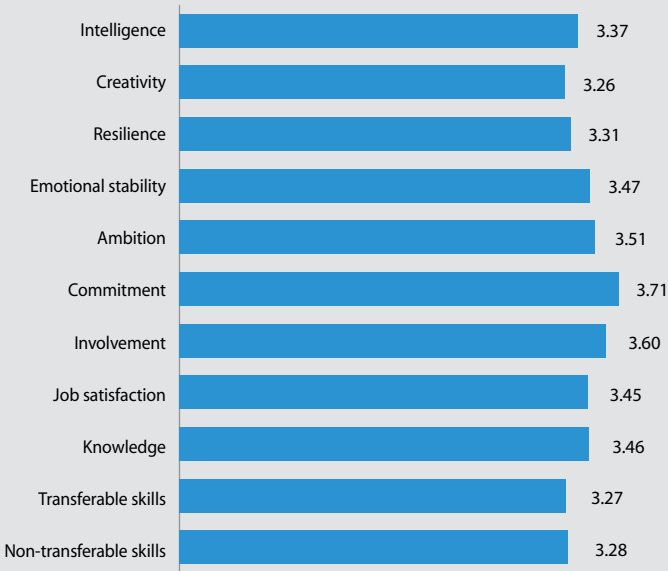


The model developed to explain the level of performance consisted of 11 factors under three groups – intelligence, creativity, resilience, emotional stability and ambition under ‘potential’; commitment, involvement and job satisfaction under ‘attitude’; and knowledge, transferable skills and non-transferable skills under ‘competence’

A multiple regression analysis of the performance review scores revealed that the model used to predict performance, i.e. potential, attitude and competence, accounted for 59.2% of the variance of performance. Out of the 11 indicators used to predict performance, six showed statistically significant contribution.

The Performance Management Committee scrutinized these findings and came up with the following recommendations:

- Continue training and awareness programmes for all stakeholders of the Performance Management System



- Issue the Performance Review Form in both languages to further increase the comments, observations and feedback by the appraisers and appraisees
- Carry out a study on the existing levels of different transferable skills and develop training programmes to address the gaps in this area
- Carry out a study on the existing levels of creativity and develop training programmes to improve creativity and innovation and explore how these can be used to increase productivity
- Develop and implement programmes to enhance employee engagement and involvement
- Develop and implement programmes to enhance the level of knowledge of the employees and to inculcate a knowledge-seeking culture
- Increase the frequency of the Performance Review to twice a year





## Enhancing Compliance

“ We believe that our compliance investment can act as a powerful lever for organizational transformation, resulting in significant risk management improvements and cost reductions. ”







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Organizational compliance with regulatory requirements has become one of today's most discussed topics, and has resulted in legal action against non-compliance, both locally and internationally. It has generated great concern for organizations, not only due to the potential for financial penalties but also due to the potential impact on the reputation of the organization.

However, our approach to compliance has always stemmed from something beyond the above concerns: We believe that our compliance investment can act as a powerful lever for organizational transformation, resulting in significant risk management improvements and cost reductions. To us the benefits come from the understanding that compliance is not a supplementary activity to core business functions, but an integral part of the way these business functions operate on a daily basis.

Any organization that implements compliance solutions solely to address specific regulatory requirements will find it hard to justify the cost of the effort required. Regulatory compliance on its own does not add immediate value to the business, and carries an administrative overhead. On the other hand, organization-level compliance technologies can bring significant competitive advantage. Our compliance philosophy is based on adhering to every single statutory and regulatory requirement whilst exploring, developing and implementing self-imposed requirements. By adhering to self-imposed compliance requirements, we expect to reduce regulatory costs, reduce

risk of non-compliance, reduce operational risk, increase capital availability, achieve time-saving when dealing with regulators and enable high speed of change.

As such, apart from the statutory and regulatory requirements, we have developed and implemented compliance frameworks for ethical conduct, human rights, control of key processes, health and safety performance and environmental performance.

4.1 Statutory and Regulatory Compliance

The level of compliance against statutory and regulatory requirements within an organization helps to indicate the ability of management to ensure that operations conform to certain performance parameters. From an economic perspective, ensuring compliance helps to reduce financial risks that occur either directly through fines or indirectly through impact on reputation.

Financial Compliance

The legal compliance for financial management is imposed by six legislations, i.e. Inland Revenue Act No 10 of 2006, Value Added Tax Act No. 14 of 2002, Economic Service Charge Act No. 13 of 2006, Stamp Duty Act No. 43 of 1982, Nation Building Tax Act No. 09 of 2009 and Finance Act No. 05 of 2005. We have carried out all payments in full and submitted all reports on time during the period of reporting and there have been no fines or non-monetary sanctions for non-compliance with regulations.

We have developed and implemented compliance frameworks for ethical conduct, human rights, control of key processes, health and safety performance and environmental performance.

Labour Compliance

The legal compliance for labour management is imposed by another six legislations, i.e. Shop and Office Employees Act No. 19 of 1954, Wages Board Act, Employees Provident Fund Act No. 15 of 1958, Employees Trust Fund Act No. 46 of 1980, Payment of Gratuity Act No. 12 of 1983, Workmen's Compensation Act and Maternity Benefits Act. We have complied with all the requirements of the above legislations and during the reporting period there have been no fines or non-monetary sanctions for non-compliance with regulations.

All employee-related policies and procedures of the Company comply with the related labour laws and no exceptions are either approved or tolerated. Staff-grade employees' Letters of Appointment, terms and conditions, working hours, etc. are decided in accordance with the Shop & Office Employees Act. The terms and conditions of employment of non-staff categories are decided in accordance with the Wages Boards Act and the applicable Wages Board Decisions, i.e. on building trade, engineering trade, motor transport trade, quarry and mining trade and security trade. Maternity leave and feedings intervals

are granted according to the Maternity Benefits Act and compensation following occupational injuries and illness is provided according to Workmen's Compensation Act.

Environmental Compliance

The legal compliance for environmental management is imposed by mainly three legislations, i.e. National Environment Act No. 47 of 1980, Mines and Minerals Act No. 33 of 1992 and Explosives Ordinance. For our operations we have to obtain Environmental Protection License (EPL) for concrete plants, asphalt plants and metal quarries and mining license and explosive permits for metal quarries. Where applicable, the clients/developers of projects have to conduct Environmental Impacts Assessment, and we ensure that it is carried out prior to taking on the contract and obtain a copy of same for our reference. During the reporting year, there have been no incidents of fines or non-monetary sanctions for non-compliance with regulations.

In terms of pollution causing elements, compliance is needed in discharge-water quality, noise level and dust level. These requirements are met in the operations for which we have



obtained the EPL. Certain modifications and changes in operative procedures were carried out to achieve the limits of pH and total suspended solids (TSS) and noise. Currently, there are insufficient data on the company-wide performance of these parameters and systems are being set in place to capture such data for suture analysis and reporting.

4.2 Ethical Conduct

Our Code of Ethical Conduct was reviewed and reinforced with the following segments which carry a stronger commitment for a two-way mechanism of engagement between our stakeholders:

Mutual respect

We foster mutual respect by treating our employees fairly and with respect at all times, avoiding discrimination and bullying; and offer opportunity for employees to express any possible grievances on the above.

Trust

We promote trust within our work groups and stakeholders, and respect the trust placed in us by others; we respect diverse traditions and cultures of the people we work with. We maintain and demand high professional standards and promote open dialogue. We avoid conflicts of interest wherever possible, whilst being proactive in declaring and resolving any unavoidable conflicts.

Legality

We respect the rule of law in all our dealings; we strictly abide by our procedures on taking action against non-

compliance with the law or our standards and policies; we provide a system for confidential reporting of breaches of our standards and policies.

Human Rights

We firmly believe that human rights are universal and adhere to the principles of human rights in our operations; we support the United Nations Universal Declaration on Human Rights.

Suppliers & Partners

Within our sphere of influence, we endeavor to ensure that our suppliers, subcontractors, agents, joint venture and other partners abide by the principles set out in our Code of Ethical Conduct.

Finance

We record the correct nature of all financial transactions in accordance with accepted accounting principles and applicable Maga Policies and standards.

Document Control

We have procedural controls in place for our Document Control including procedures to ensure adequate levels of data protection for our Clients.

Stakeholders

We are receptive in dialogue to those who are affected by our operations. We respond to feedback, enquiries and complaints from external customers and communicate with affected parties in a timely and effective manner.

Ethical Conduct and Economic Responsibility

As embodied in our belief system, ethical conduct is central to everything we do. We have translated our belief of being ethical in everything we do into fine print through our Code of Ethical Conduct.

The Code reflects on our economic responsibility towards its stakeholders under the following segments:

- Acting honestly towards our clients, subcontractors and suppliers, and not engaging in misleading or deceptive conduct.
- Individually avoiding situations with the potential for conflict of interest and being responsible and accountable for all of our own actions.
- Using Company assets and resources only for legitimate business purposes.
- Preserving the proprietary character of intellectual property of the Company and others and protecting confidential information concerning Maga and its employees, stakeholders and clients both during and after engagement.
- Ensuring that consultants, subcontractors and suppliers are aware of the Company's Code of Ethics when working for, with or on behalf of Maga.

Ethical Conduct and Human Resources

Human resources is another important function of the organization where ethical conduct becomes a critical criteria for efficient operation. From the point of recruitment, through training and development to end of employment, adhering to proper ethical conduct not only ensures success but also creates a healthy reputation about the organization.

We have identified the following areas as significant contributors to ethical conduct in human resources:

- Not engaging in aggressive head-hunting to recruit employees from competitors
- Maintaining confidentiality of employees' personal information not only with external parties, but also with internal parties. Personal information will be divulged to a third party only with the consent of the employee concerned.
- Creating a working culture free from any forms of stereotyping, prejudice or discrimination
- Ensuring fair and equitable treatment for all employees in terms of recruitment, compensation, training and development, promotions and other benefits.

Anti-Corruption Measures

Maga conforms to a zero tolerance policy on all forms of corruption, including potentially corrupt practices on the part of our suppliers, subcontracts and business partners within the sphere of our substantial influence and control. Our Code of Ethical Conduct, explained and clarified in detail to all our employees at all levels of operation, contains specific prohibitive clauses covering a wide range of risks. Whist being vigilant of and highly responsive to any potential concern on corruption, we note that there were no incidents of corruption reported during the period under review. This indicates that our two-way approach to counter corruption, i.e. zero tolerance and education, has been very successful and we will further strengthen the initiative through a separate awareness building campaign.

4.3 Human Rights

Human rights are commonly understood as those rights and freedoms to which all human beings are inherently entitled. The concept of human rights acknowledges that every single human being is entitled to enjoy his/her human rights without distinction as to race, sex, language, religion, political or other opinions, national or social origin, birth or other status. Maga is committed to maintain an organizational culture which upholds these internationally recognized human rights while engaging in the prevention of human rights abuses and violations. Maga strives to identify, evaluate and manage human rights impacts on all stakeholders and play an active role in the safeguard of human rights within our direct sphere of influence.

Two principles guide our human rights initiatives – (1) supporting and respecting the protection of internationally proclaimed human rights both in the workplace and more broadly within our sphere of influence, and (2) ensuring that we are not complicit in human rights violations, either through direct complicity, beneficial complicity or silent complicity.

The major areas of interest in human rights for us include:

- Upholding the human rights of our prospective employees by providing equal opportunities at recruitment and selection and minimizing the effects of canvassing on these decisions
- Upholding the human rights of our employees, including non-discrimination, prohibition of child and forced/ compulsory labour and freedom of association
- Setting up and maintaining fair and appropriate procedures to evaluate and select suppliers and sub-contractors, and to review their performance with fairness





- Respecting the values, customs and culture of local communities amongst whom we operate
- Contributing to the promotion of human rights by improving socio-economic and environmental conditions and function as a positive catalyst within communities
- Upholding ethical conduct and integrity in doing business and to support governing authorities where necessary in enforcing high ethical standards in business
- Having an open disclosure with stakeholders to be transparent in our dealings with human rights issues.

4.4 Process control

Data Reporting

Managers at all levels must provide accurate or complete data when reporting progress, so as to enable sound decision making and prevent erroneous decisions which carry both financial and other costs. In analyzing instances of such erroneous decision making that have occurred in the past, we have identified the lack of knowledge and skills as the major contributory factor. In order to ensure the accuracy and completeness of data reporting, we have issued a set of instructions on complying with data reporting requirements. The formats on which data needs to be reported are sent to the managers in soft copy to ensure uniformity.

Record Keeping

Record keeping is considered as an important contributor to achieve compliance, because records are needed to understand how well our systems are performing, and also provide vital information on trends as well as areas for improvement. Records are properly identified, filed, protected and controlled throughout their lifecycle. At present, the record keeping process is guided by a QMS procedure on Record Control.

Information Management

Information management was identified as a substantial risk due to inappropriate handling of information, whilst being recognized as a potential opportunity for improved decision making. Maga is currently in the process of adopting an information security policy comprising of general guidelines as well as a code of conduct for containing specific requirements for employees in handling vital business information. Maga is also in the process of implementing intranet facilities for information sharing through an Enterprise Resource Planning (ERP) solution, with potential for online progress review and custom access/security settings. In order to assess the level of competency of employees as well as other stakeholders, the company has conducted a detailed survey in the first quarter of 2010.

Progress Review

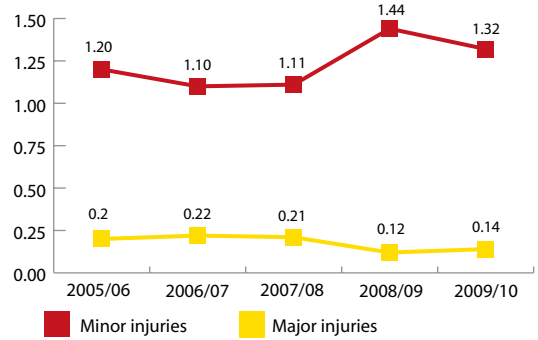
The progress in terms of compliance with respect to the above aspects is assessed at the Monthly Progress Review Meetings headed by the Board of Directors and attended by our sector, departmental, project and activity center managers.

4.5 Health and Safety Performance

From a compliance perspective, we have adhered to the provisions of the Factories Ordinance, Shop & Office Employees Act and Workmen’s Compensation Act. As part of the legal review necessitated in the HSE Management System, a detailed analysis of the requirements, current status and areas for improvement are being reviewed. Based on the findings, action will be taken to meet all these requirements. A gap had been observed in the requirement for maintenance of the ‘General Register’ for recording injuries and occupational disease and reporting of same to the Department of Labour. As a remedy, a specific procedure was developed under the HSE Management System on ‘Reporting and investigation of HSE adverse events’ (HSEP/4.5/002) and the relevant officers were trained on this procedure.

With the implementation of the HSE Management System, which is initially focused in obtaining ISO 14000 and OHSAS 18000 certification, the health and safety practices have improved across the organization. During the year of reporting, there has been a significant drop in minor injuries, while the rate of major injuries has increased slightly compared to last year, but remained below its average over the last 5 years.

Safety Record: Injury Frequency Rate



\* injuries per 1,000,000 cumulative working hours

Lost day rate and occupational disease rate have not been calculated for the reporting period but plans are in place to implement this in 2011.

Emergency Response Teams have been set up at the construction projects who will operate instantly in case of an emergency. These teams have been trained in first-aid and fire-fighting enabling them to effectively manage such emergency situations. Health and Safety steering committees have been set up with representation from all levels of employees, including project/activity center manager, technical staff, supervisory staff, clerical staff and tradesmen. These committees facilitate a positive health and safety culture and entail the involvement of all employees in driving the improvements of health and safety in the workplace. Between 10 -15% of the total workforce is represented in these committees. Plans are

in progress to increase this upto 30% by formulating sub-committees to monitor and manage different hazards such as mechanical hazards, chemical hazards and ergonomics.

4.6 Environmental Performance

The implementation of the HSE Management System has also dramatically improved the ground level environmental performance. From the use of natural resources and energy to environmental pollution, there are significant observable improvements. The improvements are being monitored and the results will be published in the next report.

Performance of Key Environmental Indicators

Indicator	Unit	Performance
Turnover	Rs. Millions	9,013
Energy consumption		
Direct energy – fossil fuel	GJ	251,955
Indirect energy – electricity		
from national grid	GJ	4,909
Greenhouse gas emission	tCO <sub>2</sub> -e	18,737
Material consumption		
Steel	Tons	4,106
Cement	Tons	30,736
Bricks (and blocks)	nos	7,374,000
Aggregate	Cubes	45,220
Sand	Cubes	13,801
Water consumption		
Municipal line	m <sup>3</sup>	80,360
Ground water	m <sup>3</sup>	20,950



From the use of natural resources and energy to environmental pollution, there are significant observable improvements



# Environment Management

“ Environment management has been integrated into our core business development and strategies. ”





- 60 Energy
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Our environmental management system is based on ISO 14001:2004, and is currently under review to obtain the certification from Sri Lanka Standards Institution.



We aspire to continually improve the environmental credentials of our projects and services by actively looking for ways to reduce negative environmental impacts during their entire life cycle.

We take great care to protect the environment and surroundings in which we carry out our operations. Environmental management has been integrated into our quality policy, where we have pledged to work in an environmentally friendly manner. In this section of the report, we have detailed our environmental philosophy, strategies and measures undertaken in 2009/2010.

We maintain organizational structures, management systems, procedures and training plans required to ensure compliance with all relevant laws, regulations and standards. Our environmental management system is based on ISO 14001:2004, and is currently under review to obtain the certification from Sri Lanka Standards Institution. Environment management has been integrated into our core business development and strategies, through the delegation of responsibility on environmental performance to line management chains.

In the spirit of continual improvement, we strive to actively involve our workforce in the process of environmental management, so that they can contribute to our ambition of becoming the most environment conscious company in construction. We aspire to continually improve the environmental credentials of our projects and services by actively looking for ways to reduce negative environmental impacts during their entire life cycle. This, over time, will enable us to become a company not only capable of executing environmentally sound projects, but a construction company with overall environmental responsibility.

Our efforts in environment management mainly focus on five areas – energy (reducing energy consumption, being more energy efficient and using renewable energy and alternative technology); materials (selecting, using, re-using and recycling materials during design, manufacture, construction and maintenance to reduce resource utilization); waste (producing less waste and recycling more); pollution (producing less toxicity, water, noise and spatial pollution); and flora and fauna (causing minimum harm to the existing flora and fauna and preserving biodiversity).

**5.1 Energy**

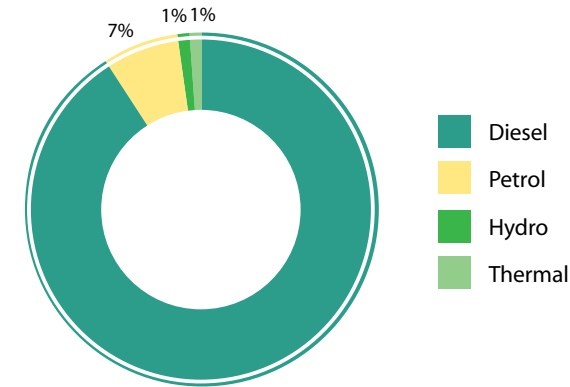
Energy consumption entails direct operational costs, whilst exposing an organization to a very volatile energy supply market. The environmental footprint of an organization is partly shaped by its choice of energy sources. We strive to minimize our environmental impact by adjusting the balance of these sources. By determining the amount of energy we consume (both total and per unit of production), our capability to use energy efficiently, as well as critical areas for improvement, is continually assessed.

With the new Environment Management System (EMS) in place, processes are underway to monitor and optimize our energy usage. Both direct and indirect energy consumption is monitored in order to propose ways and means to reduce the overall energy consumption.

Direct and Indirect Energy Consumption

Source	Units	2009/10		2008/09	
		Quantity	Energy (GJ)	Quantity	Energy (GJ)
Direct energy – Fossil fuel					
Diesel	Litres	6,064,325	232,870	4,842,214	172,117
Petrol	Litres	558,067	19,085	382,759	13,089
Indirect energy – Electricity from national grid					
Hydro (40%)	kWh	615,280	1,969	525,582	1,681
Thermal (60%)	kWh	918,792	2,940	788,373	2,522
Total			256,864		189,409

Distribution of Energy Consumption for 2009/10





Greenhouse Gases

Consumption of fossil fuels is a major source of greenhouse gas (GHG) emissions. Energy consumption is thus directly linked to the organization’s greenhouse gas emissions. Although Sri Lanka is not a major contributor to the global carbon input and is not legally bound to any protocols (e.g. Kyoto protocol), we have identified the pressing need for corporate entities to take responsibility in this field. As a first step, in accordance with our environmental policies and EMS, we have taken measures to monitor our gas emissions on a continuous basis. Through our carbon emission monitoring team, we have initiated the collection and analysis of data on greenhouse gas emissions from all our operations during the reporting period.

Our GHG emissions in the year 2009/10 are estimated to be 18,737 tCO<sub>2</sub>-e (units in metric tons of CO<sub>2</sub> equivalents emitted). In comparison with last year, our carbon emission has increased from 0.0017 kg CO<sub>2</sub>-e/rev to 0.0020 kg CO<sub>2</sub>-e/rev. We have identified the increased proportion of road construction projects (during the reporting period) as the main contributory factor, due to their more energy intensive nature stemming from higher material, plant, machinery and transport usage.

Greenhouse Gas Emission

Source	Units	2009/10		2008/09	
		Quantity	CO <sub>2</sub> emission (kg CO <sub>2</sub> -e)	Quantity	CO <sub>2</sub> emission (kg CO <sub>2</sub> -e)
Diesel for vehicles	Liters	2,888,11	7,797,899	2,741,176	7,334,574
Petrol for vehicles	Liters	558,068	1,283,556	424,862	977,184
Diesel for generators	Liters	3,176,261	8,575,783	2,633,681	7,110,939
Electricity	kWh	1,531,320	1,041,297	1,458,491	991,774
Construction material*			38,934		35,216
Total			18,737,469		16,449,868
CO <sub>2</sub> emission / revenue			0.0020		0.0017

\* This includes steel, cement, bricks, aggregate and sand only.

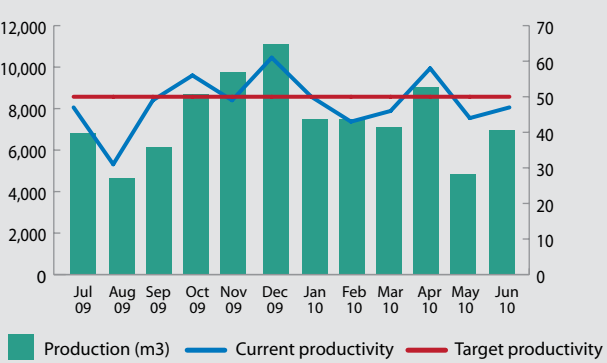
Case Study : Establishing Benchmarks for Energy Efficiency

A study was carried out in our Siripura Aggregate Crusher & Asphalt Plant in order to establish a benchmark of energy use for the production of aggregate and asphalt concrete. The main energy consumer was generators and the aim was to reduce the diesel input by increasing the productivity of the operations. By establishing accurate benchmarks for the productivity of these operations, we will be able to reduce the energy consumption of these energy-heavy plants.

The production of asphalt was measured against the actual running time of the designated generators. First we embarked on improving our asphalt and crusher plant by identifying some key elements which could increase their productivity whilst keeping the generator running time to a minimum. These included:

- Optimizing the size of the materials being fed into the crusher plant
- Changing the drilling patterns in order to achieve a satisfactory aggregate size to feed the crusher
- Altering the feeder belts to accommodate the above changes
- Drying of water, dew and other water based particles of the crushed aggregates before it goes into asphalt production

Productivity of the Crusher Plant

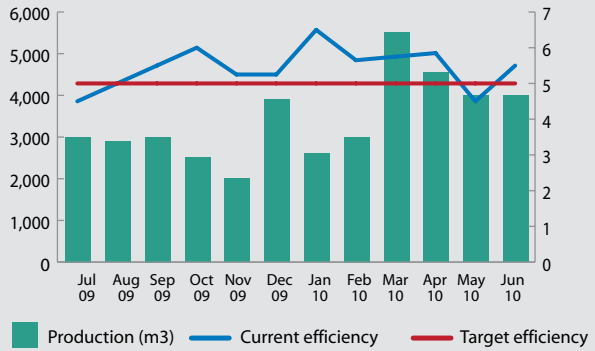


The productivity of the crusher plant was observed to be related to the total production and varied between 31.3 m<sup>3</sup>/hr and 61.4 m<sup>3</sup>/hr. A benchmark was set at 50 m<sup>3</sup>/hr. However, the productivity of the asphalt plant was not related to the total production. The findings of this study were not conclusive unlike in the case of the crusher plant. The productivity varied between 56.9 m<sup>3</sup>/hr and 73.9 m<sup>3</sup>/hr. The benchmark set for the asphalt plant is 65 m<sup>3</sup>/hr. The quality and hardness of the rock that is used for the production will affect these parameters, but the benchmark is to be kept as a target nevertheless. These targets will be monitored in the future and any deviations will be addressed in detail.

We have identified the diesel consumption of the distribution vehicles (i.e. concrete truck mixers and pump cars) as one of the major contributing factors to the energy consumption of our concrete batching plants. With the objective of reducing the average fuel consumption of distribution vehicles, a study was carried out at our Kelaniya Concrete Batching Plant to benchmark the current status.

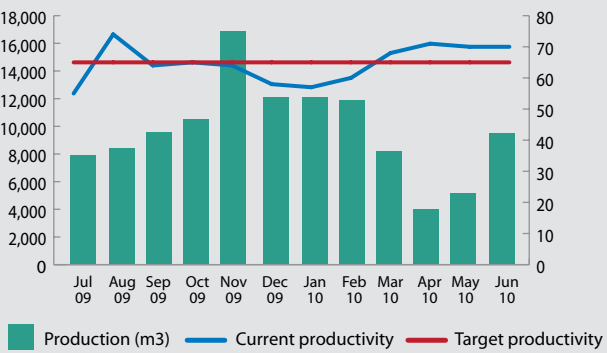
Before the study was undertaken, a programme was implemented to complete all the repairs and other maintenance work of the vehicles.

Efficiency of Distribution by Vehicles



A direct relationship between the efficiency and total production could not be established, mainly due to the inconsistency between concrete production and the distance it had to be transported. The efficiency varied from 4.49 l/m<sup>3</sup> to 5.95 l/m<sup>3</sup>. A benchmark of 5.0 l/m<sup>3</sup> was established for monitoring purposes. However, assessment of methods to better manage the transport of concrete is sought to improve efficiency.

Productivity of the Asphalt Plant





The SLR 4.2 billion rehabilitation of the 78km road from Siyambalanduwa to Akkaraipattu was a landmark project in the eastern coastal region, slowly emerging from the destruction of the Tsunami and war. Running across a region long-sustained by agriculture, the construction was complemented with a project specific Environment Management Action Plan (EMAP).

Our efforts in environment management mainly focus on five key areas – energy, materials, waste, pollution, and flora & fauna

5.2 Materials

Around 50% of all global resources go into the construction industry (a specific example is that 70% of all timber is being used for buildings). Therefore, we consider it very important to have a sustainable approach to choosing and using construction materials. Five major construction materials, i.e. steel, cement, bricks (and blocks), aggregate and sand were considered in this initial assessment of material consumption. In addition to construction material, water consumption, both municipal and ground, were also considered.

We have initiated processes to select and use materials in a more sustainable way, in order to reduce the environmental costs of the manufactured product in the context of social and economical parameters. These include Life-Cycle Assessments, Eco-Labeling and Carbon Audits, all of which help in the selection of materials based on assessing the balance between short-term costs and long-term environmental, social and financial benefits.

5.3 Waste

We consider waste as a potentially valuable resource which may be at the wrong place in the wrong form. As such, several programmes are in place to re-use and re-cycle waste. Some of the initiatives are detailed below.

**Collection and re-use of aggregate dust in asphalt plants:** The dust which is collected through dust bags

is re-used. An air pulse system is in place which expels the accumulated dust inside the dust bags which gets collected into a container at the bottom. The collected dust, which is composed of the finest diameter aggregate is reentered into the production process.

**Collection and re-use of cement dust in readymix concrete batching plant:** The cement dust which is collected in sedimentation containers and water traps is used to produce cement blocks. The sludge which is collected from the sedimentation tanks are also used to produce cement blocks. Our newly constructed labour accommodation complex with a floor area of 60,000 sqft was built solely using cement blocks produced with this waste cement sludge.

**Collecting and re-use of waste oil:** Oil which is removed from heavy machinery is collected and used as a preservative on timber to prevent fungal growth and termite growth.

**Managing domestic waste:** The procedure on waste management (HSEP/4.4.6/001) addresses the segregation, disposal and re-use of domestic waste in detail. All offices, staff and labour accommodations and vehicle yards are required to segregate their domestic waste and dispose them in the specified manner. Bio-degradable waste is used for composting, which in turn is used as fertilizer.

Consumption of Construction Material

Operation	Steel (Tones)	Cement (Tones)	Bricks ('000 nos)	Aggregate (cubes)	Sand (cubes)
Road projects	847	3,629	*	29,736	1,520
Building projects	2,953	1,576	7,374	*	401
Water supply projects	298	432	*	262	201
Supply of Concrete	0	25,099	0	15,222	11,679
Total	4,106	30,736	7,374	45,220	13,801

\* Amount insignificant to report

Consumption of Water

Operation	Municipal line (m³)	Ground water (m³)
Road projects	25,019	11,000
Building projects	12,165	500
Water supply projects	2,167	100
Concrete production	24,319	7,500
Asphalt production	*	1,500
Central workshop	5,940	200
Head Office	10,750	150
Total	80,360	20,950

\* Amount insignificant to report

Edwards B and Hyett P, ' Rough Guide Sustainability' (London: RIBA Companies Ltd, 2001)

5.4 Pollution

Air Pollution

Due to the use of heavy machinery and a large fleet of vehicles, the possibility of gas emissions during construction is quite high. Apart from the reduction of the emission of greenhouse gases, we have also looked at the reduction of other harmful gases. Some of the measures taken to minimize the gas emissions are detailed below.

**Preventive maintenance of machinery:** Through proper maintenance of machinery, we try to ensure complete burning of fuel so that the harmful emissions are reduced. Changing the air filters at the right time, regular engine tune-ups, injection pump service and calibration, injector servicing, testing, calibration and use of recommended



motor oils are some of the aspects of preventive maintenance that reduce gas emissions.

**Vehicle emission reduction:** Vehicle emissions are reduced through a process of periodic testing and corrective action. As required by law, the vehicles are subjected to emission testing by a third party and if defects are identified action is taken to rectify the defects or minimize the use of such vehicles if improvements cannot be made.

**‘Green Automobiles’ initiative:** Launched as a management programme under our EMS, this initiative aims to categorize the vehicles in our fleet and vehicles hired from external agents as green, amber and red according to their emission status. Transport schedules will then be prepared to use the ‘green’ vehicles most frequently and to use ‘red’ vehicles for stand-by purposes. When hiring vehicles from external agents, priority will be given to ‘green’ vehicles and the suppliers will be advised to repair the ‘red’ vehicles if we are to hire them.

Dust is generated through a number of sources during manufacturing, transport and storage of raw materials, earth work, demolition and construction work. We have taken several measures to minimize the dust generation, including:

- Creating asphalt or concrete surfaces at production plants and vehicle yards
- Using water sprinklers at aggregate and soil storage sites
- Proper covering of aggregate, soil and asphalt during transport
- Having washing bays at entrances of sites and production facilities
- Using chutes and bags to collect and dispose of construction debris
- Having dust control systems in asphalt plants – the air contaminated with aggregate dust is sent through a system of bags with a specified pore size within a dust collection tank where dust is captured and clean air is released
- Having dust control systems in readymix concrete plants – air contaminated with cement dust is sent through a container where sedimentation of dust occurs and then through a water container where the balance dust is absorbed and clean air is released
- Having dust-release prevention systems in readymix concrete and asphalt plants – the conveyors which carry the raw aggregate are covered with metal sheets to prevent the release of dust to the environment

**Land Pollution**

The workshops and heavy machinery yards carry the risk of soil pollution due to discharged fuel and oil. The ground of the workshops and machinery yards are paved with concrete to prevent seepage of these hazardous materials into the soil. The floors are cleaned regularly to prevent accumulation of waste materials. Double-container systems are put in place under outlets of fuel containers to collect and remove the spilled fuel.

**Water Pollution**

Maga values the need to preserve fresh water, reduce the outflow of our wastewater and reuse water so as to reduce the direct impact upon ecological systems. Through purification of wastewater and recycling/reusing wastewater, we always strive to reduce its impact on surrounding water bodies.

We have introduced mechanical or unmanned wastewater recycling/reusing systems, identified as systems that could significantly reduce the strain upon the national water supply system.

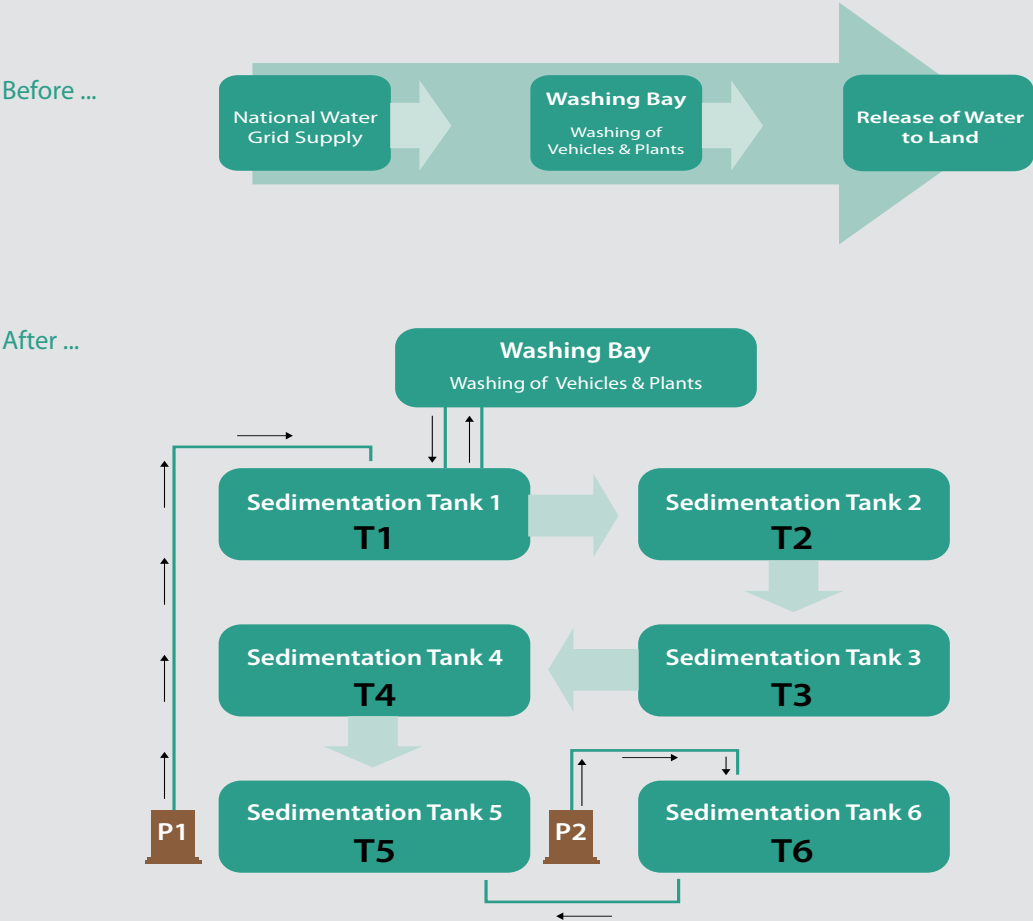
**Sound Pollution**

In accordance with Maga’s environmental policy, we comply with current legal and statutory requirements relating to sound transmittal. We further consider it our moral duty not to disrupt or pollute our neighbours’ living environment through our activities. In view of the above, we have undertaken a study of noise level measurements in a semi urban/commercial environment. We have begun by identifying the correct statutory requirements in order to set our own benchmarks.

**The National Environmental (Noise Control) Regulations No.1 of 1996** governs the statutory requirement which regulate the noise levels of our activities especially during the construction phase, where under the Regulation special permission has been granted for construction sites. According to the Regulation, maximum permissible noise level for construction activities at boundaries of the land in which the source of noise is located is 75dB during day time and 50dB during night time.

Case Study : Mitigation of Water Pollution

In our **Kelaniya Concrete Batching Plant**, we have implemented a system to reuse wastewater and avoid release to adjacent water bodies. Wastewater produced during concrete production has been identified for reuse. We have taken precautions to treat water up to the required pH level standards by using sedimentation techniques. This technique has been later approved by the Central Environmental Authority and we are in the process of obtaining the Environmental Protection License.



**5.5 Flora and Fauna**

Construction activities invariably require felling of trees. We exercise our duty as a responsible corporate citizen and often negotiate with our clients to actively promote design changes to preserve the trees. During the period of reporting, 59 trees along road construction projects were identified to be removed for which approval was granted. We were able to save 19 of these trees by proposing changes in the designs and technology changes, which accounted to a saving of 32% of the trees.

When constructing stockpiling yards, we find that trees obstruct the ideal locations and pathways. We always minimize the felling of trees in such instances, by modifying layout arrangements if necessary.

The natural environment is important to Maga and we always seek to protect and enhance biodiversity. Our Biodiversity Action Plan (BAP) is aimed for specific projects where the protection of biodiversity is considered a necessity. In many cases project specific biodiversity action has been carried out considering specific characteristics and needs of each environment. For instance, protecting the biodiversity of the surrounding environment was a priority of Puttalam-Nochchiyagama road rehabilitation project, which runs through the Tabbowa Sanctuary, and Siyambalanduwa-Pottivil road rehabilitation project, which runs through the Lahugala Sanctuary. Specific attention was drawn in order to conserve wetlands, water bodies/ water logged areas near the road and to protect highly sensitive flora and fauna.

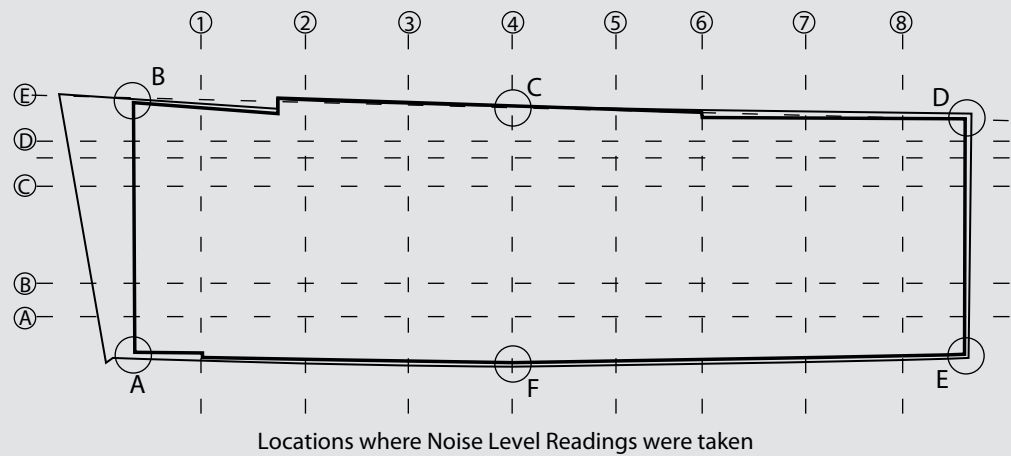


Case Study : Mitigation of Sound Pollution

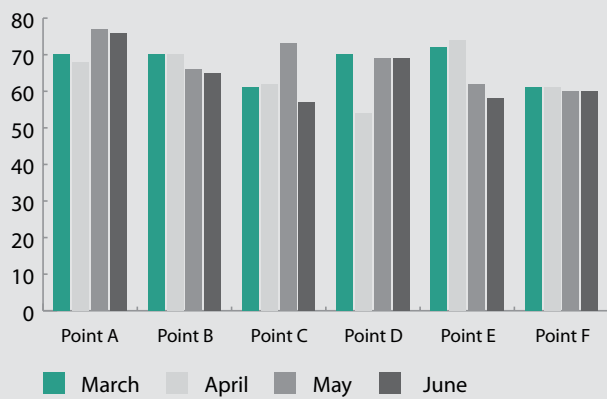
A study was conducted on one of our major ongoing construction projects, People’s Leasing Head Office Building at Borella, Colombo 08. We started to monitor the noise levels at various locations of the building, keeping the statutory requirement as our benchmark. Throughout the month we took readings from point locations of the site which were identified as high activity/noise generation areas, and reviewed our findings in relation to allowable noise level limits as per statutory requirements.

In addition to noise level monitoring, we frequently obtained feedback from the neighbors of our site to ensure that we sustain a healthy environment throughout our activities.

Floor Plan



Noise Level Readings



Except for Point A, which is near the location of the generator, we have been able to gradually reduce the noise level at all other locations. As per our initial construction programme, we had planned to work at night to expedite work of the project. Since the implementations of noise level measurements, we have minimized our operations at night and taken measures to increase efficiency of daytime production, so as to maintain a sound environment for our neighbors.

No	Disclosure item	FR	PR	NR	Page
1	Strategy and analysis				
1.1	CEO's statement	●			4,5
1.2	Description of key impacts, risks and opportunities	●			14,15
2	Organizational profile				
2.1	Name of the organization	●			6
2.2	Primary brands, products and/or services	●			7
2.3	Operational structure of the organization	●			7
2.4	Location of organization's headquarters	●			7
2.5	Number and name of countries where the organization operates	●			7
2.6	Nature of ownership and legal form	●			7
2.7	Markets served	●			7
2.8	Scale of the reporting organization	●			7
2.9	Significant changes during the reporting period	●			7
2.10	Awards received in the reporting period	●			7
3	Report parameters – Report profile				
3.1	Reporting period	●			17
3.2	Date of most recent previous report	●			18
3.3	Reporting cycle	●			18
3.4	Contact point for questions regarding the report	●			18
	Report parameters – Report scope and boundary				
3.5	Process for defining report content	●			18
3.6	Boundary of the report	●			18
3.7	Limitations on the scope or boundary of the report	●			18
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations etc	●			18
3.9	Data measurement techniques and the bases of calculation	●			18
3.10	Explanation of the effect of any re-statements of information provided in earlier reports	●			18
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods	●			18
	Report parameters – GRI content index				
3.12	Table identifying the location of the Standard disclosures in the report	●			69-71
	Report parameters – Assurance				
3.13	Policy and current practice with regard to seeking external assurance for the report	●			72
4	Governance				
4.1	Governance structure of the organization	●			8
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	●			8
4.3	Number of members of the highest governance body that are independent and/or non-executive members	●			8
4.4	Mechanisms for shareholders and employees to provide recommendations or direction	●			10
4.5	Linkage between compensation for members of the highest governance body and organizational performance	●			9
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	●			10
4.7	Process for determining the qualifications and expertise of the members of the highest governance body	●			9
4.8	Internally developed statements of mission or values, codes of conduct, and principles	●			11,12
4.9	Procedures of the top management for overseeing the organization's identification and management of economic, environmental and social performance	●			9
4.10	Processes for evaluating the highest governance body's own performance	●			1
	Commitments to external initiatives				
4.11	Explanation of whether and how the precautionary approach or principle is addressed	●			10
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives	●			32, 69
4.13	Memberships in associations and/or national/international advocacy organizations	●			7
	Stakeholder engagement				
4.14	List of stakeholder groups engaged by the organization	●			22
4.15	Basis for identification and selection of stakeholders	●			22
4.16	Approaches and frequency of engagement by type and by stakeholder group	●			22-27
4.17	Key topics and concerns that have been raised through stakeholder engagement	●			22-27





No	Disclosure item	FR	PR	NR	Page
5	Management approach and performance per category				
	Economic performance indicators				
	Disclosure on management approach	●			30
EC1	Economic value generated and distributed			●	
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change			●	
EC3	Coverage of the organization's defined benefit plan obligations	●			34
EC4	Financial assistance received from government			●	
EC6	Practices and proportion of spending on locally-based suppliers at significant locations of operation	●			34
EC7	Procedures for local hiring and proportion of senior management hired from the local community	●			42
EC8	Development and impact of investments and services provided primarily for public benefit			●	
EC9	Understanding and describing significant indirect economic impacts	●			35
	Environmental performance indicators				
	Disclosure on management approach	●			60
EN1	Materials used by weight or volume	●			65
EN2	Percentage of materials used that are recycled input materials			●	
EN3	Direct energy consumption by primary energy source	●			61
EN4	Indirect energy consumption by primary energy source	●			61
EN5	Energy saved due to conservation and efficiency improvement			●	
EN8	Total water withdrawal by source	●			65
EN11	Location and size of land owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas		●		67
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		●		67
EN16	Total direct and indirect greenhouse gas emissions by weight	●			62
EN17	Other relevant indirect greenhouse gas emissions by weight			●	
EN19	Emissions of ozone-depleting substances by weight			●	
EN20	NO2, SO2 and other significant air emissions by type and weight			●	
EN21	Total water discharge by quality and destination			●	
EN 22	Total weight of waste by type and disposal method			●	
EN23	Total number and volume of significant spills			●	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation			●	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category			●	
EN 28	Incidents and fines or non-monetary sanctions for, non-compliance with applicable environmental regulations	●			53
	Social performance indicators – Labour practices and decent work				
	Disclosure on management approach	●			40
LA1	Breakdown of total workforce by employment type and by region	●			40
LA2	Total number and rate of employee turnover	●			43
LA4	Percentage of employees covered by collective bargaining agreements			●	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements			●	
LA6	Percentage of total workforce represented in formal management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	●			57
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities		●		57
LA8	Education, training, counselling, programs in place to assist workforce members, their families, or community			●	
LA10	Average hours of training per year per employee by employee category	●			45
LA12	Percentage of employees receiving regular performance and career development reviews	●			44
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity		●		47
LA14	Ratio of basic salary of men to women by employee category	●			42

No	Disclosure item	FR	PR	NR	Page
	Social performance indicators – Human rights				
	Disclosure on management approach	●			46,55
HR1	Significant investment agreements that include human rights clauses or have undergone human rights screening			●	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken			●	
HR4	Total number of incidents of discrimination and actions taken	●			46
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights			●	
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to eliminate child labour	●			46
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to the elimination of forced and compulsory labour	●			46
	Social performance indicators – Society				
	Disclosure on management approach	●			26,27
SO1	Nature, scope, and effectiveness of any programmes and practices that assesses and manage the impacts of operations on communities, including entering, operating and exiting			●	
SO2	Percentage and total number of business units analyzed for risks related to corruption			●	
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	●			55
SO4	Actions taken in response to incidents of corruption	●			55
SO5	Public policy positions and participation in public policy development and lobbying			●	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	●			53
	Social performance indicators – Product responsibility				
	Disclosure on management approach	●			30
PR1	Stages in which Health and Safety impacts of products and services are assessed for improvement, and percentage of products and services			●	
PR3	Type of product information required by procedures, and percentage of subject to such information requirement significant products			●	
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship			●	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	●			30

FR = fully reported; PR = partially reported; NR = not reported

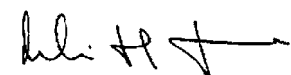


## Report Application Levels

		2002 In Accordance	C	C+	B	B+	A	A+
Mandatory	Self Declared							
	Third Party Checked			Report Externally Assured		Report Externally Assured		Report Externally Assured
	GRI Checked							

The 2010 Corporate Sustainability Report of MAGA Engineering (Private) Ltd. has undergone a third-party level check by STING Consultants, and the Self Declared B level of this Report is confirmed to be accurate.

The aim of this statement is to confirm to readers the extent to which the GRI Guidelines have been applied in the preparation of this report. This does not represent an opinion on the value or quality of the report and its content.



Ruchi Gunewardene  
Chief Executive Officer  
STING Consultants

8<sup>th</sup> October 2010

## 2011: A Look Ahead

### ISO 14001 & OHSAS 18001 Certifications

We plan to complete the final phase of obtaining ISO 14001 and OHSAS 18001 certifications during the next reporting period. Following the receipt of these certifications, the Health, Safety and Environmental Management System will be expanded to cover all new projects and activity centers.

### Global Compact

In an effort to explore both global and local opportunities to create a dialogue and collaborate with other business organizations on critical issues, we aim to participate in United Nations Global Compact (UNGC) initiative this year.

### Global Reporting Initiative (GRI)

This Corporate Sustainability Report prepared in accordance with the GRI (G3) guidelines meets the requirements of class B reporting. Currently the report is not externally assured. Action will be taken for the next report to be assured by a third party.

### Expanding Reporting Areas

We plan to expand the areas of reporting to include material recycling, improvements to energy efficiency, biodiversity, ozone-depleting substances, product responsibility, occupational diseases, absenteeism, training on prevention of serious diseases and impact of our operations on communities. At least five new performance indicators will be introduced in next year's report.

Maga Engineering (Pvt) Ltd  
200 Nawala Road, Narahenpita,  
Colombo 5, Sri Lanka  
Tel : +94 11-2808835-44  
Fax : +94 11-2808846-47  
Email : [mega@maga.lk](mailto:mega@maga.lk)



