

predicting results

Annual Report 2011



Vision To be the most admired plantation company in Sri Lanka

“Produce and market quality teas that delight our customers
Drive sustainable growth
Enhance shareholder value”

Mission

Business philosophy

We Believe in
Manufacturing Quality Tea that fetch Premium Prices
Increasing Shareholder Value
The Spirit of Entrepreneurship
Making Profit without loss of Honour
Motivating and Training our people to reach their full potential
Rewarding Performance
Being a “Learning Organization” and Continuously Improving
Building mutually beneficial long term relationships
with our Customers and Suppliers
Positively contributing to the
Conservation of the Environment

predicting results

Seeing the future in a tea cup has long been a tradition in many countries, the dredges of which reveal things to come. In a challenging year that tested our limits, we have reinforced our strengths and adapted to suit the times. Our ability to rise to the challenge as well as opportunity has boded well for us and we look forward to building and strengthening our roots.

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Chairman's Statement

“The tea industry is at cross roads; requiring a break-through in productivity to remain viable.”

Dear Shareholder,

I welcome you to the 20th Annual General Meeting of Talawakelle Tea Estates PLC and have pleasure in presenting the Annual Report and Audited Financial Statements of the Company for the year ended 31 December 2011. The year 2011 was most challenging for the tea industry with increasing costs particularly of wages and commodity prices easing off from levels of the previous year. Global economies are in disarray with the US and Europe mired in recession. The widespread civil unrest in the Middle East is having a telling impact on international tea auctions. The Sri Lankan economy maintained its growth momentum from 2010 and saw a relatively low interest regime for most part of 2011. National tea production to end December was just over 328 Mn Kg, a marginal decline from the previous year. Earnings from tea export stood at Rs 149.5 Bn vs Rs 141 Bn for the same period ending November 2010.

Corporate Results

The Company's turnover for the year under review declined by Rs. 193.7 Mn from the previous year to Rs.2.68 Bn and recorded a Net Loss after Tax of Rs. 99.2 Mn as against a Net Profit after Tax of Rs.135.2 Mn in 2010.

The consolidated turnover of the Group was Rs.2.8 Bn, a decline of 7.0% over the previous year. The Group's Net Loss after Tax amounted to Rs. 73.9 Mn.

A sharp increase in wage costs (28%) consequent to the signing of the Collective Agreement in April 2011 and a decline in tea prices compared to the levels in 2010 negatively impacted the year's results. The increase in cost on wages alone and the related adjustment in gratuity provisions amounted to Rs. 244.8 Mn in 2011.

Our persistent emphasis on quality, relatively favorable weather for tea crops, receipt of a fertilizer subsidy and a significant reduction in finance cost somewhat cushioned the blow in an otherwise testing year.

Tea production in the year was 6.89 Mn Kg compared to 6.82 Mn Kg in 2010. Estates that recorded a healthy profit in the first quarter fell significantly when the increase in wages came into effect from beginning of the second quarter. The situation was further aggravated when prices at the Colombo Tea Auctions began to decline from mid-year. The depressed prices continued to the end of 2011, mainly due to softer demand from countries in the Middle East such as Syria, Iran and Lybia. High grown estates posted higher losses than the low grown due to their relatively large workforce and the resultant higher charge to the gratuity provision. The strong market in the fourth quarter generally seen at the Colombo Tea Auctions too did not materialise in 2011 as crisis in the Middle East deepened.

“The increase in cost on wages alone and the related adjustment in gratuity provisions amounted to Rs. 244.8 Mn in 2011.”

Quality

The Company was ranked No.1 at the Colombo Tea Auctions for prices amongst the Regional Plantation Companies for the eighth and fifth year in succession for high and low grown elevations respectively. The average tea price registered by the Company was well above the national averages.

Mattakelle Estate maintained its primacy amongst all estates in the Western high grown region for the third consecutive year and three of our high grown marks were among the top ten price earners in the Western high grown catalogue. Nine out of our eleven high grown estate marks and three of the four low grown marks recorded prices above the national elevation averages during the year.

Attention to the value chain from harvesting to manufacture, continuous upgrading of our factories to meet International Quality Certification Standards and adoption of good agricultural and manufacturing practices have remained the key components of our quality strategy.

Development and Investments

Despite adverse trading conditions, investments in enhancing long term earnings continued to receive priority albeit at a lower level than the previous years.

Investments were made in replanting of low yielding tea fields, improving factory throughput and social and welfare infrastructure.

During the year under review, Bearwell factory (600,000 kg) was upgraded while Clarendon factory was refurbished to increase capacity (300,000 kg) in the high grown estates. Hydro Power Plants located at Radella, Somerset and Palmerston were fully operational and powered the national grid.

The total capital expenditure incurred during the year on field and non field activities was Rs. 170.2 Mn. The cumulative investment since privatisation now stands at Rs. 3,201.7 Mn. Expenditure on improving housing, water, sanitation and related social welfare activities amounted to Rs.11.1 Mn in 2011. The cumulative cash outlay in this sphere of activity currently amounts to Rs.256.2 Mn. In this connection, we wish to place on record our appreciation of the assistance received from the Plantation Housing Development Trust and JBIC.

Dividends

The Board does not propose payment of a dividend this year.

Awards

The Company's Annual Report for 2010 received a Bronze Award from the League of American Communications Professionals at the 2010 Vision Awards Annual Report Competition. We were also recognised as the Best performing (highest GSA) Regional Plantation Company for 2010 in high and low grown categories at the Annual Awards Night organised by Forbes and Walker Tea Brokers (Pvt) Limited.

Financial Reporting

The presentation of financial statements will change with effect from the 2012 financial year, consequent to your Company adopting the International Financial Reporting Standards (IFRS).

Chairman's

Statement Contd.

Changes to the Board

Subsequent to the sale of shares of the holding Company Hayleys Plantation Services (Pvt) Ltd held by Hayleys PLC to DPL Plantations (Pvt) Ltd, Dr K I M Ranasoma was appointed to the Board in October 2011.

Mr M M M De Silva, who served as Non Executive Director resigned from the Board in January 2012 and I thank him for his contributions over the years.

Mr W D N H Perera and Ms M D A Perera were appointed to the Board as Non Executive Directors with effect from October 2011 and January 2012 respectively.

We welcome the two new directors who bring with them substantial business management expertise to the Board.

Strategy and Prospects

Operational strategies adopted during the year under review and the careful management of the Company's liquidity largely mitigated the impact of the adverse trading conditions of 2011 and ensured uninterrupted operations. The challenge in 2012 is to return to profitability by improving productivity, and optimising market opportunities. The key challenge we now face since the wage cost increase is to improve worker productivity and contain costs in order to be profitable in today's depressed environment. We will continue to produce excellent teas that delight our customers while remaining cost competitive. Quality, productivity and sustainable agriculture will remain the foundation of our strategy. Meantime, we are exploring alternate avenues of income generation and intend to pursue them intensely in the current year and beyond.

Adding value to our teas in collaboration with Mabroc Teas (Pvt) Ltd is an initiative that is being actively pursued, particularly leveraging the best Dimbulla tea marks (Brands) in our portfolio. We are encouraged to see the Sri Lanka Tea Board is set to promote Ceylon Teas utilising the export cess fund which now stands over Rs.1.0 Bn. This will give much needed impetus to Sri Lanka teas in the international consumer markets.

“The challenge in 2012 is to return to profitability by improving productivity, and optimising market opportunities.”

As low cost producers steadily gaining momentum and international brands surely shifting the Ceylon Tea from the minds of the consumer, the successful outcome of this promotion is crucial to the long term viability of the local tea industry.

As mentioned earlier, sustainable agriculture and environmental management practices are key areas of our attention to ensure medium to long term viability. Accordingly, we continue to replant our poor yielding teas and adopt good agricultural and manufacturing practices in our operations. As capital is a constraint for replanting, we request the authorities to utilise the funds belonging to the Plantation Trust Fund as an interest subsidy to make available concessionary funding to the Regional Plantation Companies.

Being an environmentally conscious producer, we have during 2011 secured certification of most of our tea estates under the Rain Forest Alliance. We are targeting to complete accreditation of the balance properties within the early part of 2012. The accelerated fuel wood planting programme presently undertaken to reduce our carbon footprint and energy costs too is an integral component of our sustainability initiatives.

With rising energy costs, we earnestly request the authorities to streamline the current approval process to harvest our fuel wood. This would discourage illegal felling of forestry resources and substantially reduce energy cost. Presently, diversification of land use meets resistance from trade unions and delays securing of required approvals. A more enabling environment would optimise productivity of land and create additional employment opportunities. We once again urge early settlement of the long outstanding compensation dues for lands acquired as it would considerably ease the current liquidity constraints. As an industry, we need to strengthen and augment our research and development efforts so as to leverage agricultural and industrial technologies to the fullest. We welcome the development of a Sri Lanka Tea Board standard for product quality as this will enhance the country's competitive position as a preferred source for quality teas.


The tea industry is at cross roads; requiring a breakthrough in productivity to remain viable. It is important that all stakeholders including the policy makers recognize that international competitiveness is a prerequisite for the stability of the industry. Hence, industry wage structure, work practices and government policy should soon move to mirror the required flexibilities.

We look to 2012 with cautious optimism expecting at least some of our key export markets returning to normalcy before long. Possible tight supply situation from rising domestic demand in India and China too could help prices to improve. We on the other hand are concerned with the on-going embargo on Iran, increase in domestic interest costs and liquidity constraints.

“A more enabling environment would optimise productivity of land and create additional employment opportunities.”

In Conclusion

I thank all our employees for their hard work and dedication. I also thank our buyers, brokers and bankers for their continued support and my fellow Directors on the Board for their guidance during a difficult year and look for their continued commitment to face the challenges in the year ahead.



Mohan Pandithage
Chairman

13th February 2012

Management

Discussion & Analysis

Tea Industry overview

Over 70% of Global tea production comes from China, India, Kenya and Sri Lanka. The world's tea industry reached a crucial milestone when the Global Tea Production exceeded 3.8 Mn tones (3.8 Bn Kg), an improvement of 2% compared to year 2010. China was mainly instrumental for the surge in world tea crop with India also registering an increase. The excessive production in the global market with the uncertainty in Middle East created a sluggish market in many worlds' auction centers. Russia continues to be the largest importer of tea followed by Middle East, Egypt & Pakistan. The Russian tea market has a growing demand for all tea varieties as well as for black tea and Sri Lanka is placed as the major supplier for the Russian market.

The Year 2011 Sri Lanka achieved a crop of 328.3 Mn Kg a marginal decline of 3.06 Mn from a record crop in the previous year. Except North India other black tea producing countries including Kenya recorded a decline in production to last year.

Tea prices declined for the first time since 2000 at the Colombo tea auctions in the year. Unsettled conditions in our key markets North Africa, Middle East, Japan had a negative impact on prices. The national average price declined by RS 10.72 per kg to RS 359.89 per kg. Colombo auction centre continued to receive the highest price at US \$ 3.29 per kg and Kolkata and Mombasa achieved an average of 2.73 US\$ and US \$ 2.72 respectively, as at end November.

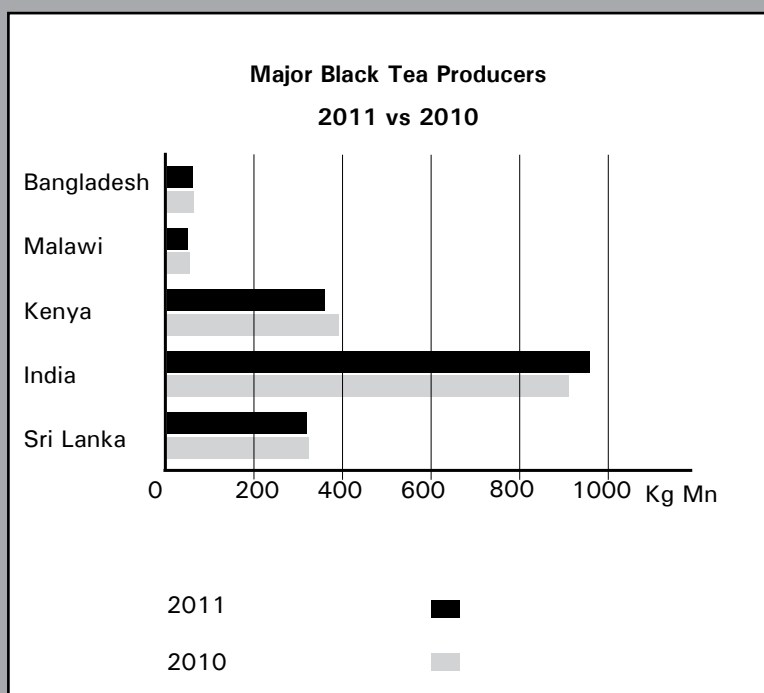
Sri Lanka tea exports reached 292.4 Mn Kg (as at November 2011) a growth of 3.5% against 2010. FOB price per kg showed a positive variance of Rs.17.87 /Kg over last year. The CIS achieved the top slot in importation of Sri Lankan tea, by increasing volumes by 7.5Mn Kg over the previous year. However It was noted that imports from UAE had declined by 7.5 Mn Kg to last year.

Global Tea Industry

World Black Tea Production

World tea production decelerated with many leading tea producing countries recording shortfalls

World Black tea production for 2011 did not record any significant gains as against 2010. Out of the major tea producing countries, only India's tea production recorded an increase of 32 Mn Kg as at November 2011 over the previous year achieving a total production of 937 Mn Kg. Bangladesh recorded a marginal improvement in crop production whilst crop shortfalls were recorded in Sri Lanka, Kenya and Malawi.



World Auction Prices

World Tea Auction centers were sluggish and prices lower than the previous year.

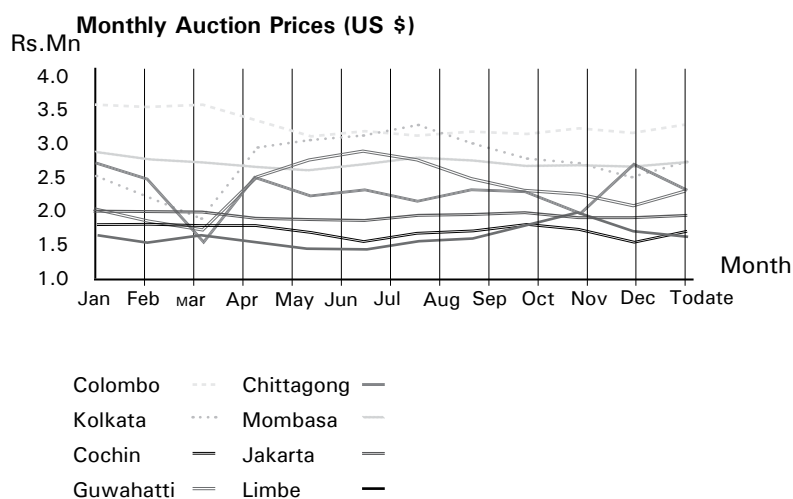
In the backdrop of political and economic upheaval in the global arena, the world tea prices witnessed sluggishness in the year under review.

The markets declined from their 1st quarter levels and settled at lower prices at year end in most Auction centers. Colombo and Chittagong recorded a decline with Kenya recording an increase with their Auction Prices over 2010.

The Colombo Tea Auction Prices performed characteristically well above the other major tea producers and succeeded to maintain the number one slot at US\$ 3.29 per Kg as at November 2011 which was a marginal decrease of US\$ 0.06 per Kg as against the corresponding period in 2010, a decline for the first time in 10 years. Kolkata and Mombasa prices averaged at US\$ 2.73 and US\$ 2.72 per Kg .

Colombo Tea Prices at number One Slot in the World Auction....

World Auction Prices as at end November		
US\$ /Kg	2010	2011
Chittagong	2.51	2.30
Mombasa	2.53	2.72
Jakarta	1.81	1.97
Colombo	3.35	3.29
Limbe	1.55	1.65



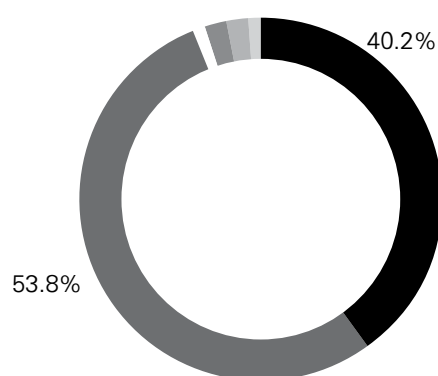
Management

Discussion & Analysis contd.

National Tea Industry

National tea production in 2011 was in line with the previous year recording only a marginal drop.

Tea Industry Structure



- RPC
- Private
- Coop
- SLSPC/JEDB
- TRI
- TSHFL
- TSHDA

Small holder private sector dominated the industry followed by the Regional Plantation Companies which together account for nearly 94 % of the total national production. The small holder private sector accounting for 53.8% of the produce focuses mainly on low grown teas whilst the regional plantation companies focuses on high grown.

National Tea Production and Gross Sale Averages

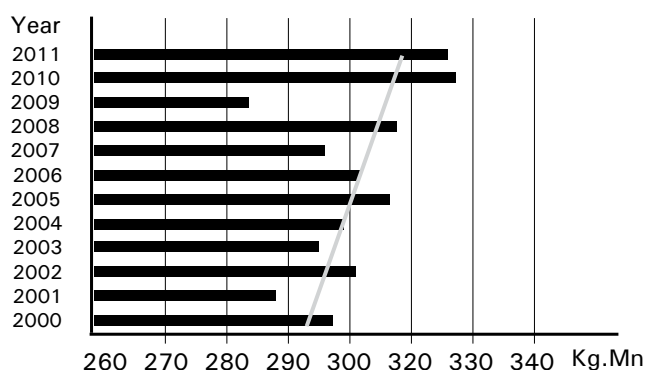
Year	Tea Production (Mn Kg)	GSA High Grown (Rs. /Kg)	GSA Low Grown (Rs. /Kg)
1991	240.8	57.41	61.75
1992	178.8	66.45	61.9
1993	232.0	68.34	71.48
1994	242.2	66.3	67.38
1995	246.0	70.04	77.27
1996	258.4	93.38	114.35
1997	276.8	109.43	129.47
1998	280.0	127.6	141.88
1999	283.7	106.17	125.74
2000	305.8	128.46	144.79
2001	295.1	135.56	154.5
2002	310.0	141.73	160.55
2003	303.2	138.31	160.86
2004	308.1	171.78	189.86
2005	317.2	172.24	199.01
2006	310.8	204.58	204.5
2007	304.6	252.46	298.66
2008	318.4	273.83	336.38
2009	289.7	319.73	387.7
2010	331.4	338.33	392.48
2011	328.3	329.95	381.27

In the year under review, Sri Lanka's tea production recorded marginally lower at 328.3 Mn Kg than the previous year representing a shortfall of 3.06 Mn Kg due to adverse weather conditions that prevailed. The Western high grown quality season was a disappointment mainly due to the erratic weather. Nevertheless, production exceeded the record crop of 2008 of 318.4 Mn Kg.

Mid grown which account for 17 percent of the total crop recorded a steep decline whilst low and high grown which account for 59 percent and 24 percent respectively were more in line with the 2010 production levels.

CTC production moved up by 4.1 Mn Kg in comparison to the previous year whilst there was an insignificant dip in the production of Orthodox and Green Tea.

National Tea Production, 2000-2011



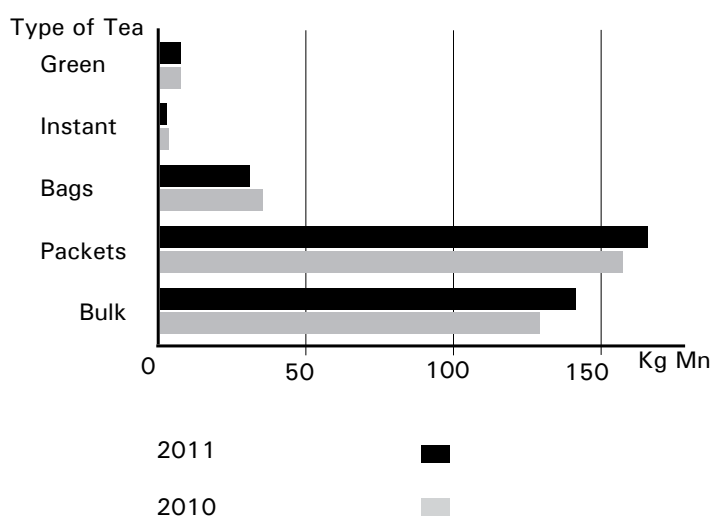
Sri Lanka Tea Exports

Tea exports recorded a 3.5 % increase as against the previous year with Russia/CIS, Iran, Syria & UAE being the leading importers

Sri Lanka's tea exports reached to 292.4 Mn Kg as compared to 282.6 Mn Kg in the corresponding period (end November) in 2010 representing a growth of 3.5 percent. The average FOB price per Kg was Rs.511.42 recording a positive variance of Rs 17.87 per kg i.e. 3.5 % growth over the previous year. Bulk tea which dominates the Sri Lankan tea exports increased by 11 Mn Kg representing a 11 % growth as against 2010.

Russia/CIS continued to be the largest market for Sri Lankan tea followed by Iran, Syria and the UAE. Iraq increased its volumes by over 50 percent.

Sri Lanka Tea Exports Product Category, 2011 vs. 2010



Management

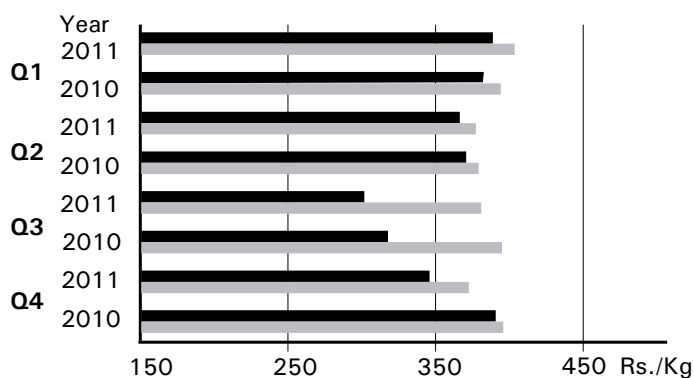
Discussion & Analysis contd.

National Tea Prices

In a bearish tea market, national tea prices of both elevations slumped from the second quarter onwards.

The market was lively in the 1st quarter in 2011 as compared to the corresponding quarter in 2010. Yet in the subsequent quarters, the gross sales average in both elevations declined led by a tumultuous global environment with a euro debt crisis, double dip recession in advanced economies and the Middle Eastern unrest. High and low grown gross sales averages improved by Rs. 15.11 and Rs 10.32 respectively in the 1st quarter whilst this variance was abridged in latter quarters and recorded a negative in the third and fourth quarters.

**National Gross Sales Average,
High & Low Grown,
2011 vs. 2010**



The year end national tea prices declined from Rs.370.61 per Kg to Rs.359.89 per Kg by 2011. The high grown teas decreased from Rs.338.33 per Kg to Rs.329.95 per Kg and the low grown declined from Rs.392.48 per Kg to Rs.381.27 per Kg.

High Grow



Low Grow



Major Buyers of Sri Lanka Tea



Major Buyers Of Sri Lanka Tea

TTE PLC is a mono crop company with 98% earnings from “Tea”.

Operational Performance Review

Production

Total tea production including bought leaf increased to 6.89 Mn Kg as against 6.83 Mn Kg in the previous year. This increase was led by high grown.

Cost of Production

Increase in wage costs by 28 % & related gratuity costs together with fuel wood and electricity costs inflated cost of production resulting in operational losses.

Prices

In the backdrop of a turbulent global environment, Colombo Tea Auction Prices dipped for the first time since 2000. TTE PLC ranked No.1 in high grown and low grown amongst Regional Plantation Companies at the Colombo Tea Auctions.

Overview

The year 2011 witnessed turbulence in the global economy with Euro Zone debt crisis and struggles of many advanced economies to keep face with slower rate of growth, high unemployment, fragile consumer confidence and even downgrading by rating agencies. In this backdrop, together with unrest and unsettled conditions in most of our key markets viz. Middle East, Japan and North Africa there was a significant impact on the Colombo Tea Auctions.

As a mono-crop company with 98% of its revenue from ‘tea’ bearish tea market conditions at the Colombo Tea Auctions, and a steep increase in the wage costs of 28% coming in to effect from the second quarter resulted in considerable operating losses. We had to face many challenges from ensuring

continuity of revenue and capital field operations, maintaining adequate liquidity, continuing on-going sustainability initiatives in Rain Forest Audits (RFA) and upgrading factories to enhance capacity and quality.

Erratic weather patterns left its mark on our operations with the western quality season being a disappointment and the crop potential from the estates not fully harvested. Nevertheless, we focused on quality, adoption of sustainable agricultural policies, good agricultural and manufacturing practices (GAMP) which were the cornerstone of our operational strategy in the year under review.

Our priority on quality and standards retained our competitive advantage in our brands (estate marks), as they continued to outperform other marks even in a bearish market. This enabled the Company to be recognised as a quality conscious producer and once again been ranked as No.1 for prices at the Colombo Tea Auctions amongst all other Regional Plantations Companies for both high and low grown elevations.

A substantial reduction in finance cost, a healthy contribution from rubber and other income and our team’s focus, commitment and professionalism contributed to mitigate the impact of an adverse trading year.

Curtailling high cost of production, addressing climate change, a rising interest rate regime and a breakthrough in worker productivity are our concerns and challenges in the year ahead. With the demand and prices for teas from our key markets expected to improve, along with our strong brand portfolio, we look with cautious optimism to 2012.

Management

Discussion & Analysis contd.

Agricultural and Field Operations

A challenging year for agricultural and field operations led by erratic weather patterns resulting in changes in the cropping patterns, timing and intensity of operations.

Despite relatively good weather, its erratic nature posed many challenges to our agricultural operations. As a result, cropping patterns changed and the timing and intensity of our agricultural operations were amended to maximize productivity and thereby production.

The year's agricultural operations saw the high grown having a good run in the first quarter, exceeding expectations. High grown yields increased to 1649 kilogram per hectare in 2011 from 1,593 Kg per hectare in 2010. The highest monthly production in the high grown was in November and the lowest was in August 2011.

The low grown however much to our concern, continued on its downward trend and experienced a shortfall in all four quarters compared to the previous year. Monthly variations were not that significant in the low grown production.

During the year, we maintained high plucking standards in all our estates that enabled us to achieve the ideal leaf to produce a "cuppa" which we are famous for. Agricultural operations viz. harvesting, fertilizing, pruning were undertaken in a timely manner to optimize crop and quality in varied operating conditions and agro climatic regions.

Manpower was also carefully planned and detailed out with a degree of flexibility to handle the high cropping months and timing of other agricultural operations.

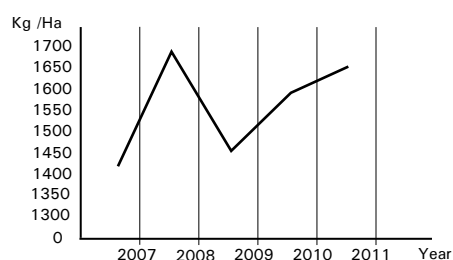
Under our Field Development Programme, we planted 27.21 Ha and maintained 139.45 Ha as capital clearings. We expect to bring in 58 Ha to generate revenue in 2012.

Tea nurseries were maintained on all estates where we nurtured cultivars recommended by the Tea Research Institute that can withstand drought and pests. We also maintained quality tea makers in our nurseries to meet the growing demand for planting material in our on-going field development programme.

Sustainable agricultural practices were the cornerstone of our operations. We gave priority to conserve soil and to build carbon in the soil. Some of the measures we adopted were:

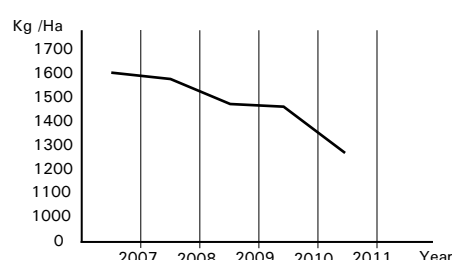
- periodic testing of soil samples for carbon and nutrients and necessary remedial measures taken to rectify deficiency levels.
- terracing, burying prunings, planting mana grass and wild sunflower planting in vacant patches, in seedling tea fields, and planting of vettiver on bank edges.

Yield Per Hectare - High Grown



YPH

Yield Per Hectare - Low Grown



YPH

The impact of climate change is now a recurring concern due to its significant bearing on tea cropping patterns and the quality season.

Climate Change

In the year under review, we closely monitored and evaluated the impact of rainfall and temperature on our crops and quality. Since May 2011, Mean Ambient Thermometric Temperature Meters were installed in our estates to monitor the mean temperature to evaluate inconsistent changes to the seasonal weather patterns in our estates that are located in different agro climatic regions. Our estates are situated in Lindula, Talawakelle and Nanu Oya in the high grown and Deniyaya and Galle in the low grown; twelve of our estates are located in the high grown and five in the low grown.

Temperature and rain fall recordings in three of our estates in the high grown and two in the low grown are set out a side

- Lindula, Talawakelle and Nanu Oya in the high grown.
- Deniyaya and Galle in the low grown;

Deniyaya Region

This region contributes over 75% of the Company's low grown tea crop, with the largest low grown tea estate of the Company – Kiruwanaganga located in the region. In the Deniyaya region the mean ambient temperature did not experience many fluctuations. On the other hand, erratic and unequal

distribution of rainfall was not conducive for cropping and adversely affected the output.

Galle Region

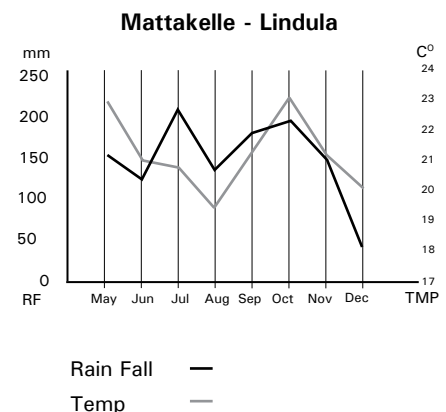
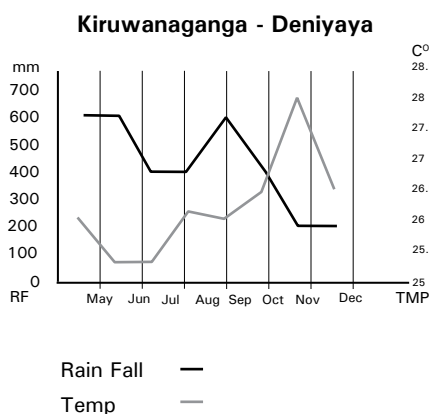
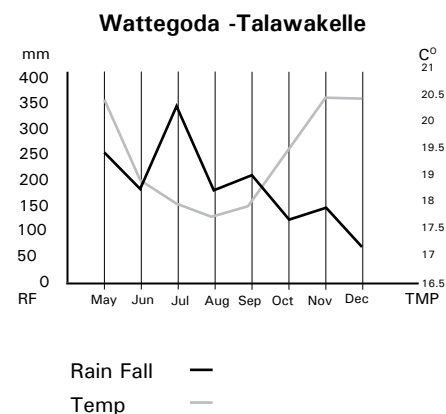
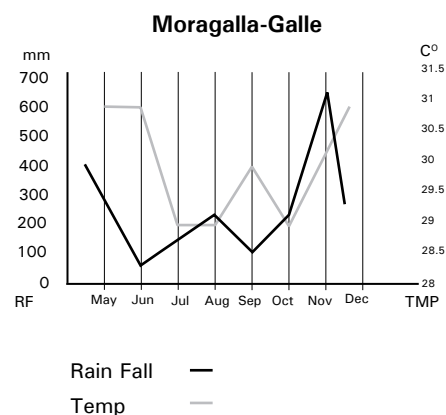
The ambient temperature in the Galle region in comparison to Deniyaya was much higher and the rainfall was more evenly distributed. Therefore, the Galle region performed better than Deniyaya in terms of crop growth and production.

Talawakelle Region

Although the weather was conducive for growth in the first half of the year, the temperature and rainfall patterns were erratic than normal seasonal weather. We note this disturbing trend with cautiousness and recognise the need for close monitoring.

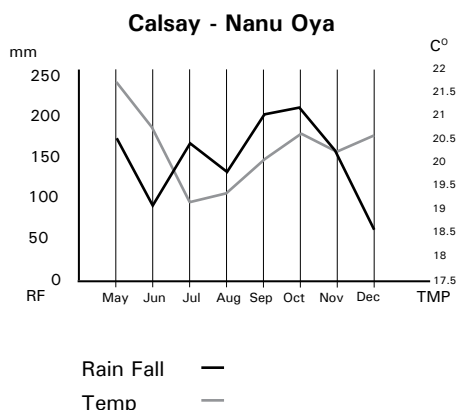
Lindula Region

The temperature especially in the first half of the year in the Lindula region was warmer and conducive to growth in comparison to Talawakelle.



Management

Discussion & Analysis contd.



Nanu Oya Region

The upper Nanu Oya did not crop in August, September, October and December. The first half weather was conducive for crop.

Tea Production

Company's estate leaf production grew by 206,119 Kg led by high grown

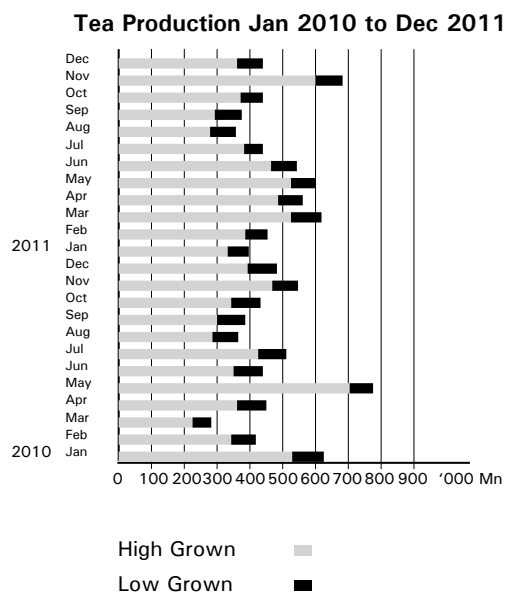
The total tea production including bought leaf production (0.94 Mn Kg) increased in the subject year to 6.89 Mn Kg as against 6.82 Mn Kg in 2010. Out of the total tea production, nearly 73 % is accounted by the high grown i.e. Talawakelle - 47 % and Nanu Oya - 26 %. The balance 27 % is accounted by the low grown in Galle and Deniyaya region.

Inconsistent / erratic rainfall and high temperature in the low grown had a negative impact on crop growth, especially in the Deniyaya region. In the high grown, except for the third, all three quarters recorded a higher crop to the previous year. The months of March, May and November were conducive for crop. The cropping patterns during the year changed in the high grown to that of the previous year.

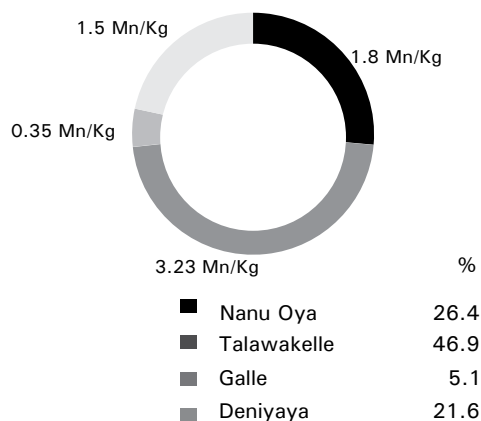
We experience two cropping seasons namely April to June and October to December. Since 2009 this pattern has been changing. Months of March, May and November were the high cropping months as against January and May in 2010.

Estate Leaf Production

Conducive weather in the high grown, good agricultural practices and new fields coming in to bearing contributed to a higher estate leaf production in the year.



Agro Climatic Regional Contribution



Focus on quality and a differentiation strategy retained competitive advantage of our brands (estate marks) to outperform other marks even in a bearish market.

The total tea production from estate leaf in the year under review was 5.95Mn Kg, representing a 206,119 Kg increase from 5.75 Mn Kg in 2010. Production from our high grown estates showed a healthy increase in the backdrop of conducive weather. Tea yields in the high grown were 1,649 Kg per hectare as against 1,593 Kg per hectare in 2010.

The low grown crops on the other hand were affected by dry weather conditions and erratic rainfall and recorded a shortfall compared to the previous year. Low grown yields were 1,273 per hectare which is a drop of 13 percent from 1,465 Kg per hectare in 2010.

The main cropping months typically, were in the second and the fourth quarter. In the second quarter, estate leaf production was 1.7 Mn Kg up from 1.6 Mn Kg, whilst in the fourth quarter, production was 1.5 Mn as against 1.4 Mn Kg in 2011 and 2010 respectively. Tea production in the low grown did not show much quarterly variation, but high grown reflected seasonal variances with the highest cropping season being the second and the lowest being the third quarter.

Bought Leaf Production

Intense competition lead to a decline in the intake of bought leaf

Excess capacity in Deniyaya and Galle has lead to unhealthy competition resulting in poor leaf standard which may affect the future quality of Ceylon Teas. Higher competition and lower crops reduced bought leaf intake to most of our low grown factories. Total bought leaf production at 0.936 Mn Kg was lower than the previous year's 1.072 Mn Kg recording a decline of 12.7 %. The share of bought leaf in total production in the year under review was 13.5% as against 15.7% in 2010. During the year, only Kiruwanaganga increased its bought leaf production compared to last year. However, margins from operations were below budget due to incentive payments to suppliers to attract volumes.

Tea Prices and Quality

Tea Prices declined by Rs 11.47 / kg for the first time in five years since 2007 achieved the number one ranking amongst Regional Plantation Companies

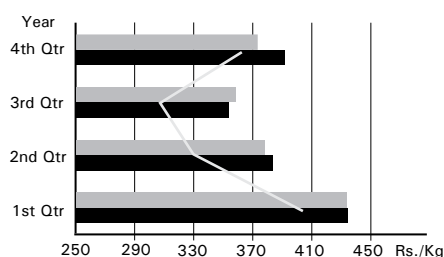
Prices at the Colombo Tea Auctions continued their strong levels in to the first quarter from the fourth quarter of 2010, declining sharply thereafter from the second quarter. A turbulent global economic environment, political unrest in the Middle Eastern markets, in particular Libya, and Syria and the Tsunami in Japan adversely affected the tea prices. The national average at the Auctions was Rs. 359.89 per kg, a decline from Rs.370.61 in 2010.

Notwithstanding the bearish market conditions, a differentiation strategy and the marketing mix that we adopted catered to the customer demands enabled the Company to maintain prices at Rs. 41.75 per kilogram for high grown and Rs. 9.62 per kg for low grown, exceeding the national average. Our strategy and our focus on quality underlined the Company's success in retaining its No.1 ranking amongst Regional Plantation Companies at the Auctions for high and low grown in the year.

Management

Discussion & Analysis contd.

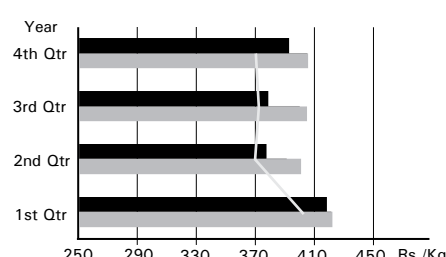
**Gross Sales Average
High Grown**



2011-TTE
2010-TTE
2011-TTE National

The first quarter recorded the highest price for our teas in high and low grown, with the third quarter posting the lowest for high grown (Rs. 339.72 per kilogram). The prices escalated in the fourth quarter to Rs. 372.94 per kilogram vis-à-vis 2010 of Rs. 407.07 per kilogram. Low grown had a declining trend from the second quarter onwards, rising in the fourth quarter to Rs. 388.79 per kilogram as against Rs. 408.34 per kilogram in 2010.

**Gross Sales Average
Low Grown**



2011-TTE
2010-TTE
2011-TTE National

The Company's gross sales average for the year was Rs. 376.74 per kilogram, a decline of Rs. 11.47 per kilogram from the previous year of Rs. 388.21 per kilogram. The decline in high grown was Rs. 7.94 per kilogram and low grown was Rs. 17.42 per kilogram.

4 Estate marks

were within the first ten rankings in the western high grown

All high grown marks and three of the low grown marks were above respective national averages

Mattakelle - highest GSA amongst all high grown garden marks for the third consecutive year

Improved rankings

Somerset (No. 7), Great Western (No. 5), Wattedoda (No. 10)

High grown GSA was Rs.17.72 above the next best RPC

Radella prices ranked No. 1 for green tea

Kiruwanaganga

best performing mark in the Company's low grown

Deniyaya - significant improvement vis a vis the elevational average

Somerset - awarded at the Speciality Teas Competition held in Russia Merit in the Dimbula Region for BOP & BOPF and - Silver Award for PEKOE

TTE PLC was ranked No.1 in High and Low grown amongst RPCs' at the Colombo Tea Auctions.

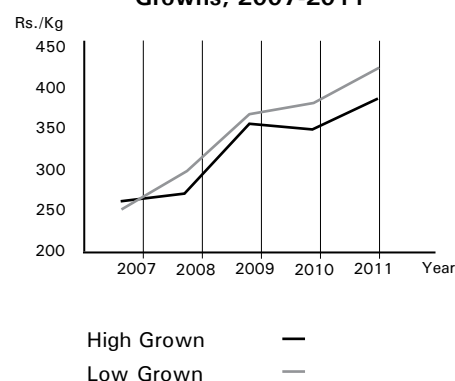
Cost of production

Cost of production increased by Rs. 33.45 per kilogram resulting in operational losses

In the year under review, cost of production escalated led by a 28% increase of the largest cost component, wages. The additional gratuity provision on the high wage structure further added on to the cost of production. This together with high energy costs followed by increased electricity cost since May 2011 and restrictions on harvesting fuel wood further accentuated the cost of production. Fertilizer subsidy received some what mitigated cost of production.

The cost of estate leaf production in the year was Rs.390.51 per kilogram as against the previous year of Rs.352.82 per kilogram representing an increase of Rs.37.69. With bought leaf, cost of production of Rs.390.58, the overall cost of production for the year was Rs.390.52 vis a vis Rs.357.07 per kilogram in 2010, representing an increase of 9 percent.

Cost of Production - High & Low Grown, 2007-2011



Key cost components	2007	2008	2009	2010	2011
Urea MT	51,500	92,000	47,000	46,500	26,000
Wages/day	320	320	447.75	447.75	572
Fuel/litre	75	80-105	73	73	84
Firewood/	1500	1850	1900	2000	2200
Electricity/kwh	8.1	8.1	9.3	9.3	13.6*
KVA	400	400	675	675	850
Total COP/kg	264.74	279.35	359.24	357.07	390.52

*- Peak rate

Management

Discussion & Analysis contd.

Estate profitability

Estate profitability was adversely affected in the face of increased cost of production and a bearish tea market

Estate Profitability excluding sundry income decreased by Rs.325.88 Mn

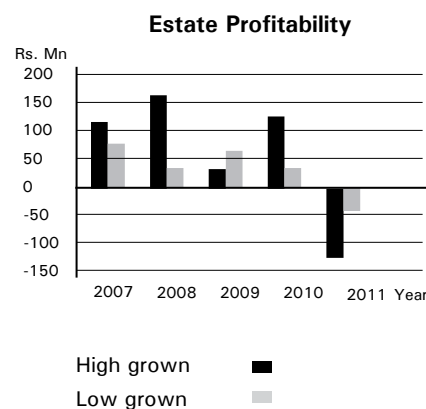
Rs. Mn	2007	2008	2009	2010	2011
HG	116.41	161.51	34.74	125.39	(119.3)
LG	84.73	38.55	70.70	38.31	(42.88)
Company Tea	201.14	200.06	105.44	163.70	(162.2)

The loss for the year at Rs.162.2 Mn was a sharp reversal in profitability from a profit of Rs.163.7 Mn in the previous year. High grown's share of the loss was Rs. 119.4 Mn and low grown's was Rs. 42.9 Mn. Mattakelle recorded the highest profit per hectare with Great Western and Palmerston in the second and third positions respectively. The loss per hectare of the high grown estates was Rs. 38,943 whilst low grown's was Rs. 397,403 in the year.

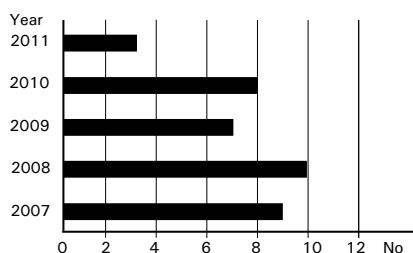
Higher wage cost and a decline in tea prices in both elevations at the Colombo Tea Auctions contributed to the sharp decline in profitability in the year.

Higher prices relative to the national averages and the reduction in fertiliser costs due to the subsidy, somewhat minimised the impact of the cost increases in the year.

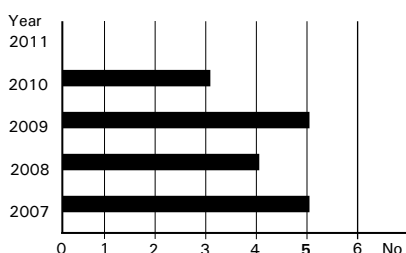
Rubber made a profit of Rs. 25.5 Mn to Rs. 15.5 Mn in the previous year. Profitability of bought leaf operation was negative at Rs. 14.9 Mn compared to a profit of Rs. 9.0 Mn in 2010.



No of estate making profits high grown



No of estate making profits low grown



Sustainability is the rationale underlining our on-going field development and fuel wood diversification program. Our investments in upgrading factories and machinery will lead to productivity increases and aligning operations with best industry practices.

Field and Factory Development

A key objective of the replanting programme is to increase the VP cover now at 64%. During the year, an extent of 27.21 hectares in high and low grown was planted and a total extent of 139.45 hectares of immature teas was maintained. Good agricultural and manufacturing practices were implemented to safeguard the new clearings and ensure potential future yields.

The total field development expenditure for the year was Rs 102.2 Mn. During the period 1992 to 2011, an extent of 580.1 hectares in the high grown and 271.36 hectares in the low grown were planted with new tea. The total extent brought in to revenue in 2011 was 102.31 hectares and from 2000 to date is 651.09 hectares. The VP cover has increased from 51% in 2000 to 64% in 2011.

Fuelwood planting is an integral component of our strategy to be independent from fossil fuels and be environmentally friendly. Under the programme, a concerted effort is underway to ensure adequate fuelwood is available for each estate to be self sufficient in energy. During the year, we planted 18.56 hectares of fuel wood while an extent of 360.63 hectares was planted since year 2000.

Replanting - Tea

Extent (Hectare)	Uprooted			Planted		
	2011	2010	2009	2011	2010	2009
High Grown	Nil	Nil	55.46	16.00	33.00	30.00
Low Grown	Nil	Nil	25.68	11.21	19.49	20.45
Total	Nil	Nil	84.64	27.21	52.49	50.45

Fuelwood Planted

Extent (Hectare)	2011	2010	2009
High Grown	15.44	17.74	65.72
Low Grown	3.12	6.00	22.45
Total	18.56	23.74	88.17

Factory Development

In the year under review, we invested a total sum of Rs 59.6Mn to upgrade and develop our factories to enhancing productivity, quality and standards. Preventive maintenance and upkeep cost was Rs 32.9Mn. in the year to ensure uninterrupted production and maintain factory standards.

Key investments are detailed out below:

- Bearwell Factory - improve throughput, energy efficiency, food safety, and working conditions - Rs 24.4Mn.
- Clarendon Factory - to handle a crop of 300,000 Kg made tea to expand our bought leaf operations - Rs 15.8Mn
- Radella Factory - new machinery and equipment were installed to increase green tea capacity to 6,000 Kg per day and obtain ISO 22000 and UTZ certification
- Installed equipment for cleaning and sorting at Holyrood, Mattakelle, Dessford, Calsay and Moragalla to improve product quality.

Management

Discussion & Analysis contd.

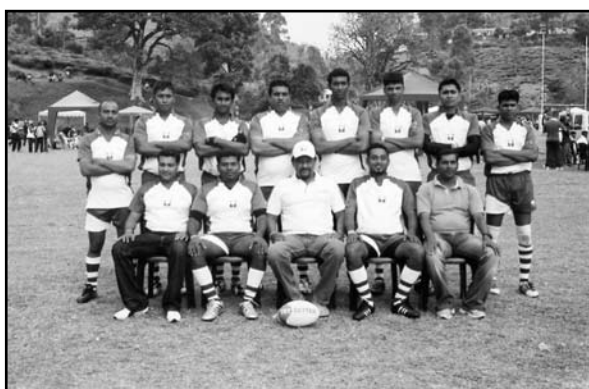
TTE PLC continues to uphold the belief that our people are the most valued resource and will continue to invest in developing them. Whilst empowering employees at all levels in a continuous process, building strong, committed and high performing teams on every estate is our goal.

Human Resources /Industrial Relations

The challenge ahead is to have a breakthrough in worker productivity from present levels, as current price levels, cannot sustain the revised wage cost structure.

The total number of workers as at end 2011 was 9,570 whilst the total number of employees was 10,049 mainly of ages between 30-40 and 40-50 years. high grown employee 77% of the total work force.

In the year under review, one of the key challenges that we faced was to avoid industrial disputes especially during wage negotiations. A new Wage Agreement was signed with effective from 1st April 2011 for a period of two years that increased the daily wage package to Rs.515 plus statutory benefits. The over-kilo rate was increased from Rs.12.00 to Rs.17.00 per kilogram to enhance productivity. We continued our investment on improving welfare and social infrastructure amounting to Rs 11.1Mn during the year on housing, water and sanitation. Further Rs. 108 Mn was incurred on medical, childcare, housing, sports and recreation.



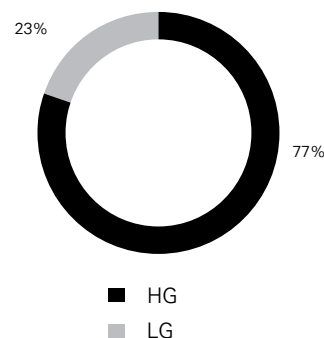
TTEPLC RUGBY CHAMPS

The following players represented the Talawakelle Tea Estates PLC Team.

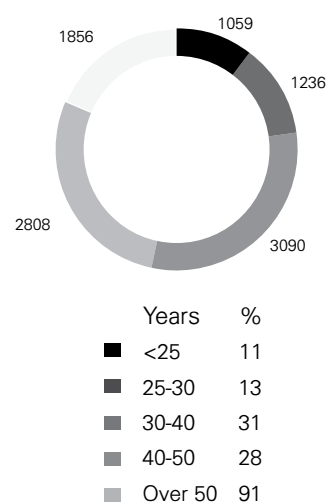
Sanding (from Left) Waruna Wijekoon, N D V Ariyaratne, Dimantha L Gamage, J B C Weeraratne, H M G V Mahesh, D B D Ranawanageredera, Dulshanka Jayathilake, P S Gotabaya.

Seated (from left) Eranga Egodawela, Sasika Wickramasinghe(Captain) Mr L H Munasinghe (General Manager Plantations), Sarath Ranaweera & Mr Faizal (Team Coach)

Employee Distribution High and Low grown



Employees Age Distribution



Looking Ahead

we look forward with cautious optimism. The Company is poised to take up the challenge with a well structured strategy and an excellent team to implement. The key to the challenge is multifaceted. On one hand, we have to break-through in worker productivity and expand our rubber and bought leaf operations and on the other ensure that all our estates follow industry best practices to continue as the premier tea company.



Financial Review

A sharp decline in operating profits, from second quarter onwards with a decline in tea prices in the Colombo Auctions and the additional wage costs and related gratuity charges of Rs 244.8 mn contributed to the years negative results.

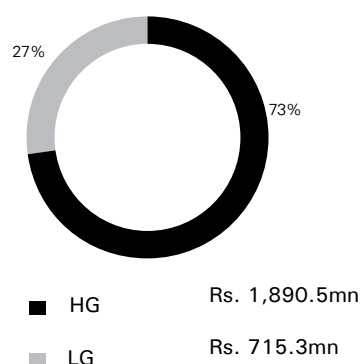
The Company posted a NPBT of Rs73.5mn for the first quarter but was followed by losses in subsequent quarters except for the fourth quarter to record a Net loss before tax of Rs 96.1mn for the year, compared to a NPBT of Rs 137.8mn in the previous year. A bearish market for teas at the Colombo Auction, since the second quarter and a 28% increase in the daily wage package resulted in negative margins per Kg of tea produced for most periods of the year. The additional impact of the wage cost and related gratuity charges over the last year was Rs244.8mn in the year. Higher energy costs, mainly arising from inability to harvest our fuel-wood for use also had an impact of Rs 25.0mn on the years results. A significant reduction in finance cost amounting to Rs 31.3mn from the previous year, receipt of fertilizer subsidy and a contribution from other income of Rs 48.1mn mitigated the impact from adverse trading conditions on the years results.

The hydropower sector contributed a NPBT of Rs 40.1mn to the Group results to a NPBT of Rs 31.3 mn last year. Group Net loss after tax was Rs 73.8mn compared to a net profit after tax of Rs 164.5mn in 2010.

Profitability and Growth Revenue

Consolidated Revenue decreased by Rs 210.3mn to Rs 2.7bn

Geographical distribution of Tea Revenue 2011



Group Quarterly Revenue vs 2011

Group Revenue Rs Mn	3 Months Ended 31.03.2011	3 Months Ended 30.06.2011	3 Months Ended 30.09.2011	3 Months Ended 31.12.2011	12 Months Ended 31.12.2011	12 Months Ended 31.12.2010
Tea	686.7	713.0	496.3	709.8	2,605.8	2,821.5
Rubber	19.3	9.5	13.7	12.6	55.1	36.5
Mini Hydro Power	35.5	16.1	27.8	29.9	109.3	116.6
Other	1.2	16.7	9.2	5.1	22.1	28.0
	742.7	755.4	547.1	747.2	2,792.3	3,002.6

Group Revenue -5 years

Rs'mn	2011	2010	2009	2008	2007
Revenue Tea	2605.8	2,821.5	2,635.4	2,186.8	1,867.4
Rubber	55.1	36.5	20.8	21.8	25.0
Other	22.1	28.0	38.0	39.1	26.7
Hydro Income	109.3	116.6	77.9	16.3	5.2
Total Revenue	2792.3	3002.6	2,772.1	2,264.1	1,924.4

Group revenue decreased to Rs 2,792.3mn compared to Rs 3,002.6 mn in the previous year, with Hydro Power Sector share at Rs 109.3 mn, a decrease of Rs 7.3mn Mn from 2010.

Tea revenue decreased by Rs 215.7mn (7.6%) to Rs 2,605.8mn with high grown contributing Rs 1,890.0mn and low grown Rs 715.8 mn respectively. High grown revenue decreased by Rs 117.0 mn due to a decline in prices despite an increase in production. Low grown declined by Rs 98.6mn due to lower production and prices. Tea turnover in the first quarter was above previous year, with the second and third being lower. The fourth quarter posted a sharp decline mainly due to lower tea prices compared to last year. Income from Rubber reflected a substantial increase of Rs18.6 mn to Rs 55.1 mn.

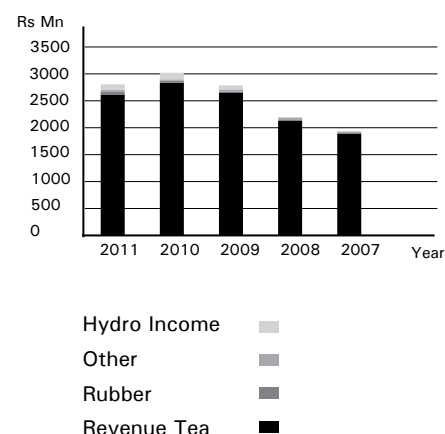
Earnings before interest, Tax, Depreciation and Amortization (EBITDA)

Group EBITDA declined by Rs 285.9mn from last year.

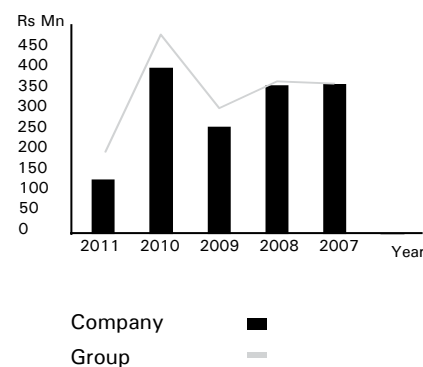
EBITDA Rs mn	2011	2010	2009	2008	2007
Group	194.8	480.8	296.0	340.7	326.0
Company	117.3	384.9	232.1	321.0	324.3

Group EBITDA posted a sharp decrease of Rs 286.0mn, (59%) from the previous year to Rs.194.8 mn. Lower gross profits in the company to last year impacted EBITDA earnings. Hydro Power Sector contributed Rs77.5mn Mn to the year, lower to last years Rs 95.9mn

Group Revenue - 5 years



EBITDA



Financial

Review Contd.

The Group posted a operating Profit of Rs53.4 (before finance cost) a reversal from a profit of Rs 345.4mn last year.

Profit from Operations

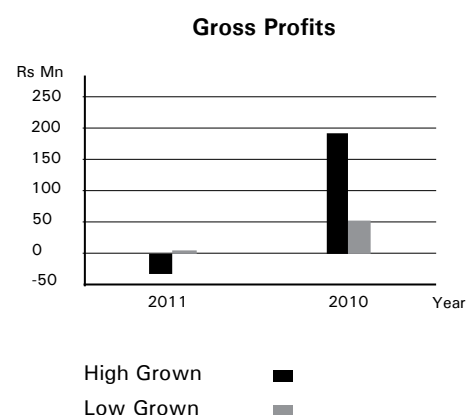
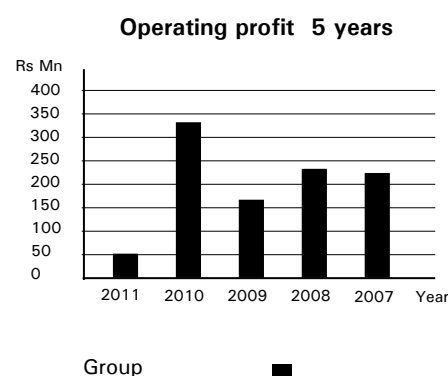
Operating Profit Rs mn	2011	2010	2009	2008	2007
Group	53.4	345.4	173.2	241.7	232.6
Company	(6.8)	265.8	121.2	226.7	232.0

Group's operating profit significantly declined by Rs 292.0 mn to Rs. 53.4 mn due to a sharp decline in TTE PLC's gross profits by Rs. 300.2 mn to Rs. 43.2 mn. Estate profitability, the key determinant of gross profit at TTE PLC was impacted in the year, by an increase in cost of production to last year as well a decline in tea prices from their previous year levels. This led to negative margins on a kilo of tea produced in the year. High grown estate loss at Rs. 32.0 mn was a decline of Rs. 226.0 mn from previous year and low grown also recorded a decline of Rs. 47.6 mn from the previous year. The impact of the wage increase from April and a decline in tea prices to last year, contributed to this years large operating loss. The impact of the wage increase was more in the high grown, due to a relatively higher workforce.

After the wage increase, the third quarter recorded the highest loss of Rs.133.2 mn being the low cropping season, The fourth quarter despite higher volumes, reported a modest profit of Rs.37.5 mn, mainly due to lower tea prices. Revenue from rubber and other income also made useful contributions to profits. Hydro Power Sector gross profit was Rs.78.6 mn compared to Rs.101.9 mn last year.

Quarterly Gross Profits by Elevation vs 2010

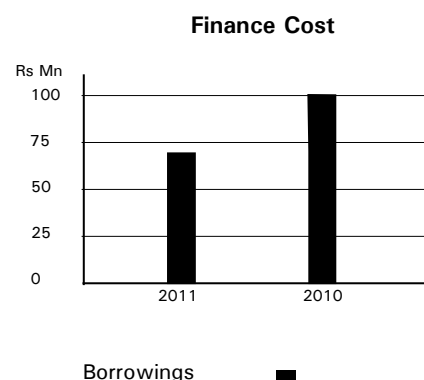
Gross Profits Rs mn	Q1	Q2	Q3	Q4	2011	2010
High Grown	88.8	(23.2)	(125.9)	28.3	(32.0)	194.0
Low Grown	17.6	(13.9)	(7.3)	9.2	5.6	53.2
Hydro	29.3	9.7	21.4	18.0	78.6	101.9



Liquidity

Finance Cost - A Reduction of Rs.59.4 mn

TTE PLC	Q1	Q2	Q3	Q4	2011	2010
Interest quarter Rs.Mn	16.0	15.7	17.0	20.8	69.7	100.9
Borrowings Rs.Mn	512.9	561.3	651.8	726.6	726.6	543.6
Avg Borrowings Cost %	12.2	11.7	11.3	12.1	11.0	14.2

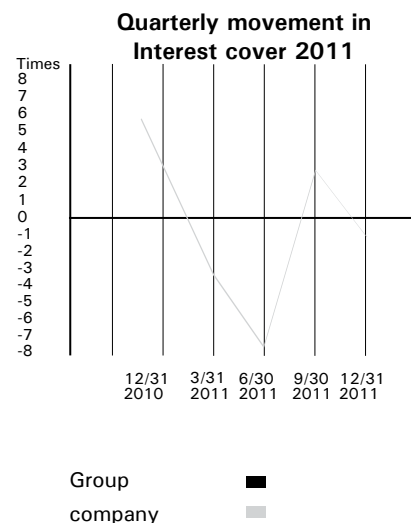


Group's finance cost declined mainly due to a significant reduction in TTE PLC finance cost by Rs. 31.3 mn (31%) to Rs. 69.7 mn. Containing borrowing levels, and lower interest rates by treasury management, contributed to the reduced finance cost. However, with capital expenditure and operating losses from the second quarter onwards, debt levels increased significantly by the year end. Hydropower finance cost too declined by Rs. 28.1 mn to Rs. 20.2 mn.

The average cost of funds during the year was 11.0% a decrease from the previous years 14.2% and interest cover declined to a negative 0.38 times from last year 2.4 times mainly due to a reduction in operating profits.

Quarterly movement in Interest cover 2011

For the period Ended	2011 Q1	2011 Q2	2011 Q3	2011 Q4	31/12 2011	31/12 2010
Group	5.6	(2.1)	(5.1)	3.0	0.4	2.1
Company	5.6	(2.9)	(7.5)	2.7	(0.4)	2.4



Benchmark interest rates-Monthly AWPLR comparison for 2011 Vs 2010

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
AWPLR 2010	10.91	10.75	10.52	10.62	10.57	10.45	10.37	10.00	9.83	9.91	9.09	9.31
AWPLR 2011	8.92	9.47	9.04	9.30	8.97	9.24	9.41	9.58	9.37	9.16	9.48	10.2

* Days taken as 1st working day each month (Middle Rate)

* Source - CBSL web Site on 11th Jan 2012

Financial

Review Contd.

Repurchase and Reverse Repurchase rates were reduced in January following favorable macro economic conditions by 25 bps and 50 bps, policy rates remained unchanged during the rest of the year to close at 7.0% and 8.5% respectively. Excess liquidity continued to grow in the beginning of the year. Monetary Board considered it prudent to ensure continued monetary stability thereby increasing the Statutory Reserve Ratio (SRR) by 100bps to 8.0% as a measure to curtail excess liquidity in the money market. Domestic interest rates came under pressure during the last quarter of 2011, due to low liquidity in the market. As a result, the benchmark yield on one year Treasury bills recorded an increase of around 175 basis points in 2011 to 9.31% from 7.55% at the start of the year. Meanwhile, the average weighted prime lending rate (AWPLR) increased by around 120 basis points from 8.92% to 10.77% at close of 2011.

Taxation

Group taxation increased during the year by Rs.13.2mn to Rs 17.8mn. The Company was liable for income tax for the year, and Rs.3.1 mn has been provided for in the Financial Statements. Hydro Company tax comprised of provision for deferred tax charge of Rs.14.7 mn arising from temporary difference of the tax assets.

Capital Expenditure

Group Capital Investment decreased by Rs.34.3 mn

Group Capital Expenditure

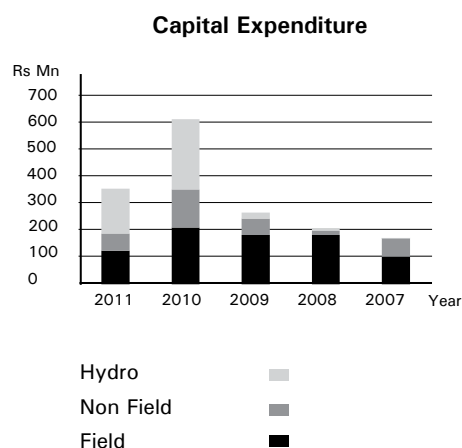
Rs.mn	2007	2008	2009	2010	2011
Field	122.8	209.3	181.6	180.8	102.2
Non-Field	64.5	140.1	60.5	17.6	68.0
Hydro	164.3	257.2	21.9	6.9	0.8
Total – Group	351.6	606.6	264.0	205.3	171.0

The Group's investment during the year was Rs 171.0 mn, TTE PLC's investment was Rs170.8 mn and the Hydro Sector invested Rs.0.8 mn.

TTE PLC reduced investment on capital expenditure for the third consecutive year since 2008. During the year, Rs170.2 mn was invested, with field development absorbing Rs.102.2 mn and non field Rs.68.0 mn. Investment in factory development increased the non field capex to the previous year. ADB concessionary funding was not available for capital expenditure in the year.

Investments in Subsidiaries

With Hydro Power Plants now in full operation, and short term funding converted to cumulative redeemable preference shares, in previous year, no additional funding was made during the year. The total investment now in the hydro power sector is Rs. 134.9 mn in equity and preference shares .



Exchange Rates

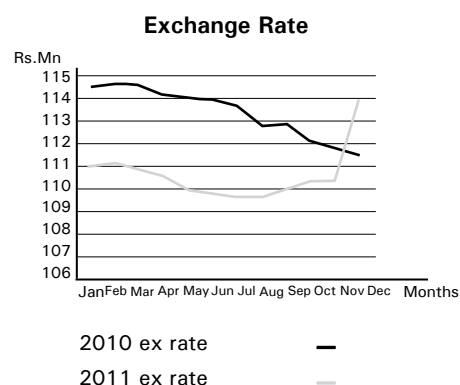
The exchange rate policy of 2011 was concerned on maintaining stability in the domestic foreign exchange market, with a trend of appreciation over the first 9 months of 2011 from Rs.110.95. The Rupee appreciated as much as 1.44% to 109.26 the aforementioned period of 2011. However a widening trade deficit put pressure on the domestic exchange rate and an unexpected devaluation of the Rupee by 3% in November, in a measure to help export competitiveness, the currency closed the year at 113.85, recording 2.7% depreciation from the start of the year.

KSH (Kenya) and INR (India) recorded full year depreciation of 5.38% and 16.01%, against the USD, respectively. As a tea exporter, Sri Lanka was at a disadvantage due to the appreciation of the currency, against USD, over the first ten months of 2011, as main competitors in the industry such as Kenya and India were at an advantage due to the respective currency's overall depreciation.

The Russian Ruble (RUB) however recorded a volatile movement during the latter part of the year, following a gradual appreciation during the first half of 2011. Russia one of the main tea importers, the currency depreciated 5.37% during 2011 to close at 32.18, against the USD, appreciating to touch as much as 27.50 during the first six months of 2011. The depreciation of the currency (RUB), mainly during the latter part of 2011 also posed a pressure on exports for tea.

The Euro and Great Britain Pound were highly volatile during 2011, Euro closing at 1.2932 from 1.3390 and GBP closing at 1.5529 from 1.5595, against USD, respectively. The Japanese Yen continued to appreciate most part of the year opening at 82.03 and closing as low as 76.87 against the USD.

USD/LKR		
	2010 2010 ex rate	2011 2011 ex rate
Jan	114.45	110.97
Feb	114.57	111.11
Mar	114.55	110.78
Apr	114.02	110.46
May	113.96	109.87
Jun	113.86	109.75
Jul	113.59	109.55
Aug	112.70	109.50
Sep	112.77	109.92
Oct	112.04	110.23
Nov	111.74	110.25
Dec	111.41	113.93



* Days taken as 1st working day each month (Middle Rate)

* Source - CBSL web Site on 11th Jan 2012

	Currency	Jan-11 USD	Dec-11 USD	% of appreciation / (depreciation) against USD	Source
Indian Rupee	INR	44.5627	52.9263	- 18.7682	CBSL
Kenyan shilling	KSH	80.7524	85.0336	- 5.3016	CBSL
Russian ruble	RUB	30.6183	32.1280	- 4.9305	CBSL
Vietnamese dong	VND	19,468.42	21,100.93	- 8.3854	CBSL
Syrian Pounds	SYP	53.9095	53.9085	0.0019	Bloomberg
Iraqi Dinar	IQD	1,169.01	1,168.50	0.0436	Bloomberg
Iranian Rial	IRR	10,371.03	11,171.08	- 7.7143	CBSL

Financial

Review Contd.

Liquidity Risk Management was the key challenge in the year.
Debt equity increased by 27.3% to 85.6%

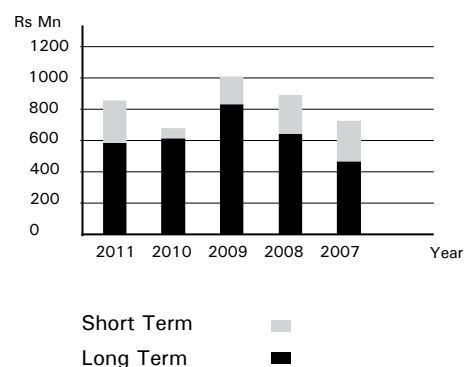
Capital Structure

TTE PLC debt levels increased by Rs 181.1 mn, and debt equity increased from 58.3% to 85.6%

The Company's debt exposure increased in the year to the previous year, mainly due to lower operating cash flows, and a relatively high capital expenditure. The exposure to short term borrowings increased by Rs.214.4 mn and long term decreased by Rs.33.3 mn consequently financial leverage increased to a debt/equity ratio of 85.6% , from 58.3% in 2010. The company now is at a higher level of interest rate risk, with increasing short term interest rates in the market. A higher liquidity risk, also can arise in the event there is no improvement in trading conditions in the near future.

TTE PLC's current ratio at 0.90 times declined from 1.3 times in the previous year with a year end net current liability of Rs.60.4 mn. Equity and total borrowings at year end was Rs.1002.9 mn and Rs.858.6 mn respectively. The Group level debt equity ratio was 92.7%, an increase from 70.1% last year, due to higher debt levels at TTE PLC. Group total debt was Rs 1,052.5mn compared to Rs.898.2mn in the previous year and the current ratio was 0.92 and net current liability Rs.45.1 mn.

Capital Structure

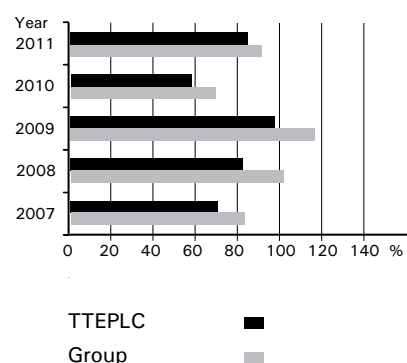


Debt Rs Mn	2011	2010	2009	2008	2007
Short Term	275.0	60.6	179.0	251.3	262.2
Long Term	583.6	616.9	833.2	643.4	466.2
TTEPLC	858.6	677.5	1,012.20	894.8	728.3
Group	1052.5	898.2	1257.4	1160.1	911.2

Debt Equity

%	2011	2010	2009	2008	2007	2006
TTEPLC	85.6	58.3	98.6	83.6	71.5	76.7
Group	92.7	70.1	118.0	103.1	84.2	77.5

Debt Equity



Cash flow

Net cash from operations declined by Rs.346.20 mn

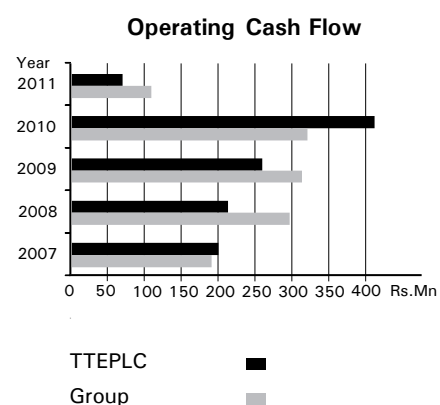
Operating cash flow

Rs.mn	2011	2010	2009	2008	2007
TTEPLC Rs mn	69.10	415.3	260.3	213.9	201.5
Group	108.7	321.8	315.9	298.2	190.7

The Company's net cash flow from operations took a sharp decline to Rs 69.1 mn compared to Rs 415.3 mn last year. A significant reduction in NPBT had an adverse impact on cash flow.

During the year, net cash in investing activities was Rs 180.1 mn. A lower level of debt repayment to last year eased the pressure on cash flows, consequent to a debt reduction plan implemented in 2010. A dividend payment of Rs 59.3 mn and capital expenditure of Rs170.2 mn with lower operating cash flows converted a cash and cash equivalents from Rs14.7 mn surplus to a negative of Rs 220.5mn at year end.

Hydro sector cash flows from operations declined by Rs 53.9 mn from the previous year to Rs 39.6 mn. The group recorded a net increase in borrowings of Rs 220.4 mn and a reduction cash and cash equivalents.



Stability

Performance Measurement

Dividends

A final dividend is not proposed, for the year with a Net Loss after Tax of Rs.73.8 mn. A dividend of Rs 2.50 per share was paid in 2011 amounting to Rs.59.3 mn on a NPAT of Rs.164.5 mn in the previous year.

Earnings per share

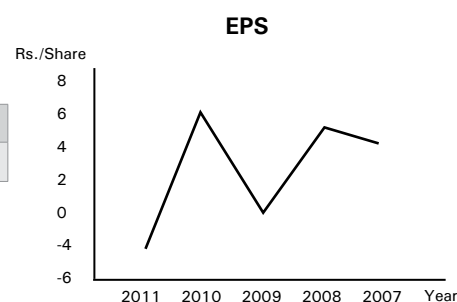
A NPBT of Rs.96.14 mn contributed to a negative earnings per share of Rs.4.18 compared to an earnings per share of Rs.5.69 previous year.

Earnings per share

TTEPLC	2011	2010	2009	2008	2007
EPS	(4.18)	5.69	(0.58)	4.66	4.25

Performance of the share

The Company's share price decreased by 36% to close at Rs.29.70 compared to Rs.46.40 in 2010. The price was influenced by the overall market sentiment as All Share Price Index closed at 6,074 after beginning at 6,636 and the Milanka Price Index closed at 5,229 after beginning at 7,062



Financial

Review Contd.

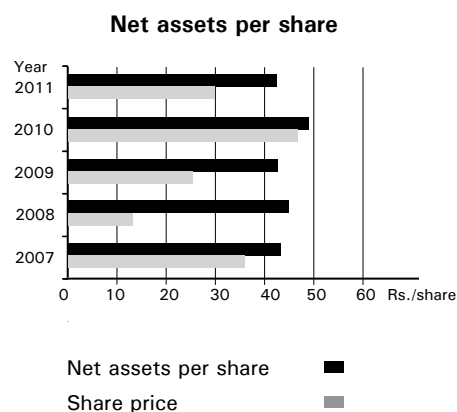
whilst the Plantation Index also closed at 867 after beginning at 1335. During the year, the share price reached a peak of Rs.55.00 and a low of Rs.20.40. The year end price earnings ratio was a (7.61) times Vs a 8.15 in 2010. At year end, the market value per share was Rs.29.70 representing a market capitalization of Rs.705.3 mn, a decrease of Rs.396.60 mn.

The net assets per share declined to Rs.42.37 from Rs.48.77 in 2010.

Rs/share	2011	2010	2009	2008	2007
Net assets per share	42.37	48.77	42.56	44.75	42.91
Share price	29.70	46.40	25.25	13.00	35.75

Equity

Rs mn	2011	2010	2009	2008	2007
TTEL	1,002.9	1,161.6	1,026.4	1,069.9	1,018.7
Group	1,134.7	1,280.9	1,065.2	1,125.3	1,082.6



Financial Reporting

The Company is committed to adopt best accounting practices. The financial reports on pages 118 to 147 are prepared as per Sri Lanka Accounting Standards and every attempt is made to give the readers a clear and comprehensive understanding of them. We ensure timely delivery of quarterly and annual financial statements and its preparation as per accounting standards including compliance with Stock Exchange disclosure requirements.

IFRS

The presentation of Financial Statements will change with effect from 2012 December, consequent to the adoption of International Financial Reporting standards (IFRS)

Our Achievements

The annual report of TTE PLC for the financial year 2010 was recognized with a Bronze Award for excellence by League of American Communications Professionals at 2010 Vision Awards Annual Report Competition .

Financial Risk Management

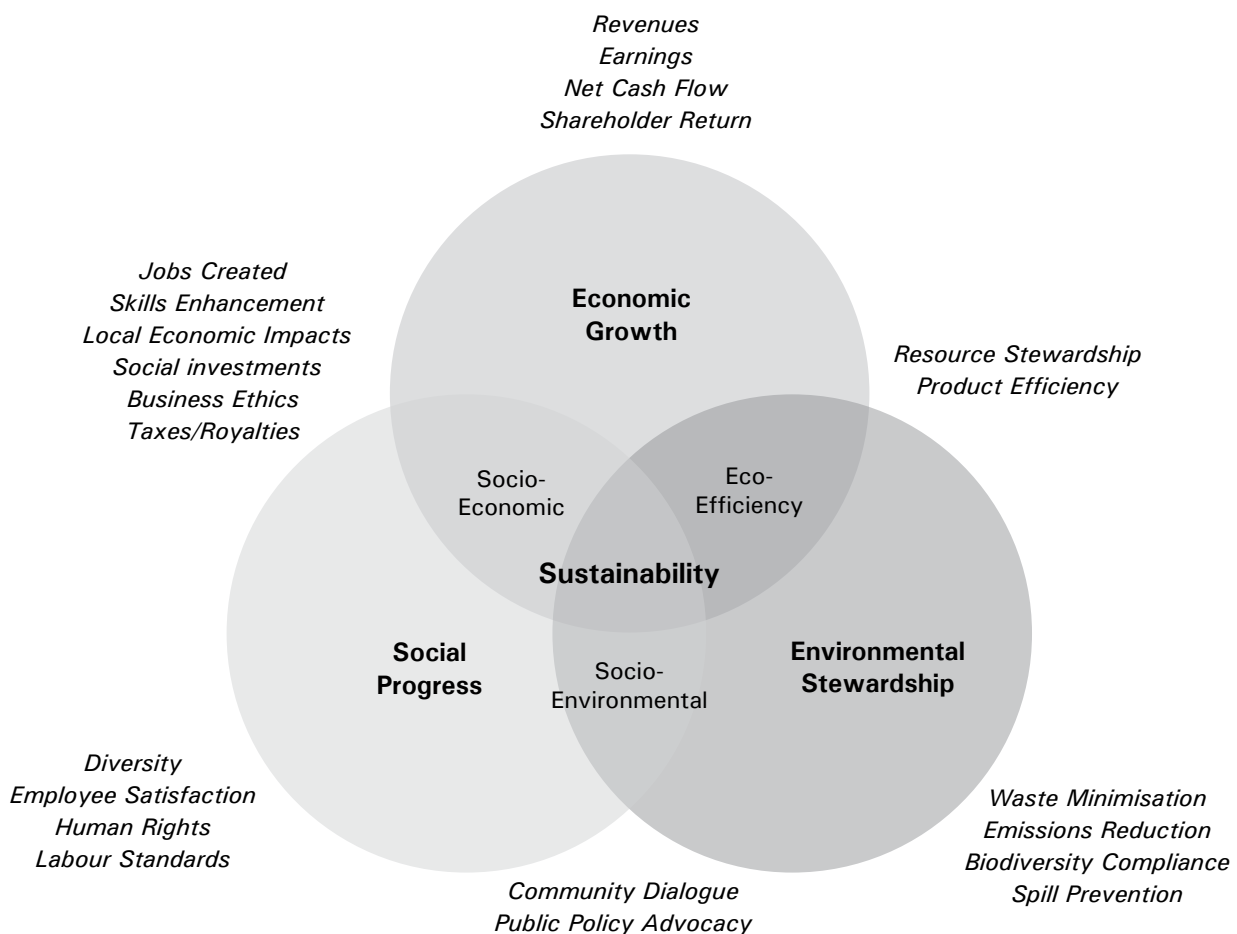
The main risks are interest rate, liquidity risk and commodity price fluctuations. The impact of exchange risk is indirect as it impacts the prices at the Tea Auctions. The most significant is liquidity risk, arising from fluctuations in revenue and a high fixed cost structure. The risk management section in this report details the mitigatory measures in place.

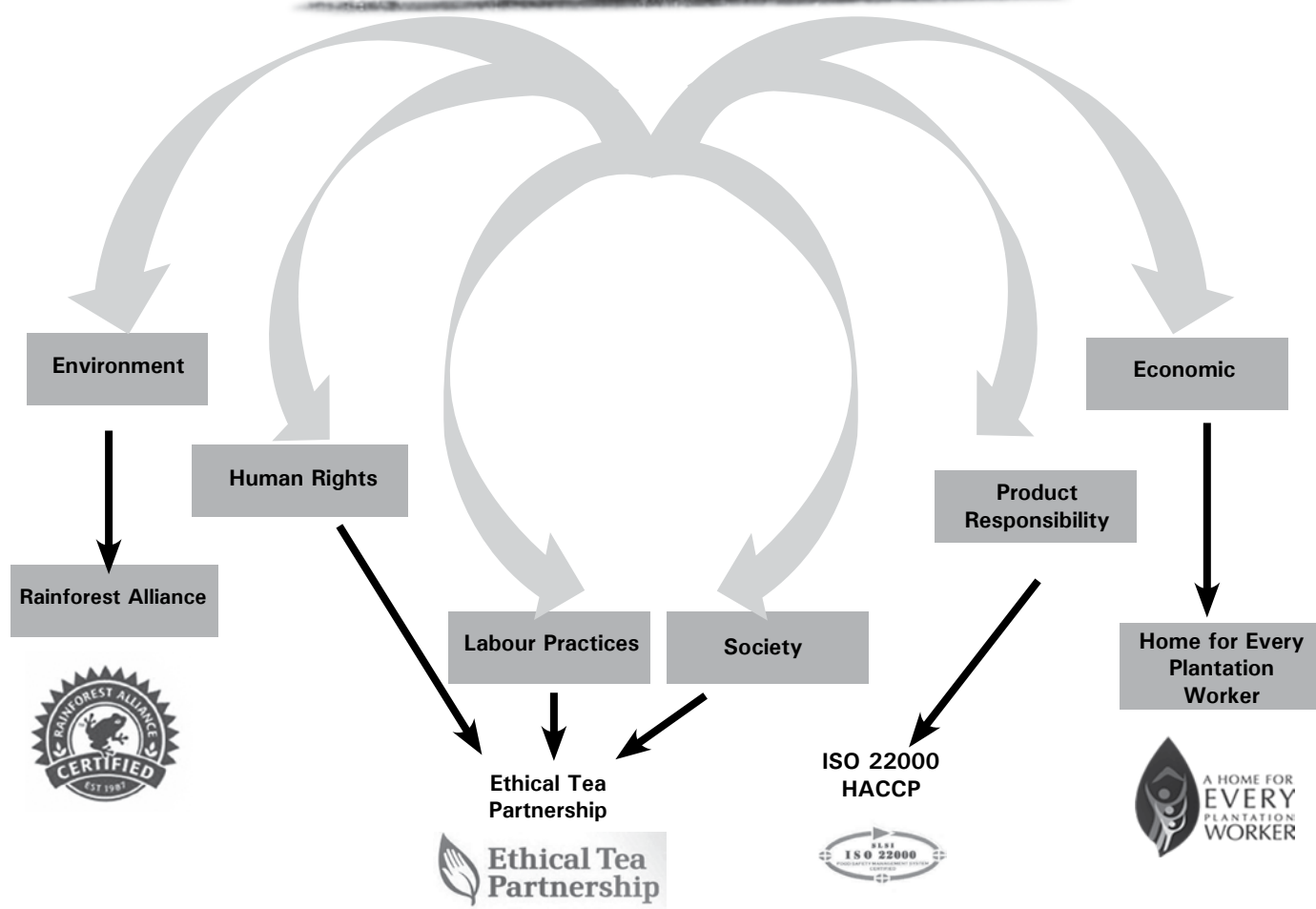
GROUP INCOME STATEMENTS	3 Months Ended 31.03.2011	6 Months Ended 30.06.2011	9 Months Ended 30.09.2011	12 Months Ended 31.12.2011	12 Months Ended 31.12.2010
Rs. Mn					
Revenue	742.70	1,498.09	2,045.16	2,792.35	3,002.62
Cost of sales	(593.29)	(1,365.16)	(2,002.52)	(2,670.49)	(2,557.14)
Gross Profit	149.41	132.93	42.64	121.86	445.48
Other income and gains	0.31	3.33	2.52	35.98	21.44
Administrative Expenses	(22.41)	(48.81)	(72.26)	(98.51)	(97.92)
Management Fee	(7.19)	(7.14)	(1.60)	(5.92)	(23.59)
Government Lease Interest	(5.37)	(10.74)	(16.09)	(19.61)	(27.01)
Finance Cost	(20.32)	(41.51)	(63.88)	(89.86)	(149.20)
Profit/(Loss) before taxation	94.43	28.05	(108.68)	(56.06)	169.20
Income tax expense	(11.92)	(21.33)	(22.83)	(17.83)	(4.69)
Net profit/(Loss) for the period	82.51	6.72	(131.52)	(73.89)	164.51

Sustainability Report

Sustainability is a concept which may be defined as the equitable balance of economic, social and environmental factors to produce viable business results in a socially responsible manner.

Reporting on the economic environmental and social performance of a business and the value added thus created is referred on sustainability reporting.





Sustainability

Report Contd.

Report Parameters

Report Profile

The company operates an annual reporting cycle, commencing on the 1st of January and ending on the 31st December. The information provided pertains to this period, wherever relevant data relating to previous periods may also be used.

This is this organisation's first attempt at Sustainability Reporting, in preparing this report we based our approach on the principles and methodology of GRI version 3 of 2006.

At present it is expected that this Sustainability Report shall be published annually to accompany the organization's Annual Report.

Any questions or inquiries regarding this Sustainability Report may be directed to the sustainability monitoring unit.

Report Scope and Boundary

This report covers the performance of the businesses within the Talawakelle Tea Estates PLC and is presented in accordance with the criteria pertaining to level C of the GRI guidelines.

The economic performance report has been prepared using the accounts data for the year ended 31/12/2011, audited by M/s. Ernst & Young, Chartered Accountants.

Data and Statistics on environmental issues have been compiled using actual operating data maintained by the estates in the TTEL group.

Report on Social Responsibility has been compiled from data maintained onsite for the 'A Home for Every Plantation Worker's Programme.

GRI Content Index

Refer page numbers 55 - 64

Assurance

This report is not externally assured.

Governance, Commitments and Engagement

Governance

Comprehensive reports on TTEPLC's Corporate Governance Policies appear on pages 73 - 96

Stakeholder Engagement

Stakeholder	Sustainability Issue	Process of Engagement
Shareholders	Profit and Growth	Annual General Meeting, Published Accounts, Open Door Policy
Employees/ Trade Unions	Remuneration, Budgets, Working Facilities, Environment, Health and Safety	Collective Agreement, Collective Bargaining, Performance based Remuneration and Rewards for Executives, Home for Every Plantation Worker, Guarantees for the Implementation of the Processes of Collective Agreement
Suppliers	Profitability, Sustainability of Company	Adhere to Credit Periods, Encourage Mutual Visits to Ensure Standards of Raw Material
Government	Profitability, Sustainability of Company	Published Accounts, Golden Shareholder Meetings
Buyers/ Customers/ Brokers	Product Quality, Compliance with International Norms	Regular Meetings, Taking part in International Trade Fairs {conforming to the by-laws of Ceylon Tea Traders Association - (CTTA)}

Environmental

The Company's Environmental Policy is;

Environmental Policy
<ul style="list-style-type: none"> The environmental policy reviews the commitment of TTEPLC, in partnership with the Plantation and local community to conserve and manage the environment in which we operate for the benefit and well-being of the present and future generations within plantations and its neighborhood. Towards achieving this objective, we shall pursue environmentally friendly and responsible methods in all our agricultural operations, field practices and manufacturing process to ensure that all natural resources and ecosystems will be managed in a sustainable manner. Biodiversity and water sources in particular will be protected through a well-managed conservation programme. We shall endeavour to conserve the usage of all resources by optimizing resource utilisation and minimising waste through practicing cleaner production principles. Education and awareness will be promoted at all levels in a manner designed to increase the level of awareness of all aspects of the environment and its relevance, importance, care and management. We are committed to comply with applicable environmental laws and regulations at all times The state of the environment will be continually assessed and environmental management strategies, systems and objectives will be periodically reviewed and upgraded to achieve continual improvements.

The Company's activities have been analyzed over the following dimensions.

- Materials
- Energy
- Water
- Bio diversity
- Emissions, Effluents, Waste
- Products and services

Materials

The main activity of this company is the production and processing of a primary agricultural product, Tea. The main materials consumed in this process are;

Fertilizer	2,801 Mt
Green Leaf	31,325,600 kg.
Firewood	37,346 m3

The company is nearly self-sufficient in sustainably managed fuelwood resources, as established from the data given above. During the past year however, we have not been able to fully avail ourselves of this asset, due to some government and local government regulations applicable to the Nuwra Eliya district. We are however optimistic that initial difficulties notwithstanding we shall be able to systematically make use of this resource that we have developed.

The rule of thumb applicable to the consumption of firewood in processing would have it that the extent of fuelwood planting required to provide a sustainable source of firewood for the processing of a quantity of green leaf in provenance from a given extent is 10% of the latter. The table given below indicates the extents of fuelwood planted by this company since 2007.

Estate	Period (2007-11) (ha)
Low Grown	68.52
High Grown	256.93

Sustainability

Report Contd.



Celebrating Tree Planting Day- Wattegodde Estate

Energy

This Company is committed to reducing its indirect energy consumption. We have commenced the education of our suppliers and service providers to monitor and reduce their energy consumption within the framework of the Rain Forest Alliance for sustainable agriculture programme.

The Company's consumption of energy was 4,160,952 kWhs for the high grown production facilities and 1,552,010 kWhs for the low grown production facilities. With the current output of the Company's Mini Hydros standing at 8,476,916 kWhs for the current year, we are proud to announce that we are a net supplier to the national electricity grid.

Fuel Switching Programmes Qualifies for Carbon Trading Under Voluntary Carbon Standards (VCS) Scheme

During 2004/06 this Company replaced all Auto Diesel Burners in its high grown estate factories namely Dessford, Somerset, Great Western, Mattakelle, Radella, Bearwell, Holyrood, Logie and Wattegodde Estates with wood fired Hot Water Generators.

The resulting drop in CO₂ emissions made this project eligible for Carbon Credits under the United Nations Kyoto Protocol.

The Company's fuel switching programme has resulted in 3,309 tons of CO₂ saved per annum. This figure was validated by the TUV NORD CERT GmbH. This project falls under the category of Micro Project in terms of Voluntary Carbon Standards 2007.1 of VCS Association. The total emission reductions over the 10 year crediting period is 31,784 tones CO₂.

A contract was signed with a buyer for the sale of 16,000 VCU's.

The details of electricity generated by the Mini Hydros at Radella, Palmerston and Somerset Estates are as follows.

Generated Units of Hydro Power Companies		
	2011(KWh)	2010 (KWh)
Somerset	3,797,818	5,204,647
Palmerston	3,853,832	4,607,860
Radella	825,266	881,907
	8,476,916	10,694,414

Whilst participation is voluntary for the sustainable agriculture programme, all potential candidates to become our suppliers are made aware of our ecological preference in awarding contracts so that any supplier wishing to work with us would be willing to monitor and/or reduce their emissions/effluents.



Waterfall at Palmerston Estate



Radella Power House

Water

Measurement of water withdrawn from sources has started and complete and reliable figures will be available in respect of each by the end of the current year.

However, all vulnerable water sources are adequately protected to ensure regular replenishment as per the Rain Forest Alliance (RA) guidelines therefore it is expected that these sources are not significantly affected by the withdrawal of water. It should be further noted that all wastewater is purified before being released into natural water bodies/courses.



Protected Drinking Water Sources – Bearwell Estate



Soakage pits for waste water - Mattakekke Estate



Bambo (Bambusa Vulgaris) is planted to preserve drinking water sources- Bearwell Estate



A well protected water source - Dessford Estate

Sustainability

Report Contd.

Biodiversity

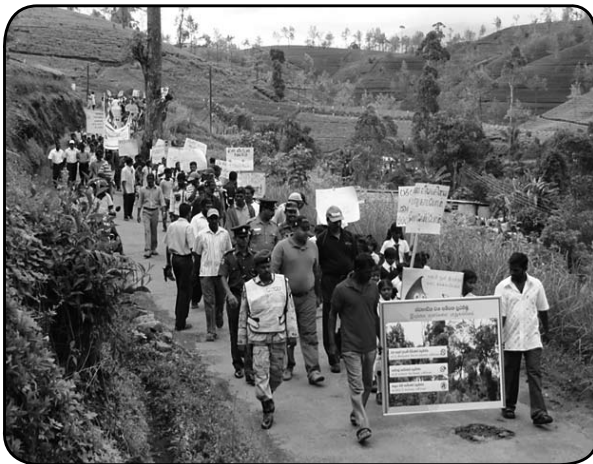
Two hundred and forty four hectares have been identified within estates as high bio-diversity areas and necessary conservation measures have been implemented to ensure sustainability; these include buffer zones for chemical spraying, vegetation barriers, green belts, and the education of staff etc. However no habitats or species have been affected by our operations.



Indolestes gracilis
(Mountain Reading)
Endemic
Mattakelle Estate



Grey headed Canary Flycatcher
Mattakelle Estate



*'Eco-walk' conducted by
Mattakelle Estate with the
participation of the entire
Community to promote
Ecosystem Conservation*



Indian Fritillary - Mattakelle Estate



Sri Lankan Yellow-Eared Bulbul
Mattakelle Estate

Emissions, Effluents and Waste

The measurement of greenhouse gas emissions has commenced and reliable figures shall be available from next year. However, with the installation of hot water generators in place of diesel furnaces in all above high grown factories, our part in the emission of greenhouse gases to the atmosphere has been brought down by over 3,000 tons per annum.

We have introduced the following measures *inter alia* with a view to reducing greenhouse gas emissions viz.

- Installation of Hot Water Generators for the withering/drying processes in our factories.
- Introduction of energy saving machinery, equipment and lighting.

Emission of ozone depleting substances from our production facilities is negligible/non-existent.

Monitoring of emissions of NO, SO has commenced under the RA programme for sustainable agriculture. Reliable figures and results will be available from next year.

Monitoring of quality and destination of water discharged has begun and exact figures will be available from next year.

Monitoring of different types of waste and their disposal is being monitored and details will be available from next year.

No spills have been reported to date but precautionary measures have been implemented for the prevention of same (by installing spill location mechanisms and reducing the stock quantity to minimum)

All waste water is treated before discharge and samples analysed.

Drinking water and waste water samples are tested bio chemically – Mattakelle Estate



Factory waste water Treatment - Mattakelle Estate



Separation of garbage prior to disposal-Mattakelle Estate

Sustainability

Report Contd.

Mattakelle Achieves a National Green Award



Senior Manager-Mattakelle Estate receiving the National Green Award from the Chairman, Central Environmental Authority



The National Green Award

Environmental and sustainability initiatives on Mattakelle received national recognition with a bronze award in the Food and Beverage sector at the National Green Awards Competition conducted by the Central Environmental Authority, in August 2011.

Mattakelle was the only estate in the entire estates/ plantations sector to win an award at this event, which makes this award and the achievement creditable and worthy of high recognition. This award is also a clear endorsement of the best environmental and sustainable management practices implemented at Mattakelle.



We have obtained 'Ethical Tea Partnership Certification' for all 17 Estates.



TTEPLC has obtained 'Rainforest Alliance Certification' for Mattakelle, Bearwell, Holyrood, Great Western, Wattegodde, Palmerston Estates in 2011.

Products and Services

TTEPLC is committed to the management and monitoring of its products and services to ensure minimum adverse impact on the environment.

92-93% of our production has their packaging recycled locally, the majority recycled material were used to produce packing material to the tea industry.

Compliance

No monetary or non-monetary fines or sanctions were imposed on this company for violation of environmental regulations.

Overall

We invested a total of over Rs.29.2 Mn last year in protecting the environment.

Human Rights

TTEPLC's Human Resource & Social Policy is;

Human Resource & Social Policy
<ul style="list-style-type: none">• People will continue to be our most valued resource and we are committed to nurture and develop then consistently.• "Treating people at all levels with dignity and respect" will be the key guiding principle of all our human resource management practices.• We are committed to enhance the quality of life, self-esteem and morale of all our employees and create an environment in which people can use their initiative, be creative, innovative and unleash their full potential.• Training, empowerment, motivation and recognition will be integral practices at all levels towards managing and developing human talents effectively.• We are committed to provide equal opportunities for all employees and prohibit any form of discrimination or discriminatory practices in respect of all employment related activities.• We uphold and respect the freedom of association, right to form and join trade unions and bargain collectively.• We shall prohibit any form of forced and bonded labour in all our operations.• We shall not engage child and young workers and the minimum age of employment would be 18 at all levels.• We shall comply with all applicable labour laws, industry regulations and standards on working conditions and payment of salaries, wages, overtime and other statutory dues.• We shall consult local communities regarding plans for new projects, constructions, diversification, change of ownership or any other operational changes that affect the local communities and their views will be considered in the decisions making process.• We shall give priority to local workers for training and employment on estates.

Investment and Procurement Practices

No specific screening of contracts or training of suppliers/contractors or other significant partners were undertaken during the period.

However we were a recommended supplier of teas under the Ethical tea partnership certification scheme.

We ensure that all employees are adequately trained on aspects of human rights and non-discriminatory practice, relative to their work.

Non-Discrimination

We have obtained the 'Ethical Tea Partnership Certification' for all Estates except Palmerston and Indola Estates where there are no factories. These estates too however confirm to ETP criteria in all aspects of their operations.

"Ethical Tea Partnership" (ETP) improves the lives of tea, workers and their environment, covering 3 key areas of Monitoring and Certification, Producer Support and Strategic Sustainability.

Benefits of their work include better lives for tea workers, sustainable environment and added value for tea producers and companies. Their activities consists of ;

Monitoring and Certification

ETP Global Standards covers the key social and environmental issues associated with tea and helps producers to meet international standards.

Sustainability

Report Contd.

The social and labour provisions are based on the Ethical Trade Initiative base code which covers the relevant International Labour Organisation (ILO) core conventions.

a. Producer Support

ETP has identified five key social and environmental issues that producers commonly need help with, and their training programmes are built around these issues:

1. Factory health and safety
2. Agrochemical management
3. Fair treatment of workers including contractual issues, working hours, labour relations and the right to collective bargaining
4. Gender
5. Environmental management including wildlife and biodiversity

b. Strategic Sustainability

Global issues such as climate change and water shortages have the potential to adversely affect the sustainability of tea production, ETP brings partners together to address these issues for the benefit of everyone associated with tea.

Assessment

None of the company's activities/operations or that of any of its subsidiaries or significant partner's, have been subject to human rights reviews or assessments, No grievances regarding human rights violations were reported during the year under review.

Remediation

No instances of human rights related grievances were recorded in the preceding year.

Labour Practices and Decent Work

Employment

Total Work Force by Type of Employment;

Type of Employment	Number of Employees
Executives and Staff	479
Manual	9,570
Total	10,049

Labour Management Relations

All employees that is to say staff and workers are governed by collective agreements.

Minimum notices regarding operational changes are not applicable.

Occupational Health and Safety

The Company has a comprehensive occupational health and safety policy.

Health and Safety Policy

- We are totally committed to provide a **safe and clean work environment** to all employees and ensure their **health and safety** at the work place.
- Towards achieving this objective, we shall adopt **reasonably practicable preventive and protective safety measures** in all production and processing areas to manage **occupational hazards, risks and prevent accidents**.
- Employees will be regularly **trained and educated** on relevant health and safety aspects and will be **actively involved** in implementing health and safety programmes, through the establishment and efficient functioning of **Health and Safety Committees** spearheaded by respective Estate Managers.
- We are committed to comply with applicable **National Health and Safety laws and regulations** at all times.
- We shall carry out regular **health and safety risk** assessments and review Health and Safety Standards, programmes and objectives periodically to ensure **Continual Improvements**.

All employees are given training in health and safety aspects at the workplace. Medical Centres are available on each estate with qualified medical staff in attendance and ambulances are available at strategically located estates.



Training on Health and Safety at the Workplace – Mattakelle Estate



Training and Education

The training and education of workers and employees is undertaken systematically along the areas of skills development and awareness building. A detailed briefing on these areas will be included in the sustainability report next year.

Diversity and Equal Opportunity

TTEPLC strives to be an equal opportunities employer; equal opportunities and equal remuneration is guaranteed under collective agreements with Trade Unions.

Society

Local Community

We work closely with local communities to improve their quality of life. Last year we were directly involved in developing 2.7 km of roads linking communities over our high grown estates. The project was funded by the Ministry of Livestock and Rural Community Development.



Roads- Bearwell Estate

Corruption

The Company subscribes to the 10 principles enunciated by the UN global compact including that on combating corruption according to this principle; businesses should work against corruption in all its forms, including extortion and bribery.

Based on these developments this Company at present is working on a charter of ethical conduct. This will cover the domains of the Company's relations with public institutions and other policy making bodies and the officials of such organisations as well as its relations with other companies especially competitors.

Compliance

There have been no monetary or non-monetary fines or penalties resulting from non-compliance with laws and regulations.

Product Responsibility

Customer Health and Safety

Our product tea is a generic product whose effect on human beings is well known and documented. Also as a food product it is manufactured in factories certified for ISO 22000 or HACCP Thereby reducing Health and safety hazards to consumers to the minimum possible

Sustainability

Report Contd.

and ensuring that all teas produced in our factories conform to ISO 3720 which is verified by the Sri Lanka Tea Board on every sample submitted for sale at the Colombo auctions.

Product and Service Labeling
Labeling requirements as per Tea Board regulations - Estate Name, Selling Mark, Grade, MF No., Number of Packages in the Invoice and Net Weight.

No incidents of non-compliance with regulations concerning product/service labeling.

A comprehensive system to ensure customer satisfaction and to deal with grievances if any exits and functions well within the accepted norms of the industry.

Marketing Communications
This Company is not engaged in the direct marketing of our products and as such we are not involved in advertising promotion or sponsorship; further our product not being considered harmful to health is not subject to any specific regulations, except the Tea Boards requirement to conform to ISO 3720.

Customer Privacy

As all relations between the company and its customer are through the intermediary of the broker, issues of violation of privacy do not arise.

Compliance

Issues of Non-compliance will not arise in this domain.



Our Company has obtained "ISO 22000 Certification" for Radella, Dessford, Great Western, Holyrood, Mattakelle, Moragalla, Handford, Deniyaya and Kiruwanaganga Estates.



Economic

Economic performance

Group Value Addition		2011 (Rs. Mn)	2010 (Rs.Mn)
Turnover		2,792	3,003
Other Income		36	21
		2,828	3,024
Cost of materials and services bought in		(912)	(1,031)
		1,916	1,994
	Share %		Share %
To Employees as remunerations	88.3	1,691	77.0
To payments to government	0.4	8	0.4
To shareholders as dividends	3.1	59	-
To lenders of capital			
Interest on borrowings	4.7	90	7.5
Minority Interest	1.0	19	0.9
Retained in the business			
Depreciation	7.4	141	6.8
Profit/(Loss) retained	(4.8)	(93)	147
	100.0	1,916	100
Note 1			
Profit/(Loss) attributable to Talawakelle		(93)	147
Dividend		(59)	-
Retained Profit/(Loss)		(152)	147

Financial implications/opportunities/risks to the company due to climate change.

This has been analysed by the Company and we are in the process of putting out a comprehensive policy document.

Cost to the company in terms of defined retirement benefit plans is as follows,

Description	Cost (Rs.Mn)
Employee's Provident Fund Employee's Trust Fund Estates Staff Provident Society Ceylon Planters Provident Society	151.9
Gratuity	160.5

The major indirect impact of the economic performance of estate is the plantation worker community mainly comprising the resident labour force.

This unique characteristic of the Sri Lankan tea industry make our estates much more than mere units of production, these are dynamic socio economic entities which forming a category apart, call to be integrated to the socio-economic mainstream, in order to unleash their dynamism and achieve their full potential.

This understanding has been the cornerstone of our development policies on our estates since this company was formed in 1992. Based firmly on our belief that the overall quality of our product and the satisfaction of our customers is greatly dependent on the quality of life of our employees and the satisfaction they obtain from working with us, we have endeavoured to assure that our employees' quality of life and their skills are continuously developed.

Our Social Development Programmes are elaborated along four main themes;

1. Living Environment
2. Health and Nutrition
3. Community Capacity Building
4. Empowerment of Youth

We believe that the continual development of these elements in the social and cultural lives of our workers will make them truly empowered stakeholders of their estates and that the plantations from being merely their place of residence shall become a Home in the truest sense of the word for each and every one of them.

Living Environment

The following activities have been carried out for living environment with the collaboration of Plantation Development Project (PDP), Plantation Human Development Trust (PHDT), National Housing Development Authority (NHDA) and Ministry of Livestock and Rural Community Development.

Development Activities	1992-2011 Units
Water Scheme	61
Re-roofing Houses	4041
Ramps and Drains	1205
Sanitation	4096
Field Rest Rooms	42
Factory Rest Rooms	13
CDC New/Upgrading	47
Play Grounds	22
Community Centers	15
New Houses Built	1058
Road Rehabilitation	45
Roads (Concreted) - km	54
Upgraded Staff Quarters	158
Electrification (Housing units)	2671
Garbage Bins	714
Upgraded Houses	169

Sustainability

Report Contd.



Re-roofing Worker Houses – Indola Estate



Upgraded Staff Quarters – Indola Estate



Ramps and Drains – Indola Estate



CDC- Calsay Estate

Community Capacity Building

This comprises EWHCS activities and Awareness Training.

EWHCS Activities :

Under the dimension of EWHCS activities for community capacity building 6,246 participants have benefited from the following activities for the past years.

Housing Loans

Conducting Awareness Programmes on Different Topics

Participation of Alcoholism Programmes

Books Issued to Worker's Children

Providing Spectacles

Providing Maternity Kits

Distribution of Blankets

Distribution of Wheel Chairs



Awareness Programmes conducted - Indola Estate



Distribution of Books – Bearwell Estate

Awareness Training :

Under the dimension of awareness training for community capacity building 5,733 participants have been benefited from the following activities for the past years.

Dengue Awareness Programmes
HIV/AIDS Awareness Programmes
'Shramadana' Work
Waste Management
Preventive of Drugs/Alcohol Programmes
Women/Children Care Programmes
Happy Family Concept
Importance of Micro Financing



*"Shramadana"
work
undertaken in
Lindulahospital
-Bearwell Estate*



**Outstanding Achievements
in Settlement Development
Enhancing "Quality of Life of
the Residents"**

Housing 2010

**Indola Estate
Winner for Low Grown
Estates, from PHDT**

Sustainability

Report Contd.

Health and Nutrition

This comprises of Preventive Healthcare (Immunisation Coverage and Awareness Programmes), Nutrition Programme (Feeding and Awareness), Antenatal/Postnatal Care (Clinics), Early Childhood Development and Auxiliary Medical Service, Empowerment of Youth (vocational and awareness training) .

Preventive Healthcare

Immunization Coverage
Under the dimension of preventive healthcare - immunisation coverage for health and nutrition 30,977 residents have been benefited from the following immunisation coverage for the past years.

BCG	MMR	Penta
OPV	Rubella	H1H1
DPT	DT	MV
JE	TT	MR

Awareness Programmes

Under the dimension of preventive healthcare - awareness programmes for health and nutrition 4,668 participants have been benefited from the following activities for the past years.

Awareness on AIDS
Awareness on Early Pregnancy
Well Women Clinic
Dental Clinic
Children Clinic
Sprayers/Pluckers Clinic
TB Screening
Health Education
Awareness of Balance Diet
Nutrition Pillars
Proper Home Gardening
How to Prepare a Nutrition Meal
Art Exhibition on Nutrition
Chlorination of Drinking Water
Drinking Boiled Water Prevents from Diseases
Dog Vaccination



Chlorination of Drinking Water – Bearwell Estate



Home Garden Preparation –Bearwell Estate

Nutrition Programme

Feeding

Under the dimension of nutrition programme-feeding for health and nutrition 282,628 participants have been benefited from the following activities for the past years.

Distribution of Milk
Distribution of Flour
Distribution of 'Thripasha'
Free Mid-day Meal
Free Milk Distribution
Nutrition to Pregnant Mothers
Distribution of Vitamins



*Prevention of Dengue
– Bearwell Estate*

Awareness on Nutrition

Under the dimension of nutrition programme-awareness on nutrition for health 4,358 participants have been benefited from the following activities for the past years.

Awareness of Nutrition to Children
Awareness of Nutrition to Pregnant Mothers
Awareness of Home Garden
Health Education
Chlorine Awareness
Dengue Awareness
Introducing a 'Hand Washing Day'

Health Camps – Indola Estate



Sustainability

Report Contd.

Antenatal and Postnatal Care

Antenatal Clinics

Under the dimension of antenatal clinics for antenatal and postnatal care 4,515 pregnant women have been benefited from the following activities for the past years.

Antenatal Clinics
Health and Nutrition Clinics
Well Women Clinics
Free Transport for Clinics/Scanning
Free Transport for Hospitalization

Postnatal Clinics

Under the dimension of postnatal clinics for antenatal and postnatal clinics 1,341 number of mothers have benefited from the following activities for the past years.

Postnatal Clinics
Well Women Clinics
Home Visits
Educating Family Planning
Providing Vitamins
Well Baby Clinics



*Medical Check up
Bearwell Estate*

Early Childhood Development

Under the dimension of early childhood development for health and nutrition 21,732 children have been benefited from the following activities for the past years.

Free Mid-day Meal
Dental Clinics
Eye Care
Daycare extended to Children
CDC Activities
Sports Activities



*Daycare Extended to Children–
Bearwell Estate*

Auxiliary Medical Service

Under the dimension of auxiliary medical service for health and nutrition 3,206 participants have been benefited from the following activities for the past years.

Cataract Surgery
Medical Camps
Providing First Aid Boxes
Medical Screening of Workers
Dog Vaccination Programmes
Introducing Personal Protective Equipment
Worm Infection and Worm Tablets
Oral Cancer Programmes



Medical Screening – Indola Estate

**Outstanding Achievement in Quality Health Care Services
Health Team 2010
Bearwell Estate - Winner for High Grown Estates, from PHDT**



Health Team- Bearwell Estate



Outstanding
Achievement in
Quality Health Care
Services

Health Team 2010

Deniyaya Estate-
1st runner up
for Low Grown
Estates, from PHDT

Empowerment of Youth

Vocational Training

Under the dimension of vocational training for empowerment of youth 1,626 girls and boys have been benefited from the following activities for the past years.

Sinhala and English Classes
Sewing Classes
Music Classes
Computer Classes
Beauty Culture Classes
Plumbing
Scholarships-A/L and University Students
Making Compost Using Garbage



Sinhala Classes- Bearwell Estate

*Sewing Classes
Bearwell Estate*



Sustainability

Report Contd.

Awareness Training

Under the dimension of awareness training for empowerment of youth 4,910 girls and boys have been benefited from the following activities for the past few years.

Awareness on Nutrition
Making Compost Using Garbage
Training for New Recruits
Awareness for Youth Committee
Anti-Smoking/Narcotic Campaign
Basic Sexual Education
Encouraging and Motivating of Other Income
Youth Leadership Training
Adolescent Female Programme
Awareness Programme, Personal Hygiene, First Aid
Prevention of Alcoholism Programme
Inter Company Drama Competition
Inter Company Quiz Competition
Family Creation
Dengue Awareness
Teenage Penance Programme
Improved Teaching Skill
How to Run and Maintain Learning Corners
Improved Learning Ability of Slow Learners
Leadership and Life Skills of Youth
Career Guidance Service
Prevention of Fire Hazards
Home Gardening Awareness Programme
Money Management Programme
HIV/AIDS/ HINI Programmes



*Dengue Awareness Programme-
Wattegodde Estate*



Home Gardening – Bearwell Estate



First Aid training –Bearwell Estate

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1.0	Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organisation	Chairman's Review	4-7
1.2	Description of key impacts, risks and opportunities	Sustainability Report	34-54
2.0	Organisational Profile		
2.1	Name of the organisation	Corporate Information	Inner Back Cover
2.2	Primary brands, products and/or services.	Our Estates Annual Report of the Board of Directors	110 104
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures	Annual Report of the Board of Directors	104-108
2.4	Location of organisation's headquarters	Corporate Information	Inner Back Cover
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	N/A	
2.6	Nature of ownership and legal form	Corporate Information	Inner Back Cover
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	MDA	8-12
2.8	Scale of the reporting organisation	Annual Report of the Board of Directors	104-108
2.9	Significant changes during the reporting period regarding size, structure or ownership	Chairman's Review & MDA	4-7 & 8-23
2.10	Awards received in the reporting period	Sustainability Report	42,49,53
3.0	Report Parameters		
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3.2	Date of most recent previous Report	Sustainability Report	36
3.3	Reporting cycle	Sustainability Report	36
3.4	Contact point for questions regarding the report or its contents	Sustainability Report	36
3.5	Process for defining report content	Sustainability Report	36
3.6	Boundary of the Report	Sustainability Report	36
3.7	State any specific limitations on the scope or boundary of the Report	N/A	

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3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations	N/A	
3.9	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	Sustainability Report	36
3.10	Explanation of the effect of any restatements of information provided in earlier Reports	Sustainability Report	36
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Sustainability Report	36
3.12	Table identifying the location of the standard disclosures in the Report	Sustainability Report	36
3.13	Policy and current practice with regard to seeking external assurance for the Report	Sustainability Report	36
4.0	Governance, Commitments and Engagement		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	Corporate Governance	73-96
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate Governance	76
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Corporate Governance	76
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Sustainability Report	36
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)	Remuneration Committee Report	103
4.6	Process in place for the highest governance body to ensure conflicts of interest are avoided	Annual Report of the Board of Directors	105-106

Profile Disclosure	Description	Report Section	Page/s
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics	Board of Directors	97-99
4.8	Internally-developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	Corporate Information	Front Inner
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles	MDA	8-23
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	Corporate Governance	73-96
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Risk Management	65-72
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	Sustainability Report	45-54
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation - * has positions in governance bodies * participates in projects or committees; * provides substantive funding beyond routine membership dues; or * views membership as strategic	Sustainability Report	36
4.14	List of stakeholder groups engaged by the organisation	Sustainability Report	36
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability Report	36
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Sustainability Report	36
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting	Sustainability Report	36

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EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Risk Management	68
EC3	Coverage of the organisation's defined benefit plan obligations	Sustainability Report	47
EC4	Significant financial assistance received from Government	Sustainability Report	45
<i>Market Presence</i>			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	N/A	
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	N/A	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Sustainability Report	44-45
<i>Indirect Economic Impacts</i>			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	Sustainability Report	45
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Sustainability Report	47-54
Environment Management			
<i>Materials</i>			
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EN2	Percentage of materials used that are recycled input materials	N/A	
<i>Energy</i>			
EN3	Direct energy consumption by primary energy source.	Sustainability Report	37-38
EN4	Indirect energy consumption by primary source	Sustainability Report	38
EN5	Energy saved due to conservation and efficiency improvements	Sustainability Report	38
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services and reductions in energy requirements as a result of these initiatives	Sustainability Report	38
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Sustainability Report	38

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EN9	Water sources significantly affected by withdrawal of water	Sustainability Report	39
EN10	Percentage and total volume of water recycled and reused	Sustainability Report	39
<i>Bio Diversity</i>			
EN11	Location and size of land owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Sustainability Report	40
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Sustainability Report	40
EN13	Habitats protected or restored	Sustainability Report	40
EN14	Strategies, current actions and future plans for managing impacts on biodiversity	Sustainability Report	40
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	Sustainability Report	40
<i>Emissions, Effluents and Waste</i>			
EN16	Total direct and indirect greenhouse gas emissions by weight	Sustainability Report	41
EN17	Other relevant indirect greenhouse gas emissions by weight	Sustainability Report	41
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EN19	Emissions of ozone-depleting substances by weight	Sustainability Report	41
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EN21	Total water discharge by quality and destination	Sustainability Report	41
EN22	Total weight of waste by type and disposal method	Sustainability Report	41
EN23	Total number and volume of significant spills	Sustainability Report	41
EN24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally	N/A	
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	Sustainability Report	39

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EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Sustainability Report	43
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Sustainability Report	43
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Sustainability Report	43
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations and transporting members of the workforce	N/A	
Overall			
EN30	Total environmental protection expenditures and investments by type	Sustainability Report	43
Labour Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract and region	Sustainability Report	44
LA2	Total number and rate of employee turnover by age group, gender and region	MDA	22
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	N/A	
Labor/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements	Sustainability Report	44
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	N/A	
Occupational Health and Safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	Sustainability Report	44-45
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities by region	Sustainability Report	44-45

Profile Disclosure	Description	Report Section	Page/s
LA8	Education, training, counseling, prevention and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases	Sustainability Report	44-45
LA9	Health and safety topics covered in formal agreements with trade unions	Sustainability Report	44-45
Training and Education			
LA10	Average hours of training per year per employee by employee category	Sustainability Report	45
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Sustainability Report	45
LA12	Percentage of employees receiving regular performance and career development reviews	Sustainability Report	45
Diversity and Equal Opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	Sustainability Report	45
LA14	Ratio of basic salary of men to women by employee category	Sustainability Report	44-45
Human Rights			
Diversity and Equal Opportunity			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	Sustainability Report	43
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Sustainability Report	43
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Sustainability Report	43
Non-Discrimination			
HR4	Total number of incidents of discrimination and actions taken	Sustainability Report	44
Freedom of Association and Collective Bargaining			
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	N/A	

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Child Labour			
HR6	Operations identified as having significant risk for incidents of child labour and measures taken to contribute to the elimination of child labour	Sustainability Report	44
Forced and Compulsory Labour			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour and measures to contribute to the elimination of forced or compulsory labour	N/A	
Security Practices			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	N/A	
Indigenous Rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Sustainability Report	44
Society			
Community			
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting	Sustainability Report	45
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption	Sustainability Report	45
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Sustainability Report	45
SO4	Actions taken in response to incidents of corruption	Sustainability Report	45
Public Policy			
SO5	Public policy positions and participation in public policy development and lobbying	Sustainability Report	45
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	N/A	
Anti-Competitive Behaviour			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes	Sustainability Report	45
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Sustainability Report	45

Profile Disclosure	Description	Report Section	Page/s
Products Responsibility			
<i>Customer Health and Safety</i>			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement and percentage of significant products and services categories subject to such procedures	Sustainability Report	45
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	Sustainability Report	45
<i>Product and Service Labeling</i>			
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	Sustainability Report	46
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	Sustainability Report	46
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Sustainability Report	46
<i>Marketing Communications</i>			
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship	Sustainability Report	46
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	Sustainability Report	46
<i>Customer Privacy</i>			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Sustainability Report	46
<i>Compliance</i>			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Sustainability Report	46

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Issues Areas	GC Principles	Relevant GRI Indicators
<i>Human Rights</i>	<i>Principle 01</i>	
	Businesses should support and respect the protection of internationally-proclaimed human rights	LA4, LA13, HR4, HR5, HR6
	<i>Principle 02</i>	
	Make sure that they are not complicity in human rights abuses	HR4, HR5, HR6
<i>Labour</i>	<i>Principle 03</i>	
	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	LA4, LA5, HR5, HR6
	<i>Principle 04</i>	
	Business should uphold the elimination of all forms of forced and compulsory labour	HR7
	<i>Principle 05</i>	
	Business should uphold the effective abolition of child labour	HR6
	<i>Principle 06</i>	
	Business should uphold the elimination of discrimination in respect of employment and occupation	LA2, LA13, LA14, HR4, EC5, EC7
<i>Environment</i>	<i>Principle 07</i>	
	Businesses should support a precautionary approach to environmental challenges	EN9, EN14, EN26
	<i>Principle 08</i>	
	Business should undertake initiatives to promote greater environmental responsibility	EN1, EN3, EN4, EN5, EN6, EN8, EN10, EN11, EN12, EN13, EN14, EN15, EN16
	<i>Principle 09</i>	
	Business should encourage the development and diffusion of environmentally friendly technologies	EN5, EN6, EN10, EN26
<i>Anti-Corruption</i>	Principle 10	
	Businesses should work against corruption in all its forms, including extortion and bribery	SO4

Risk Management

TTE PLC in its endeavour towards enhancing the wealth of the shareholders is exposed to a multitude of risks which are of different forms and magnitudes. Risk is inherent in all our business activities and cannot be completely eliminated. Our willingness to undertake and our ability to manage entrepreneurial risks have enabled us to capitalise on the opportunities that arise. We undertake risks only to an extent that it creates value to its shareholders and they are reasonable and can be managed or controlled. A structured risk management approach is in place to achieve an optimum trade-off between risk and return.

The company recognizes the importance of adopting a proactive approach in the management of risk. TTE PLC has established and adheres to a comprehensive risk management framework which consists of:

- identification and profiling significant risks,
- modeling and measuring risks,
- determining risk tolerance and
- transferring, mitigating and monitoring risks.

This system is implemented as an integral part of our business processes across TTE PLC operations. Further, greater emphasis is placed on managing risks with prudence and discipline at strategic level with the participation of the Board of Directors. The Board is responsible for setting goals and objectives annually after evaluating the overall risk profile of the Company. The overall responsibility for the management of risk lies with the Management Committee and the Senior Management team. The front line managers are assigned with the primary responsibility of taking action. The major risks are reported to the Board with an action plan which includes key personnel identified for the implementation of same.

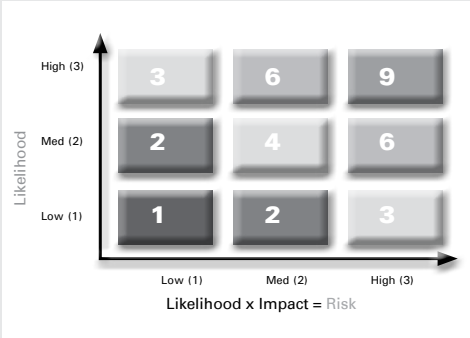
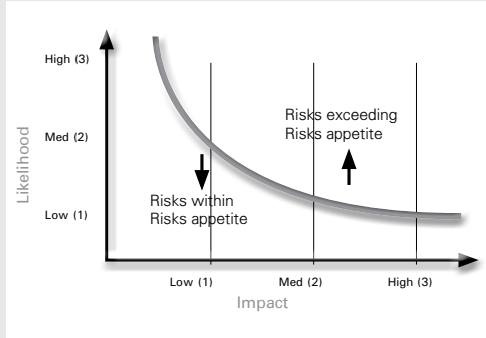


Our risk management process comprises multiple control mechanisms and constitutes an important element of the corporate decision-making process. This mechanism includes recording of internal processes and business risks, management and controlling systems and planning processes. To ensure the effectiveness of our risk management efforts, transparency and aggregation of risks within the framework of reporting, we have opted for an integrated approach to manage corporate risks, to be implemented with consistency throughout our estates with a direct reporting line to the Chief Executive Officer.

Our risk management process is set out in the diagram and the table below:

Risk

Management Contd.

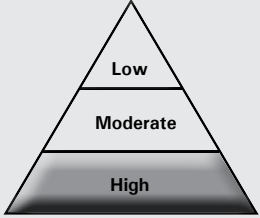
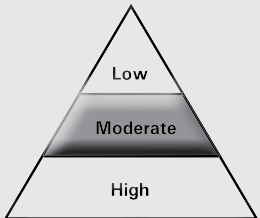
Objective Setting	The Board sets goals and objectives annually after reviewing the overall risk profile of the Company. TTE PLC's tolerance of risks identified will ultimately determine the objectives agreed upon.
Risk Identification	Our integrated approach involves all levels of management in the risk identification process. Regular monthly management meetings and Group Cluster meetings are used to discuss possible risks that may have a negative impact on our targets. Internal audit reports produced monthly by reputed audit firms and external audit report are reviewed to identify possible risks.
Risk Assessment	<p>All identified risks are rated based on the probability of occurrence and the impact. Risk rating matrix given below is used to facilitate the rating process.</p> <p>The internal audit reports rank risks as High, Medium and Low based on the probability and impact. High risk events are given immediate management attention.</p> <div style="display: flex; justify-content: space-around; align-items: center;">   </div>
Risk Response and Mitigating Action	<p>The level of risk absorption is influenced by the Company's risk appetite. Any risk exceeding the risk tolerance level will require prompt management response.</p> <p>Depending on the risk rating generated from the above, Chief Executive Officer together with the management team initiates risk response strategies developed to manage risk by accepting, mitigating, transferring or avoiding it.</p> <p>The Company has entered into Insurance Agreements where possible, to protect itself against financial losses arising from uncertainties and risks. These agreements are frequently re-examined and adjusted as necessary with expert legal advice.</p>
Information and Communication	Documentation and reporting plays a key role in monitoring risks. Monthly and quarterly reports with key economic and performance indicators and relevant external reports are presented to the Audit Committee and to the Board to alert on possible risks. Internal and external audit reports on level of compliance with risk mitigating actions are tabled at the meetings of the Management and the Audit Committee which are then reviewed and acted upon. Strict compliance of internal control procedures ensures effective and efficient functioning of operations within the Company.
Monitoring	The ultimate responsibility for monitoring risk management lies with the Board of Directors and the Audit Committee. This includes monitoring the efficiency and effectiveness of internal control.

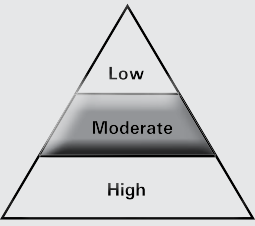
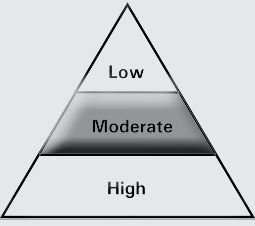
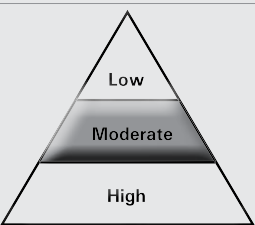
The key risks the Company is exposed to, their effects and the mitigating strategies adopted are elaborated below.

Risk Factor	Description	Risk Assessment	Rating									
Tea Prices	Our principal line of business is cultivation and manufacture of black tea. Tea revenue comprises 95 percent of the total revenue. Hence, the Company is susceptible to fluctuations in tea prices led by the volatility of the world economy, commodity price cycles, changes in the global supply and political and economic upheaval in key markets.	<p>Fluctuating prices affect profitability and erode margins.</p> <table><thead><tr><th></th><th>PBT Mn</th><th>GSA (National) Rs</th></tr></thead><tbody><tr><td>2010</td><td>137.8</td><td>370.61</td></tr><tr><td>2011</td><td>(96.1)</td><td>359.89</td></tr></tbody></table> <p>Year: 2011, 2010 Rs. Mn: -200, -100, 0, 100, 200 Rs.: 0, 325, 335, 345, 455, 365, 375 Legend: PBT, GSA (N)</p>		PBT Mn	GSA (National) Rs	2010	137.8	370.61	2011	(96.1)	359.89	<p>Low Moderate High</p>
	PBT Mn	GSA (National) Rs										
2010	137.8	370.61										
2011	(96.1)	359.89										
Risks Mitigatory Strategies		<p>Tea Production - 2011</p> <p>27% 73% Legend: High grown, Low grown</p>										
Wage Rates	Wages comprise 65% of the total cost of production. As an inherent characteristic of the Plantations Sector, wages are not reflective of the productivity levels. Wages are determined as per the Collective Agreement where wages are revised every two years. Trade Unions play an active role in determining wages which is not always in line with desired productivity levels.	<p>Increases in wages and gratuity charges substantially affect the cost of production thereby the competitiveness and profitability of the operations. Related gratuity charges increase Company 's financial liabilities</p> <table><thead><tr><th>Year</th><th>% Increase in wage rates</th><th>Cost of production Rs./Kg</th></tr></thead><tbody><tr><td>2011</td><td>27</td><td>390.52</td></tr><tr><td>2009</td><td>40</td><td>356.26</td></tr></tbody></table>	Year	% Increase in wage rates	Cost of production Rs./Kg	2011	27	390.52	2009	40	356.26	<p>Low Moderate High</p>
Year	% Increase in wage rates	Cost of production Rs./Kg										
2011	27	390.52										
2009	40	356.26										

Risk

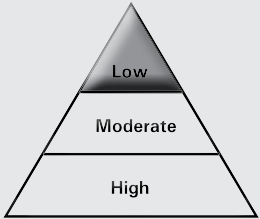
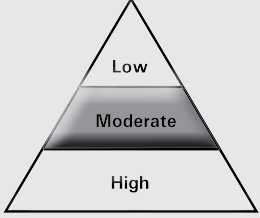
Management Contd.

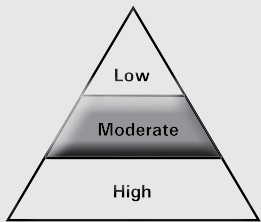
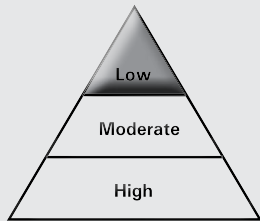
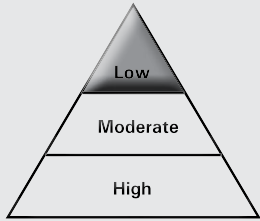
Risk Factor	Description	Risk Assessment	Rating
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Increase worker and land productivity thereby reducing cost of production. ● Optimize deployment of labour. ● Wage structure to be more in line with productivity gains. 			
Climatic Changes	Crop production is seasonal and subject to the vagaries of weather resulting in loss of crop and quality.	Changes in the weather patterns result in loss of crop and the quality of the harvest in turn affecting the market share, earnings and profitability.	
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Adversity is reduced due to the Geographical distribution of the estates in the high and low grown elevations. Plant drought resistant cultivars. ● Engage in sustainable agricultural practices . ● Proactive plan and participation of the small holder in the supply chain . ● Increase the extent in rubber cultivation in the Low country. 			
Product Quality	Inability to maintain consistency in quality of production will result in falling demand.	Inability to maintain consistency in quality of the teas produced will result in buyers curtailing their purchases thereby eroding the market share and fall in prices.	
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Adherence to a "Quality Policy" of the Company. ● Adopt and implement quality assurance measures such as food hygiene standards and certification of factories under HACCP and ISO at every stage of manufacture and cultivation. ● Maintain a regular dialogue with the buyers and brokers . ● Take prompt and corrective action on broker reports. 			

Risk Factor	Description	Risk Assessment	Rating
Human Resource	<p>Low productivity , Immobility within/between estates and reduction in resident manpower affect labour productivity and costs.</p> <p>Disruptions in work due to highly unionized large work force</p> <p>The Company is also challenged in retaining competent management and supervisory staff .</p>	Human resource issues will expose the Company to difficulties in achieving the targeted harvest, loss of crop and disruption to operations and performance which will reflect on the on the productivity and profitability.	
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Increase productivity and norms ● Ensure industrial peace by the Collective Agreement entered in to with the Trade Unions in the Company's Capacity in as a member of the Employers' Federation ● Determine wages on par with the industry and not on an ad hoc basis. ● Prioritise human resources management viz performance management, training and development, motivation and empowerment to attract and retain high caliber employees. 			
Interest Rate	Minimize the adverse effects of the interest cost that arises due to the fluctuating interest rates.	Adverse impact on profitability and cash flows due to high interest costs.	
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Resort to concessionary funding from available sources. ● Employ an appropriate mix of floating and fixed rate interest debt capital to reduce the impact of any upward movement of interest rates while benefitting from a downward movement of interest rates. 			
Liquidity	Availability of sufficient funds is crucial as the industry is cyclical with long gestation periods for returns.	Inadequacy of funds would affect sustainability of operations. The Company will have to resort to funding at a higher cost or to postpone critical investments.	

Risk

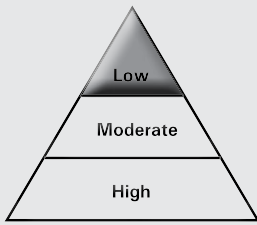
Management Contd.

Risk Factor	Description	Risk Assessment	Rating
Risk Mitigatory Strategies <ul style="list-style-type: none"> Suitably structure borrowings to ensure their maturity profile is not beyond the Company's ability to repay or refinance. Maintain cash flow and budgetary controls systems. Reduction in gearing levels. 			
Reputation	Compliance of legal and statutory requirements and ethical practices.	Non compliance may lead to loss of reputation, fines, and even litigation.	
Risks Mitigatory Strategies Reputation is considered as the one most valued intangible asset of the Company and the following measures are taken to ensure highest standards of business conduct: <ul style="list-style-type: none"> adoption of the Code of Corporate Governance by all employees, senior management and Board of Directors, seek expert legal advice to incorporate risk mitigatory clauses in drafting legal contracts and agreements especially those of new ventures and investments. uphold internal control systems and procedures to minimize fraud and malpractices, implementation of Company's Policies on health, safety and environment to ensure best practices in the industry. adopt sustainability initiatives viz. RFA. 			
Investments	Investments are necessary for the sustainability of the business on land, labour and capital. However, investments made on an ad-hoc basis will not bring in the expected returns.	Investments made without proper feasibility may impact future profitability and sustainability.	
Risk Mitigatory Strategies <ul style="list-style-type: none"> Subject proposed investments to a rigorous evaluation and feasibility process which require a minimum return on investment. Seek Board approval prior to embarking on a proposed investment. Closely monitor the progress to ensure project deliverables are achieved within the given budgets and timelines. 			

Risk Factor	Description	Risk Assessment	Rating
Competition	Local Tea Industry faces intense global competition mainly flowing from low cost producers and substitute beverages.	Acute competition results in loss of markets and erosion of margins.	
Risk Mitigatory Strategies <ul style="list-style-type: none"> ● Focus on quality and productivity to mitigate risks arising from competition from low cost producers. ● Broaden and add value to the product range viz. Green Tea. ● Strengthen the Company's brand and marketing promotions with Mabroc Teas (Pvt) Limited. ● Strengthen relationships with brokers and buyers. 			
Information	Accurate and timely information from information systems is vital for decision making and control.	Disruption caused by ineffective or failed systems could result in loss of critical information required for management decisions and even lead to financial losses.	
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Strengthen the information systems and business processes by putting in place internal controls including IT security, privacy and confidentiality. ● Implement a sound backup system to gear for system failure. ● Enter into maintenance contracts with a well established Information Technology companies. ● Use licensed software. 			
Operational Risk	Sound internal control systems and policies are key factors in safeguarding tangible and intangible assets and compliance with procedures .	Human error, frauds, accidents, natural disasters may cause financial losses.	
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Implement sound internal control systems, compliance audits and standardization of procedures ● Design and implement Procedure Manuals. ● Employ suitable and qualified personnel. ● Obtain comprehensive insurance policies to cover operational risks. 			

Risk

Management Contd.

Risk Factor	Description	Risk Assessment	Rating
Contractual Risk	Entering in to contracts contravening laws. Contracts which are not commercially sound.	Oversight on contractual obligations may lead to loss of reputation, litigation and financial losses.	
Risks Mitigatory Strategies <ul style="list-style-type: none"> ● Subject all agreements to professional legal review and advice. ● Board review and approval for all major contracts. 			

Corporate Governance

The spirit of corporate governance is embedded in to our core values system that transcends all our actions. We strive to reach out to best governance practices that have given a firm foundation for sustainable value creation. We believe that mere economic efficiency and materialism will not ensure sustainable outcome to our stakeholders. We are conscious that many companies fail not due to absence of business acumen but due to lack of business ethics. Ethical business practices therefore are at the heart of our operations to deliver the best to our stakeholders.

Through the years, our “Code of Corporate Conduct” setting out governance guidelines has given a blueprint to all our employees, senior management and the Board of Directors and has assumed prominence in the Company ethos. We at Talawakelle Tea Estates PLC are dedicated to uphold the highest standards of integrity, transparency, accountability and professionalism to take the company to greater heights of corporate values. We affirm that there has not been any material violation during the year under review of the “Code of Corporate Conduct”.

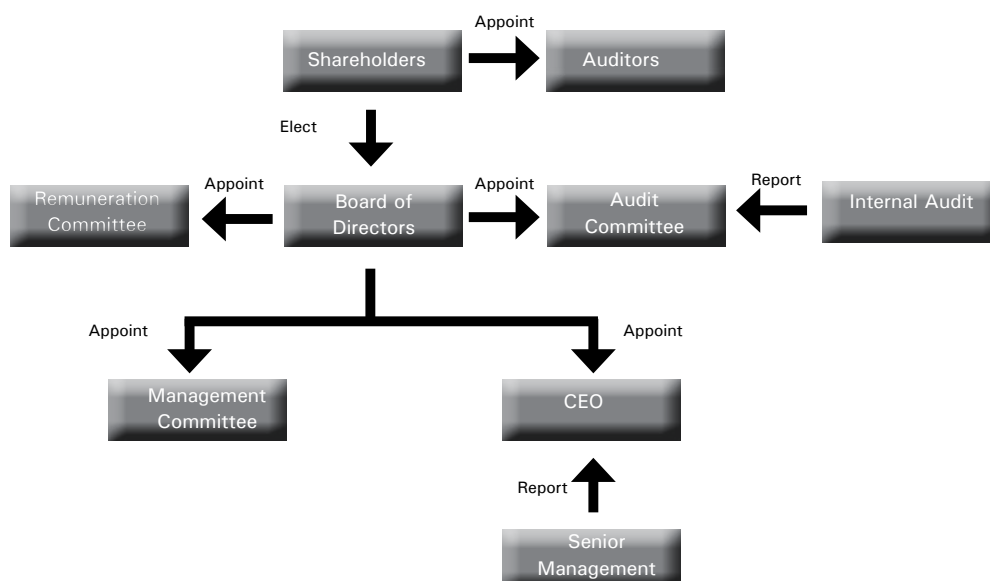
“Good Governance is...a core value at TTE PLC”.

We believe that good governance is an uncompromising pursuit that provides assurance and comfort for the creation of long term sustainable stakeholder value. The Board of Directors of TTE PLC is committed

to follow the best practices in Corporate Governance in its attempt to enhance shareholder wealth. Thus, a system which promotes corporate fairness, transparency and accountability is in place to ensure that TTE PLC meets the needs of all its stakeholders now and into the future. We strive to achieve a balance between accountability and conformance on the one hand and value creation and resource utilization on the other.

TTE PLC’s Corporate Governance Guidelines provide directors and management with a road map of their respective responsibilities. These guidelines which are updated periodically, detail clearly those matters requiring Board and Management Committee approval, advice or review. This Corporate Governance Report covers issues such as Board structure, roles and processes.

TTE PLC’s Governance Framework



Corporate

Governance Contd.

The Board of Directors has adopted a formal Corporate Governance Statement. Aspects covered in this statement include:

- responsibilities of the Board,
- responsibilities and authority of the Management Committee and Governance processes.

The Board will continue to adopt best practices in Corporate Governance and the adopt them where appropriate, to safeguard stakeholder interests.

Organization

The Board has put in place an organisational structure with formally defined lines of responsibility, reporting and appropriate limits of authority. There are established procedures for planning and investment, risk management, dissemination of information and reporting systems to monitor the Company's operations.

TTE PLC has a two tier governance structure, with a Management Committee, just below the Board overseeing the corporate management processes.



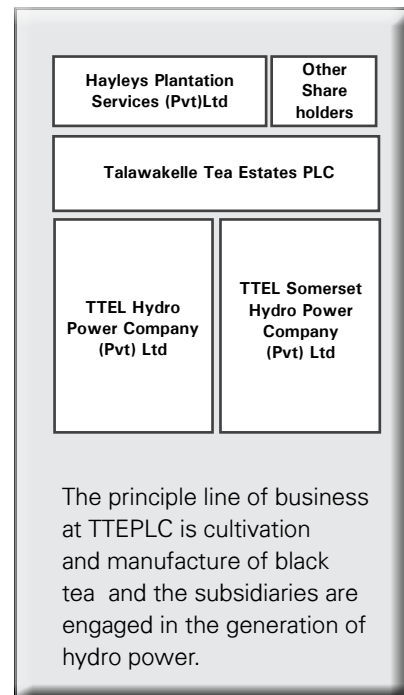
Management Committee

The Management Committee consists of Managing Director of Hayleys Plantation Services (Pvt) Ltd, Directors /Chief Executive Officer of TTE PLC, a Non-Executive Director and the Senior Management team. The Management Committee formulates strategy, seeks Board approval for this strategy, and implements it within the policy framework established by the Board. The Management Committee reviews the annual budget, operational targets, monthly performance against budgets, and capital expenditure proposals prior to recommending to the Board.

The Audit Committee and the Management Committee are responsible for reviewing risk management and internal control systems designed to safeguard Company assets, and to ensure accurate and reliable system of record keeping and timely dissemination of critical management information.

Corporate Management

The Board has delegated the primary authority to implement policy and achieve strategic objectives of the Company, to the Chief Executive Officer (CEO).



The principle line of business at TTEPLC is cultivation and manufacture of black tea and the subsidiaries are engaged in the generation of hydro power.

The CEO exercises this authority within the policy framework established by the Board and the ethical framework and business practice inherent to the Company, which demand best practices are followed in dealing with employees, customers, suppliers and the community at large.

The CEO is entrusted with optimizing use of the Company's resources within the framework of the Company's corporate and financial strategies and the annual corporate plan and budget. The Company employs a continuous planning process with the active involvement of all Executives. A system of regular review of operations is in place to ensure close monitoring of performance and prompt corrective actions.

Monthly review Committee

The Group Finance, cluster meetings enable representatives from different parts of the group to communicate relevant matters, identify and discuss areas of special interest/ concern, and share best practices. The Chief Financial Officer of the Company works closely with the Group CFO of Hayleys PLC in identifying operational and financial risks and in taking prompt steps to mitigate such risks.

Information Technology (IT) Governance

IT Governance focuses on assuring the investments in IT generate business value and mitigate the associated IT risks. We continue to give attention to bring TTE PLC's IT systems to meet its strategies and operational objectives. The Company uses IT Systems of Hayleys Group and of its own. The former includes an ERP System, internet, email and other collaborative services and data communication systems. The latter include systems deployed at the estates. Competent and dedicated staff is deployed by the company and by Hayleys PLC to support this need.

IT Value and Alignment

Aligning the IT strategy with the business strategy is given priority. Investments in IT projects and systems are made after considering their suitability for the related projects. Further aspects such as cost savings, improved client satisfaction, timely information and the balance between cost of investment and the scale of operations are also taken into account when these decisions are taken.

IT Risk Management

Management of IT related risks and Information Security Management Systems (ISMS) are assessed in the process of Enterprise Risk Management. TTE PLC comply with Hayleys Group's IT Usage Policy covering IT discipline, use of licensed software, closer monitoring of internet/email usage, mail server, the use of antivirus and firewall servers/software. Critical business information and systems are backed up/replicated at regular intervals and kept in secure offsite locations to meet a worse case scenario of system failure.

CORPORATE GOVERNANCE

Corporate Governance is a code of business conduct and ethics that enables building long term sustainable value to the share holders and all other stakeholders.

At TTE PLC, Corporate Governance is the catalyst for best business practices that lead to positive workplace management, marketplace responsibility, environmental stewardship, community engagement and sustained financial performance.

We tabulate in two sections as set out in the diagram the Corporate Governance practices adopted and practiced by the Company and the extent of compliance to the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Rules set out in Section 7.10 of the Colombo Stock Exchange's (CSE) Listing Rules on Corporate Governance.



Corporate

Governance Contd.

SECTION 1: Level of compliance to the Code of Governance issued jointly by ICASL on SEC

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
1: THE COMPANY			
A. Directors			
A.1. The Board			
TTE PLC is headed by an effective Board of Directors with professionals and business leaders drawn from diverse fields and their profiles are given on pages 97 to 99 of this Annual Report. As at 31.12.2011 the Board comprised of 12 directors including the Chairman, the Chief Executive Officer and 3 non executive independent directors. The Board with their multidisciplinary acumen and leadership directs the Company in achieving goals within a budgetary framework and a responsible governance structure.			
Board Meetings	A 1.1	Compliant	<p>The Board discharges its responsibilities through quarterly scheduled meetings to make strategic decisions and to review the performance of the Company. Ad-hoc meetings are also held to address exigencies. These meetings enhance shareholder value and all stakeholder interests are considered in corporate decisions.</p> <p>Details of the meetings and attendance of the members are set out in the page 96 of this Report.</p>
Responsibilities of the Board	A 1.2	Compliant	<p>The Board of Directors formulates implements, monitors and communicates business policy and strategy considering all stakeholder interests to ensure sustainability. It ensures that the Chief Executive Officer and the management team possess the requisite skills, experience and knowledge to implement the strategy and manage the operations effectively, with proper succession arrangements in place.</p> <p>The Board ensures effective systems to secure integrity of information, internal controls and risk management, compliance with all applicable statutes, regulations and ethical standards.</p> <p>The Board directs the Company to adopt appropriate accounting policies and comply with financial regulations.</p>

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Compliance with laws and access to independent professional advice	A.1.3	Compliant	The Board collectively, and Directors individually, act in accordance with laws and regulations of Sri Lanka and upholds best industry practices. The Directors obtain independent professional advice as and when required at the expense of the Company.
Company Secretary	A.1.4	Compliant	All Directors have access to the advice and services of the Company Secretary to ensure that proper board procedures are followed complying with the applicable rules and regulations. The Company Secretary keeps the Board informed of new laws revisions, regulations and requirements coming into effect applicable to the individual directors and collectively to the Board.
Independent judgment of Directors	A.1.5	Compliant	All Directors give an independent opinion on issues addressed by the Board on strategy, performance, resources and business conduct.
Dedication of adequate time and effort by the Directors	A.1.6	Compliant	The Chairman and all Directors dedicate adequate time and effort to fulfill the duties and responsibilities as Directors of TTE PLC. Directors dedicate sufficient time prior to meetings to review Board Papers, call for additional information and clarification and to follow up on issues consequent to the meeting. Individual Directors also devote time to serve as members of various sub committees of the Board.
Training for new and existing Directors	A.1.7	Compliant	Both new and existing Directors are given training on general aspects of directorship and matters specific to the industry if required. The Board recognises the importance of continuous training and expansion of the knowledge and skills to effectively perform their duties.

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
A.2. Chairman and Chief Executive Officer			
<p>The Code requires a clear division of responsibilities between conducting of the business of the Board, and facilitating executive responsibility for management of the business to ensure balance of power and authority. The Chairman is responsible for leading and providing strategic direction and guidance to the Board. The Chief Executive Officer's role is primarily to conduct the business operations with the guidance of the Board of Directors and the support of the Corporate Management team. Hence, the roles of the Chairman and Chief Executive Officer are clearly distinct from one another. The Chairman is also the ultimate point of contact for shareholders, particularly on matters related to Corporate Governance.</p>			
Separation of the roles of Chairman and Chief Executive Officer	A.2.1	Compliant	The functions of the Chairman and of the Chief Executive Officer are clearly defined and are separated. This ensures balance of power and authority within the Company.
A.3. Chairman's Role			
<p>The Chairman is responsible for leading the Board with strategic direction, effective conduct of Board meetings and facilitate a platform for the Board to discharge its duties.</p>			
Role of the Chairman	A.3.1	Compliant	<p>The Chairman is responsible for the efficient conduct of Board meetings and ensures, inter alia, that:</p> <ul style="list-style-type: none"> a). effective participation of both Executive and Non-Executive Directors, b). effective contribution of all Directors for the benefit of the Company, c). balance of power between Executive and Non-Executive Directors, d). ascertain the views of all Directors on issues under consideration , e). the Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders and f). maintain close contact with all Directors and, where necessary, holds informal meetings with Non-Executive Directors.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
A .4. Financial Acumen			
The Code requires that the Board comprise members with sufficient financial acumen and knowledge to offer guidance on matters related to finance.			
Availability of sufficient financial acumen	A.4.1	Compliant	Two Directors of the Board are Fellow Members of the Institute of Chartered Accountants of Sri Lanka and one serves as the Chairman of the Audit Committee. These Directors possess the necessary knowledge, competence and skills to guide the Board on matters related to finance and investment.
A.5. Board Balance			
The Code requires the Board to have a balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision making.			
Presence of Non-Executive Directors	A.5.1	Compliant	<p>Seven out of ten Directors are Non-Executive Directors which is well-above the minimum prescribed by the Code i.e. two or one third of the total number of Directors, whichever is higher. This ensures that the views of Non-Executive Directors carry a significant weight in the Board's decisions.</p> <p>The total number of Directors is based on the number as at the conclusion of 2010 Annual General Meeting which is as per the requirement of the Code.</p> <p>Throughout the year, the balance has been maintained between Executive and Non-Executive Directors of the Board.</p>
Independent Non-Executive Directors	A.5.2	Compliant	Three out of seven Non Executive Directors are independent which is above the minimum prescribed by the code i.e. two or one-third of the Non Executive Directors appointed to the Board whichever is higher.

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Independence of Non-Executive Directors	A.5.3	Compliant	All independent Non-Executive Directors are independent of management and free of any business or other relationship that could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.
Annual Declaration of Non-Executive Directors	A.5.4	Compliant	Each Non Executive Director submits a declaration of independence/non- independence in a prescribed format annually which is in line with the requirements of Schedule H of this Code. This information is made available to the Board.
Determination of independence of the Directors	A.5.5.	Compliant	<p>The Board has determined the independence of Directors based on the declarations submitted by the Non- Executive Directors as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually.</p> <p>Independent Non-Executive Directors are:</p> <ol style="list-style-type: none"> 1. Prof. U Liyanage 2. Dr. S S S B D G Jayawardena 3. Mr L N De S Wijeyeratne
Requirement to appoint a 'Senior Non Executive Director' and making himself/herself available for confidential discussions	A.5.6 & A.5.7	Not Applicable	This does not arise as the roles of the Chairman and the Chief Executive Officer are clearly segregated.
Chairman conducting meetings with Non-Executive Director	A.5.8	Compliant	The Chairman meets Non-Executive Directors without the presence of the Executive Directors whenever necessary.
Recording of concerns in the Board Minutes	A.5.9	Compliant	Concerns raised by the Directors during the year which could not be unanimously resolved are duly recorded in the Board Minutes.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
A.6. Supply of Information			
The Code requires the management to provide the Board with appropriate and timely information to enable them to discharge their duties.			
Management's obligation to provide appropriate and timely information to the Board	A 6.1	Compliant	Directors are provided with monthly reports on performance, minutes of review meetings and other relevant reports and documents as necessary. The Chairman ensures that all Directors are adequately briefed on issues arising at the management meetings.
Adequate time for effective conduct of the Board meetings	A.6.2	Compliant	The minutes, agenda and papers required for Board meeting are circulated well in advance to facilitate individual directors to effectively participate at the Board meetings.
A.7. Appointments to the Board			
The Code requires having a formal and transparent procedure for the appointment of new Directors to the Board.			
Nomination Committee	A.7.1	Compliant	The Board as a whole decides on all new Board appointments in accordance with the Articles of Association of the Company.
Assessment of Board-composition by the Nomination Committee / Board as a whole	A.7.2	Compliant	The Board as a whole annually assesses board composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment are taken into account when new Board appointments are considered.
Disclosure of required details of new Directors to shareholders	A.7.3	Compliant	<p>Upon the appointment of a new director to the Board the Company discloses the following to the Colombo Stock Exchange</p> <ul style="list-style-type: none"> ● a brief resume of each such Director including the nature of his expertise in relevant functional areas ● the names of companies in which the Director holds directorships, memberships in Board Committees etc., ● Independence of such Director

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
A.8 Re-election The Code requires that all Directors including the Chairman should be required to submit themselves for re-election at regular intervals at least once in every three years.			
Appointments of Non Executive Directors, Chief Executive Officer and Directors in the Board	A.8.1 & A.8.2	Compliant	The Directors are elected by the Shareholders of the Company as per the Company's Articles of Association. The Company's Articles provide for the Board to appoint additional directors or fill in a casual vacancy. A Director appointed by the Board to hold office until the next Annual General Meeting and seek re-appointment by the shareholders at that meeting. The Articles call for one-third of the directors in office to retire at each Annual General Meeting. The Directors who retire are those who have served for the longest period after their appointment/re-appointment. Retiring directors are eligible for re-election. The names of directors submitted for election or re-election is accompanied by a resume to enable shareholders to make an informed decision on their election. The Chief Executive Officer does not retire by rotation.
A.9. Appraisal of Board Performance The Code requires that the Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.			
Annual performance evaluation of the Board and its Sub Committees	A.9.1 & A.9.2	Compliant	The Chairman and the Remuneration Committee evaluate the performance of the Executive Directors. The Board undertakes an annual self-evaluation of its own performance and of its Committees.
Disclosure of performance evaluation criteria	A.9.3	Compliant	Please refer the Remuneration Committee Report on page 103 of this Report for the performance evaluation criteria
A.10. Disclosure of Information in Respect of Directors The Code requires that the shareholders should be kept advised of relevant details in respect of Directors in the Annual Report.			

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Details in respect of Directors	A 10.1	Compliant	<p>The following information in relation to Directors is disclosed in the Annual Report with page references.</p> <ul style="list-style-type: none"> ● Name, qualifications and brief profile (please refer pages 97 to 99) ● The nature of his expertise (please refer pages 97 to 99) ● Directors' interest in contracts (please refer pages 146 to 147) ● Number of meetings of the Board and Committees held and attendance (please refer pages 96 and 114) ● Names of Committees in which the Director serves as the Chairman or member (please refer pages 84 and 90)
A. 11 Appraisal of Chief Executive Officer The Code requires the Board to assess the performance of the Chief Executive Officer.			
Setting annual targets and appraisal of the performance of the Chief Executive Officer by the Board	A.11.1 & A.11.2	Compliant	<p>Prior to the commencement of each financial year, the Board in consultation with the Chief Executive Officer, sets reasonable financial and non-financial performance targets which are in line with short, medium and long-term objectives of the Company. Performance evaluation of the Chief Executive Officer is carried out by the Board quarterly and annually to ensure that pre-agreed targets have been achieved.</p> <p>The Chief Executive Officer is responsible to provide the Board with explanations for any adverse variances together with actions to be taken.</p>

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance									
B. Directors’ Remuneration B.1. Remuneration Procedure The Code requires the Company to have a well established, formal and transparent procedure for developing policy on executive remuneration and for fixing remuneration packages of individual directors. No Director is involved in deciding his/her remuneration.												
Establishment of the Remuneration Committee	B.1.1	Compliant	The Remuneration Committee decides on the remuneration of Executive Directors and sets guidelines for the remuneration of the management staff of the Company. The Chairman and the Chief Executive Officer are not members of this Committee.									
Composition of the Remuneration Committee	B.1.2	Compliant	The Remuneration Committee consists of two Non-Executive Directors and the Chairman of this Committee is appointed by the Board. Remuneration Committee is chaired by Prof. U Liyanage an Independent Director.									
Chairman and the members of the Remuneration Committee	B.1.3	Compliant	The Remuneration Committee consists of the following Non Executive Directors:									
			<table><tr><td>Name of Member</td><td>Position</td><td>Status</td></tr><tr><td>Prof. U. Liyanage</td><td>Chairman</td><td>Independent Non Executive Director</td></tr><tr><td>Mr. L.N.De. S Wijeyeratne</td><td>Member</td><td>Independent Non Executive Director</td></tr></table>	Name of Member	Position	Status	Prof. U. Liyanage	Chairman	Independent Non Executive Director	Mr. L.N.De. S Wijeyeratne	Member	Independent Non Executive Director
			Name of Member	Position	Status							
			Prof. U. Liyanage	Chairman	Independent Non Executive Director							
Mr. L.N.De. S Wijeyeratne	Member	Independent Non Executive Director										
Determination of remuneration of Non-Executive Directors	B.1.4	Compliant	The Board as a whole determines the remuneration of the Non-Executive Directors including the members of the Remuneration Committee which the Board believes is in line with current market rates and which is within the limits set in the Articles of Association									
Consultation of the Chairman and access to professional advice	B.1.5	Compliant	Remuneration Committee consults the Chairman about its proposals relating to the remuneration of other Executive Directors and has access to professional advice from within and outside the Company, in discharging their responsibilities									

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
B.2 Level and Make up of Remuneration The Code requires the levels of remuneration of directors to be sufficient to attract and retain high caliber of professionals and business leaders as directors. The proportion of remuneration of Executive Directors should be linked to corporate and individual performance.			
Executive Director's remuneration package	B .2.1	Compliant	The Remuneration Committee structures the packages needed to attract retain and motivate Executive Directors of the required calibre.
Comparison of remuneration with other companies	B.2.2	Compliant	The Remuneration Committee ensures that the remuneration of executives of each level of management is competitive and in line with their performance. Surveys are conducted as and when necessary to ensure that the remuneration is in line with comparative industry norms
Comparison of remuneration with other companies in the Group	B.2.3	Compliant	The Remuneration Committee reviews and compares executive remuneration of the Company with other Group Companies and ensures that the levels of remuneration are in line with same.
Performance related elements of remuneration of Executive Directors	B.2.4	Compliant	Performance-based incentives have been determined by the Remuneration Committee to ensure that the total earnings of the Executive Directors are aligned with the achievement of goals and budgetary targets of the Company.
Executive share options	B.2.5	Not Applicable	The Company does not have Executive Share Option Schemes.
Executive Directors' remuneration	B.2.6	Compliant	The Remuneration Committee follows the provisions set out in Schedule D of the Code as required.
Early termination of Executive Directors	B.2.7 & B.2.8	Not Applicable	No special early termination clauses are included in the contract of employment of Executive Directors that would entitle them to extra compensation. However, any such compensation would be determined by the Board of Directors.
Levels of remuneration for Non Executive Directors	B.2.9	Compliant	Remuneration for Non-Executive Directors reflects the time commitment and responsibilities of their role, taking into consideration market practices. The fees are as explained in section B.1.4 of this table.

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
B.3 Disclosure of Remuneration			
The Code requires that the Company's Annual Report to contain a statement of remuneration policy and details of remuneration of the Board.			
Disclosure of Remuneration	B.3.1	Compliant	Please refer Section B.1.3 on page 84 for the names of members in the Remuneration Committee, page 103 in the Remuneration Committee Report for the remuneration policy and page 142 for the total Directors' Remuneration.
C. Relations with Shareholders			
C.1. Constructive Use of the Annual General Meeting (AGM) and Conduct of General Meetings			
The Code requires the Board to use the Annual General Meeting as a platform to communicate with shareholders and encourage their participation.			
Use of Proxy votes	C.1.1	Compliant	TTE PLC has in place an effective mechanism to count all proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands, except where a poll is called.
Separate resolution for all separate issues at the Annual General Meeting	C.1.2	Compliant	TTE PLC proposes a separate resolution at the Annual General Meeting on each substantially separate issue, and on adoption of the Annual Report of the Board of Directors on the affairs of TTE PLC, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered as a separate resolution.
Availability of all Board Sub-Committee Chairmen	C.1.3	Compliant	The Chairman of TTE PLC ensures that the Chairmen of the Audit and Remuneration Committees are available to answer questions at the Annual General Meeting if so required.
Adequate notice of the Annual General Meeting	C.1.4	Compliant	A copy of the Annual Report including Financial Statements, Notice of the Meeting, Agenda and the Form of Proxy are sent to shareholders 15 working days prior to the date of the Annual General Meeting, as required by the statute, in order to provide the opportunity to all the shareholders to prepare and attend the same.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Procedures of voting at the Annual General Meeting	C.1.5	Compliant	A summary of the procedures governing voting at the Annual General Meeting is circulated to shareholders with every Notice of the Annual General Meeting.
C.2. Major Transactions The Code requires the Directors to disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter the TTE PLC net assets and the consolidated Group net asset base.			
Disclosure on 'major transactions'	C.2.1	Compliant	During the year, there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affect the net asset base of TTE PLC or Consolidated Group net asset base. Transactions, if any, which materially affect the net asset base of TTE PLC, are disclosed in the Quarterly/Annual Financial Statements.
D. Accountability and Audit D. 1. Financial Reporting The Code requires the Board to present a balanced and understandable assessment of TTE PLC's financial position, performance and prospects.			
Board's responsibility for statutory and regulatory reporting	D.1.1	Compliant	The Board recognises the responsibility to present regulatory and statutory reporting in a balanced and understandable manner. The Company has strictly complied with the requirements of the Companies Act No.07 of 2007 in the preparation of Quarterly and Annual Financial Statements which are prepared and presented in conformity with Sri Lanka Accounting Standards prescribed by the Institute of Chartered Accountants of Sri Lanka. The financial statements of the Company are audited by Messers. Ernst & Young , Chartered Accountants.

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Directors' Report in the Annual Report	D.1.2	Compliant	<p>The Report of the Board of Directors on the affairs of the Company is given on pages 104 to 109 of this Annual Report covering the following:</p> <ul style="list-style-type: none"> ● The Company has not engaged in activities that contravene laws and regulations of Sri Lanka (please refer page 104) ● Directors' interests in contracts with the Company (please refer page 105) ● Equitable treatment to shareholders (please refer page 108) ● Going concern of the business (please refer page 108) ● Review of Internal Controls and reasonable assurance of effectiveness (please refer page 108)
Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	Compliant	The "Statement of Directors' Responsibilities" is given on page 111 and the Auditor's responsibilities are set out in the "Independent Auditors' Report" on page 117 of this Annual Report.
Management Discussion and Analysis	D.1.4	Compliant	Please refer to the "Management Discussion and Analysis" on pages 8 to 23 of this Annual Report.
Declaration by the Board on the going concern of the business	D.1.5	Compliant	Please refer page 108 of the "Annual Report of the Board of Directors" and the "Statement of Directors' Responsibility" on page 111 for the required declarations.
Summon an Extraordinary General Meeting to notify serious loss of capital	D.1.6	Not Applicable	Reason for such an Extraordinary General Meeting has not arisen as yet but would be complied with if such situation arises.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
D.2. Internal Control The Code requires the Board to maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.			
Directors to review internal controls	D.2.1	Compliant	<p>The Board is responsible for the Company's system of internal control and in assessing its effectiveness. Internal control is established with emphasis placed on safeguarding assets, making available accurate and timely information and imposing greater discipline on decision making. It covers all controls, including financial, operational, compliance control and risk management. It is important to state, however, that any system can ensure only reasonable, and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time.</p> <p>The Company's internal audit function and outsourcing of internal audits to independent professional accounting firms play a significant role in assessing the effectiveness and successful implementation of existing controls and strengthening these and establishing new controls where necessary. The internal audit reports are made available to the Chairman, Chief Executive Officer, the Chairman of the Audit Committee and the Board. The Board reviews the effectiveness of the system of financial controls for the period up to the date of signing the accounts.</p>
Reviewing the need for internal audit function	D.2.2	Not Applicable	This is not applicable as the Company has its own internal audit function and also employs independent professional accounting firms to complements the work done by them.
D.3. Audit Committee The Code requires the Board to establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting, internal control principles and maintaining an appropriate relationship with the external auditors.			

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Composition of the Audit Committee	D.3.1	Compliant	<p>Audit Committee consists of :</p> <p>Chairman</p> <p>Mr. L N De S Wijeyeratne - Independent Non-Executive Director</p> <p>Names of members</p> <p>Dr. S S S B D G Jayawardena - Independent Non-Executive Director</p> <p>Mr. Malik J Fernando - Non-Executive Director</p> <p>The Company Secretaries Hayleys Group Services (Pvt) Ltd serves as its Secretary.</p> <p>The Director /CEO and the Chief Financial Officer(CFO) attend meetings. The Chairman, and Other Executive Directors are invited to attend meetings. The input of the statutory Auditor is obtained where necessary. The Audit Committee helps the Group achieve a balance between conformance and performance.</p>
Duties of the Audit Committee	D.3.2	Compliant	<p>The duties and responsibilities of the Audit Committee are aligned to the Code of Best Practice on Audit Committees issued by the Institute of Chartered Accountants of Sri Lanka and the Code of Best Practice on Corporate Governance jointly issued by Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.</p> <p>The Audit Committee assists the Board to ensure that the Company's internal controls and operations are in line with the best governance practices. The Audit Committee reviews and evaluates the scope, results, effectiveness of the audit and the independence and objectivity of the Auditors. Audit Committee reviews the nature and extent of non-audit services provided by the Auditors to seek balance objectivity and independence.</p>

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Terms of Reference of the Audit Committee	D.3.3	Compliant	The Terms of Reference (please refer page 114) of the Audit Committee have been agreed to by the Board. This addresses the purpose of the Committee, its duties and responsibilities including the scope and functions of the Committee.
Disclosures of the Audit Committee	D.3.4	Compliant	Names of the members of the Audit Committee are given in this table under reference D.3.1 and the independence of the Auditors is disclosed on page 115 under the Section on the "External Audits" in the "Audit Committee Report" on pages 115 to 116 of this Report.
D.4 Code of Business Conduct & Ethics The Code requires the Company to adopt a Code of Business Conduct & Ethics for Directors, and members of senior management team and to promptly disclose any waivers or material violations of the Code.			
Disclosure of Code of Business Conduct and Ethics	D.4.1	Compliant	A comprehensive Corporate Governance and Code of Conduct and Business Governance has been adopted by the Board and is in compliance and any violations are taken for consideration. The Board strictly ensures that the Directors and all employees adhere to the Code of Conduct and Business Governance.
Affirmation Statement by Chairman	D.4.2	Compliant	Refer the Chairman's Statement on pages 4 to 7 of this Annual Report.
D.5 Corporate Governance Disclosures The Code requires the Directors to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.			
Disclosure of Corporate Governance	D.5.1	Compliant	This Report from pages 76 to 95 sets out the manner and extent to which TTE PLC has complied with the principles and provisions of the Code.
2: SHAREHOLDERS E. Institutional Investors E.1 Shareholder Voting The Code requires Institutional Shareholders to make use of their votes and encourages them to ensure their voting intentions are translated to practice			

Corporate

Governance Contd.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Communication with shareholders	E.1.1	Compliant	There are regular discussions with shareholders (based on their requests) on matters which are relevant and of concern to the general membership. Voting of the shareholders is critical in carrying out a resolution at the Annual General Meeting. The Chairman ensures the views of the shareholders are communicated to the Board. Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Group considers as its principal communication with them and other stakeholders. These reports are also made available on the TTE PLC's website and are provided to the Colombo Stock Exchange. Any information that the Board considered as price sensitive is disseminated to the shareholders as necessary. Shareholders may bring up concerns they have, either with the Chairman or the Chief Executive Officer or the Company Secretaries as appropriate.
E.2 Evaluation of Governance Disclosures The Code requires the Institutional investors to give due weight to all relevant factors drawn to their attention.			
Due weight by Institutional Investors	E.2.1	Compliant	The Institutional Investors are encouraged to give due weight to all relevant matters relating to the Board structure and composition.
F. Other Investors F.1 Investing and Divesting Decision			
Individual shareholders	F.1.1	Compliant	Individual investors are encouraged to carry out adequate analysis or seek independent advice in making investing or divesting decisions.
F.2 Shareholder Voting			
Individual shareholders voting	F.2.1	Compliant	Individual shareholders are encouraged to actively participate in Annual General Meetings of the Company and exercise their voting rights. The Annual General Meeting gives an ideal platform for all shareholders to meet with the directors and obtain information and clarifications on the performance and the way forward of the Company.

SECTION 2: Level of compliance with the Continuing Listing Requirements -Section 7.10 on Corporate Governance
Rules issued by the Colombo Stock Exchange

Rule No.	Corporate Governance Principles	Compliance Status	Details
7.10.(a)	Non-Executive Directors	Compliant	At the conclusion of the preceding of the Annual General Meeting, seven out of ten Directors were Non-Executive Directors. As at 31 December 2011, nine out of twelve directors are Non Executive Directors.
7.10.2(a)	Independent Directors	Compliant	At the conclusion of the preceding Annual General Meeting, three out of seven Non Executive Directors were Independent. As at 31 December 2011 three of nine Non Executive Directors are independent.
7.10.2 (b)	Independent Directors	Compliant	Non-Executive Directors have submitted the declaration in line with the regulatory requirements.
7.10.3(a)	Disclosure relating to Directors	Compliant	The Board assessed the independence declared by the directors and determined the directors who are independent and disclosed same in the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference A.5.5 on page 80 of this Report.
7.10.3.(b)	Disclosure relating to Directors	Compliant	The Board has determined that all Non-Executive Directors except for Ms. Merrill J. Fernando, Malik J. Fernando, M. M. M. De Silva, G. K. Seneviratne K. I M. Ranasoma, W. D. N. H. Perera and Ms. M. D. A. Perera satisfy the criteria for "independence" set out in the Listing Rules.
7.10.3(c)	Disclosure relating to Directors	Compliant	A Brief resume of each Director is given in pages 97 to 99 of this Report.

Corporate

Governance Contd.

Rule No.	Corporate Governance Principles	Compliance Status	Details
7.10.3(d)	Disclosure relating to Directors	Compliant	Brief resumes of new Directors appointed have been provided to the Colombo Stock Exchange
7.10.5(a)	Composition of Remuneration Committee	Compliant	At the conclusion of the preceding Annual General Meeting, and as at 31st December 2011, the Remuneration Committee comprised of two Independent Non-Executive Directors
7.10.5(b)	Functions of the Remuneration Committee	Compliant	Please refer to the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference B.1.1 on page 84 for the details of the functions of the Remuneration Committee
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	Compliant	<p>Names of the Committee members are given in the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference B.1.3 on page 84</p> <p>Report of the Remuneration Committee is given on page 103 of this Report.</p> <p>The remuneration paid to the Directors is given in Note 22 to the Financial Statements on page 142</p>

Rule No.	Corporate Governance Principles	Compliance Status	Details
7.10.6(a)	Composition of the Audit Committee	Compliant	<p>As at the conclusion of the immediately preceding Annual General Meeting and as at 31 December 2011 the Audit Committee comprised three Non-Executive Directors of which two are independent.</p> <p>Chairman of the Audit Committee is an Independent Non-Executive Director and is appointed by the Board.</p> <p>The Chief Executive Officer and Chief Financial Officer attend meetings by invitation.</p> <p>Chairman of the Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. Please refer page 98 of this Annual Report.</p>
7.10.6(b)	Audit Committee Functions	Compliant	<p>Please refer to the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference D.3.2 on page 90 for the details of the functions of the Audit Committee.</p> <p>The terms of reference of the Audit Committee have been agreed by the Board</p>
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	Compliant	<p>Please refer above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference D.3.1 on page 90 for the details of the names of members of the Audit Committee</p> <p>The basis of determination of the independence of the Auditors is given in the Audit Committee Report on page 114 of this Report.</p>

Corporate

Governance Contd.

The number of meetings of the Board and individual attendance by members are as follows:

Name of Director	Directorship status	Attendance
Mr. A M Pandithage (Chairman)	Executive	4/4
Mr. S T Gunatilleke (Chief Executive Officer)	Executive	4/4
Mr. J A G Anandarajah	Executive	4/4
Mr. Merrill J Fernando	Non Executive	0/4
Ms. M D A Perera (Alternate to Mr. Merrill J Fernando)	Non Executive	1/4
Mr. Malik J Fernando	Non Executive	2/4
Mr. D C Fernando (Alternate to Mr. Malik J Fernando)	Non Executive	0/4
Mr. M M M De Silva (resigned – 05/01/12)	Non Executive	3/4
Mr. G K Seneviratne	Non Executive	4/4
Dr.K I M Ranasoma (appointed – 10/10/11)	Non Executive	0/1
Mr. W D N H Perera (appointed – 13/10/11)	Non Executive	0/1
Ms. M D A Perera (appointed – 05/01/12)	Non Executive	0/0
Pro. U Liyanage	Independent Non Executive	3/4
Dr. S S S B D G Jayawardena	Independent Non Executive	3/4
Mr. L N De S Wijeyeratne	Independent Non Executive	3/4

Directors

Profiles

Mr. A M Pandithage* – Chairman

Joined Hayleys Group in 1969. Chairman and Chief Executive of Hayleys since July 2009. Appointed to the Directorate of Talawakelle Tea Estates PLC in July 2009.

Was appointed as the Honorary Consul of United Mexican States (Mexico) to Sri Lanka in September 2011. Fellow of the Chartered Institute of Logistics & Transport. Director, Sri Lanka Port Management & Consultancy Services Limited. Member of the Presidential Committee on Maritime Matters. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. Former Chairman of the Ceylon Association of Ships' Agents. Former Director of both the Sri Lanka Ports Authority and Jaya Container Terminals Limited.

Mr Merrill J Fernando* *

Mr Merrill J Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 1998.

One of the first Sri Lankan tea tasters in the then British-dominated trade. Mr Merrill J Fernando is the Chairman of MJF Holdings Limited. He founded the 'Dilmah' tea brand that reintroduced pre-packaged Pure Ceylon Tea to Western markets. 'Dilmah', launched in Australia is now sold in over 90 countries around the world and is considered a role model for the value added marketing of a third world commodity.

Mr Fernando is the founder of the MJF Foundation, a low profile charity that works to create better conditions for plantation workers' underprivileged children, elders and society's victims.

Mr Malik J Fernando* *

Mr Malik J Fernando was appointed to the Board of Talawakelle Tea Estates PLC in 1998.

He is the Director Operations of the MJF Group, which comprises several tea growing and tea packing/ exporting companies, supplying the 'Dilmah Tea' brand around the world.

Mr Fernando holds a Bachelor of Science Degree in Management from Babson College, USA.

Mr S T Gunatilleke* – Chief Executive Officer

Mr S T Gunatilleke joined Talawakelle Tea Estates PLC in 1992 and was appointed as the Chief Executive Officer in 2001. He was appointed to the Board of Hayleys Plantation Services (Pvt) Ltd. in 2003 and to the Board of Talawakelle Tea Estates PLC in 2004.

He serves on the Boards of DPL Plantations (Pvt.) Limited, Kelani Valley Plantations PLC & Mabroc Teas (Pvt.) Limited.

A senior planter with over forty years experience in plantation management, has held the position of Regional Director of Sri Lanka State Plantations Corporation and served as a Consultant to United Nations Industrial Development Organisation (UNIDO) on tea plantation management.

Mr M M M De Silva* * **(Resigned - w.e.f.05.01.2012)**

Mr M M M De Silva was appointed to the Board of Talawakelle Tea Estates PLC in 2006.

Mr Silva is a member of the Group Management Committee of Hayleys PLC and is responsible for the Industrial Solutions Group in the Inland Marketing Sector. He holds a Bachelor of Science Degree from the University of Peradeniya, is a Fellow of the Institute of Chartered Accountants of Sri Lanka, and an Associate of the Chartered Institute of Management Accountants, UK. He also holds a Postgraduate Diploma in Business Management from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

Directors

Profiles Contd

Prof. Uditha Liyanage***

Prof. Uditha Liyanage was appointed to the Board of Talawakelle Tea Estates PLC in December 2008 as a Non-Executive Director.

He is presently the Director of the Postgraduate Institute of Management (PIM) and the Chairman of its Board of Management. He counts over fifteen years experience in the industry, having held senior marketing management positions in leading companies in Sri Lanka and a leading Marketing Consultant. He is a member of the Board of Study of The Institute of Chartered Accountants of Sri Lanka, and a Council Member of the National Institute of Business Management (NIBM). He is also a member of the Standing Committees on Staff Development and Management Studies of the University Grants Commission and a member of the Presidential Task Force on National Productivity Improvement. He was the Chairman of the CIM Sri Lanka, and a member of the International Board of CIM. He is on the Boards of Directors of a number of leading companies.

Prof. Liyanage has published extensively on Branding and Strategic Marketing in leading Journals both here and abroad, and has addressed numerous international conferences.

Dr S S S B D G Jayawardena***

Dr S S S B D G Jayawardena was appointed to the Board of Talawakelle Tea Estates PLC in December 2008 as a Non-Executive Director.

He is the Chairman of the Tea Research Institute (TRI). He is a Board Member of Sri Lanka Tea Board (SLTB), Tea Small Holdings Development Authority (TSHDA), and Tea Shakthi and also a Member of the Advisory Committee on Tea of the Ministry of Plantation Industries, the National Science Foundation Committee on Research Policy and National Salaries & Cadre Commission.

He held positions as the former Chairman – Coconut Research Institute and National Institute of Plantation Management and a former Director General of Department of Agriculture. He holds a Ph.D. in Plant Physiology, Plant Breeding & Genetics.

Mr L N De S Wijeyeratne***

Mr L N De S Wijeyeratne was appointed to the Board of Talawakelle Tea Estates PLC in December 2008 as a Non-Executive Director.

He is a fellow of The Institute of Chartered Accountants in Sri Lanka and counts over thirty-five years of experience in Finance and General Management both in Sri Lanka and overseas. He was the Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Limited. He is presently a Director of several listed and unlisted Companies.

Mr J A G Anandarajah*

Joined Hayleys in 1980. Director, Dipped Products PLC since 1989 and Managing Director from January 2007 to March 2011. Appointed to the Hayleys Group Management Committee in 2001 and to the Board of Hayleys PLC in 2007. Director of Kelani Valley Plantations PLC since acquisition in 1996 and Talawakelle Tea Estates PLC from 2010. Responsible for the Hayleys Group Plantations Sector as the Managing Director of DPL Plantations (Pvt) Ltd., Hayleys Plantations Services (Pvt) Ltd and Mabroc Teas (Pvt) Ltd. Member of the Board of Management, Industrial Technology Institute, Sri Lanka. Chemistry (Honours) Graduate, University of Peradeniya, Sri Lanka.

G K Seneviratne**

Mr G K Seneviratne was appointed to the Board of Talawakelle Tea Estates PLC on 29th April 2010.

Mr Seneviratne Joined DPL Plantations Limited in 1992 and to the Board in 1995. Chief Executive of Kelani Valley Plantations PLC since 1994, appointed as Director in 1996 and as Managing Director in May 2004. Appointed to the DPL Board in 1998 and to the Hayleys Group Management Committee in January 2007. Serves the Plantation Industry since 1970.

Past Chairman of the Planters' Association of Ceylon. Served as a member of Sri Lanka Tea Board, Rubber Research Board, Plantation Trust Board and the Tea Association of Sri Lanka. Former Consultant, Investment Monitoring Board, JEDB/SLSPC Estates.

Dr K I M Ranasoma
(Appointed w.e.f. - 10.10.2011)**

Dr K I M Ranasoma was appointed to the Board of Talawakelle Tea Estates PLC on 10th October 2011.

Joined DPL in August 2010 as an Executive Director and took over as Managing Director from April 2011. Appointed to the Hayleys Group Management Committee in January 2011 and to the Board of Hayleys in April 2011. Former Country Chairman/Managing Director of Shell Gas Lanka Ltd. and Shell Terminal Lanka Ltd. Holds First Class Honours Degree in Engineering from the University of Peradeniya, Sri Lanka, a Doctorate from Cambridge University, UK and an MBA with Distinction from Wales University, UK.

Mr W D N H Perera
(Appointed w.e.f. - 13.10.2011)**

Mr W D N H Perera was appointed to the Board of Talawakelle Tea Estates PLC on 13th October 2011. Director of Hayleys PLC, Haycarb PLC, Amaya Leisure PLC. Deputy Chairman of Pan Asia Banking Corporation PLC, Executive Deputy Chairman of Vallibel One PLC, Managing Director of Royal Ceramics Lanka PLC, Chairman of Don Wilbert Capital Ltd. Director of Louis Brown & Co. Ltd., LB Finance PLC, The Fortress Resorts PLC, Vallibel Finance PLC, Sathosa Motors PLC, Hotel Services (Ceylon) PLC. Chairman of N Sports (Pvt) Ltd. and N Capital (Pvt) Ltd.

Counts over 30 years experience in Finance, Capital Market Operations, Manufacturing, Marketing and Management Services.

Professional Affiliations & Memberships – Sri Lanka Institute of Marketing

Ms Minette D A Perera
(Appointed w.e.f. - 05.01.2012)**

Ms Minette D A Perera is the Finance Director of the MJF Group. She has been on the Board of Ceylon Tea Services PLC since September 2000, Kahawatte Plantations PLC since January 2001 and First Capital Holdings PLC since December 2011. She is currently on the Board of a number of MJF Group Companies including MJF Holdings Limited.

She is a Fellow member of the Institute of Chartered Accountants of Sri Lanka, the Chartered Institute of Management Accountants of UK and the Association of Chartered Certified Accountants of UK.

She has over 30 years working experience as a qualified Accountant having worked in leading local and international companies as an Executive Director.

*	Executive
**	Non-Executive
***	Independent Non-Executive

Corporate

Management Profile

Talawakelle Tea Estates PLC

Incorporated in 1992 in Sri Lanka

Principal Activity : Cultivation and manufacture of Black tea

Stated Capital : Rs 350mn

Directors	
Mr A M Pandithage	Chairman
Mr S T Gunatilleke	Chief Executive Officer
Mr Merrill J Fernando	
Mr Malik J Fernando	(Alternate- Mr D C Fernando)
Mr M M M De Silva	(resigned-05th January 2012)
Mr J A G Anandarajah	
Mr G K Seneviratne	
Prof. U Liyanage	
Dr S S S B D G Jayawardena	
Mr L N De S Wijeyeratne	
Dr K I M Ranasoma	(appointed -10th October 2011)
Mr W D N H Perera	(appointed -13th October 2011)
Ms M D A Perera	(appointed -5th January 2012)

Management Team	
<i>DIRECTORS</i>	
Mr A M Pandithage	Chairman
Mr J A G Anandarajah	Managing Director - HPSL
Mr S T Gunatilleke	Director/ Chief Executive Officer

Head Office Management Team	
Mr D S Seneviratne	Deputy Chief Executive Officer
Mr L H Munasinghe	General Manager - Plantations
Mr T Dharmaratne	General Manager - Human Resource & Quality Management Development
Mr R Joseph	Deputy General Manager - Marketing
Mrs A R Wijesekera	Deputy General Manager - Finance
Mr H H Jayasundera	Manager - Resource Development
Mr M T D Rodrigo	Manager – Audit & Co-ordination

Estate Management Team		
Mr S Edirisinghe	Deputy General Manager	Bearwell Estate
Mr S B Alawattegama	Deputy General Manager	Somerset Estate
Mr N P Abeysinghe	Deputy General Manager	Dessford Estate
Mr L N Rathnayake	Group Manager	Logie Estate
Mr D M H U Mahadivulwewa	Group Manager	Kiruwanaganga Estate
Mr G K Wijesekere	Senior Manager	Great Western Estate
Mr H R J C Senanayake	Senior Manager	Holyrood Estate
Mr P G G Jayathilake	Senior Manager	Mattakelle Estate
Mr H P W Vithanage	Senior Manager	Moragalla Estate
Mr H P W Vithanage	Senior Manager	Pitiyagoda Estate
Mr D G B Dassanayake	Manager	Calsay Estate
Mr D M A S Dissanayake	Manager	Clarendon Estate
Mr E S B A Egodawela	Manager	Palmerston Estate
Mr A C M Bandaranayake	Manager	Radella Estate
Mr M W S S K Wijewardena	Manager	Wattegoda Estate
Mr G P G K Pathirana	Manager	Deniyaya Estate
Mr C D Sabaragamuwa	Acting Manager	Handford Estate
Mr W D Jayasinghe	Manager	Indola Estate

T T E L Hydro Power Company (Private) Limited

Incorporated in 2008 in Sri Lanka

Principal Activity : Generation of Hydro Power

Stated Capital : Rs 69.0mn

Sites	Location	Capacity
Radella Hydro Power Project	Nanu oya	0.2 MW
Palmerston Hydro Power Project	Talawakelle	0.8 MW

DIRECTORS	
Mr A M. Pandithage	Chairman
Mr M M M De Silva	
Mr S T Gunatilleke	
Mr Merrill J Fernando	
Mr Malik J Fernando	
Mr J A G Anandarajah	
Mr N Y Fernando	

Corporate

Management Profile

T T E L Somerset Hydro Power (Private) Limited
 Incorporated in 2008 in Sri Lanka
 Principal Activity : Generation of Hydro Power
 Stated Capital : Rs 60.0mn

Site	Location	Capacity
Somerset Hydro Power Project	Nanu oya	1.2 MW

DIRECTORS	
Mr A M Pandithage	Chairman
Mr M M M De Silva	
Mr S T Gunatilleke	
Mr Merrill J Fernando	
Mr Malik J Fernando	
Mr J A G Anandarajah	
Mr N Y Fernando	

Remuneration

Committee Report

The Remuneration Committee consists of two Independent Non-Executive Directors including the Chairman of the committee. The Director/Chief Executive Officer assists the Committee by providing all relevant information and participating in its analysis and deliberations, except when his own compensation package is reviewed.

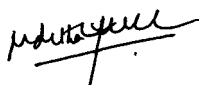
The Committee is responsible for determining the compensation package of the Director/CEO. In addition, they lay down guidelines and parameters for the compensation structure of the management staff of TTE PLC.

The Company Policy on remuneration packages is to attract and retain the best professionals and an experienced workforce, and motivate, encourage and reward high levels of performance. The company's structured performance evaluation methodology ensures provision of compensation appropriate for the company and commensurate with each employee's level of expertise and contribution, bearing in mind the performance of the business and shareholder returns.

In carrying out its tasks, the Committee reviewed data concerning executive pay among comparable companies.

The Committee will meet from time to time and review the Company's compensation structure to ensure alignment with strategic priorities and with compensation offered by comparable companies.

Succession plans to which remuneration can be aligned have been defined. Steps have also been taken to align pay with performance, based on the Performance Management System within the Company.



Prof U Liyanage
Chairman
Remuneration Committee
13th February 2012

Annual Report

of the Board of Directors on the affairs of the Company

The Board of Directors of Talawakelle Tea Estates PLC (TTE PLC) has pleasure in presenting their Report on the affairs of the Company together with the audited Consolidated Financial Statements for the year ended 31st December 2011.

The details set out herein provide the pertinent information required by the Companies Act No 07 of 2007, and the Colombo Stock Exchange Listing Rules and are guided by recommended best reporting practices.

Principal Activities

The principal activity of Talawakelle Tea Estates PLC is cultivation and manufacture of black tea. Talawakelle Tea Estates PLC is the holding company of TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited which are engaged in generation of hydro power.

Business Review/Future Developments

A review of the Group's business and its performance during the year, with comments on financial results and future strategic developments, is contained in the Chairman's Statement (pages 4 to 7) and Management Discussion & Analysis (pages 8 to 23) sections of this Annual Report. These reports together with the Financial Statements reflect the state of affairs of the Company and the Group.

There were no material changes in the nature of businesses of the Company and the Group.

The Directors, to the best of their knowledge and belief, confirm that the Group has not engaged in any activities that contravene laws and regulations.

Financial Statements

The Financial Statements of the Company and the Group are given on pages 118 to 147.

Auditor's Report

The Auditor's Report on the Financial Statements of the Company and the Group is given on page 117.

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are given on pages 123 to 130. There were no changes in the accounting policies adopted by the Company or its subsidiaries.

Group Revenue

The revenue of the Group during the year was Rs 2,792.3mn (2010-Rs 3,002.6 mn). A detailed analysis of the Group's revenue, profits and asset allocation relating to different segments is given in Note 3 to the Financial Statements.

The revenue in respect of tea decreased by Rs.215.6 mn (2010-increased by Rs.186.0 mn), rubber increased by Rs.18.6 mn (2010-increased by Rs.15.6mn) and hydro power decreased by Rs.7.3 mn (2010-increased by Rs.38.8 mn) during the year.

Trade between Group Companies is conducted at fair market prices.

Results And Dividends

The Group loss before taxation, amounted to Rs.56.0 mn (2010-profit Rs.169.2mn) in the year under review. After deducting Rs.17.8 mn (2010-Rs 4.6 mn) for taxation and a consolidation profit of Rs.18.6 mn (2010-Rs17.0 mn) for minority shareholders' interest, the Group loss attributable to equity holders of the company for the year was Rs. 92.5 mn (2010-profit Rs.147.4 mn).

No dividend has been proposed for the year (2010-Rs 59.4mn).

Group Investment

Group capital expenditure including investments in field development during the year amounted to Rs. 171.0 mn (2010-Rs 205.4 mn)

Property, Plant & Equipment

Capital expenditure of the Group during the year on Property, Plant & Equipment amounted to Rs.68.8 mn (2010-Rs 24.6 mn) whilst that of the Company was Rs. 68.0 mn (2010-Rs 17.6 mn). The Company's investment on replanting of Tea and Rubber during the year amounted to Rs.93.3 mn (2010-Rs 152.8 mn) and Rs.8.9 mn (2010-Rs3.8 mn) respectively.

Information relating to movement in Property, Plant & Equipment and Replanting is given in Notes 4, 5, 6A & 6B to the Financial Statements.

Market Value Of Properties

The Group does not possess any freehold land.

Stated Capital And Reserves

The stated capital of the Company, consisting of 23,750,000 Ordinary Shares and one Golden Share amounts to Rs.350,000,010. There was no change in the stated capital during the year.

Total Group Reserves at 31st December, 2011 amount to Rs.656.4 mn (2010-Rs 808.3mn) comprising Retained Earnings. The movement is shown in the Statement of Changes in Equity in the Financial Statements.

Preference Shares

TTEL Hydro Power Company (Pvt) Limited issued a further 14% Redeemable Cumulative Preference Shares amounting to Rs 15.8 mn in settlement of outstanding current account balances.

As at 31st December 2011 the Company holds 14% Redeemable Cumulative Preference Shares in TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited amounting to Rs.53.1mn (2010-Rs 37.2mn) and Rs.16.0 mn (2010 – Rs.16.0 mn) respectively. Information relating to the preference shares is given in Note 6 c.to the Financial Statements

Interests Register

The Company, in compliance with the Companies Act No.07 of 2007, maintains an Interests Register. Shareholders of subsidiary companies have unanimously agreed to dispense with the requirement to maintain an Interests Register. Particulars of entries in the Interests Register maintained by the Company are detailed below.

Directors' Interests in Transactions:

The Directors of the Company have made the general disclosures provided for in Section 192(2) of the Companies Act No.07 of 2007. Note 30 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

Directors' Interests in Shares:

Directors of the Company who have shares in the Company have disclosed their share holdings and any acquisitions/disposals to the Board, in compliance with Section 200 of the Companies Act.

Details of Directors shareholdings in the Company are given later in this report.

Insurance & Indemnity:

Hayleys Plantation Services (Private) Limited (HPSL) the Parent Company has obtained a Corporate Guard Insurance Policy from Chartis Insurance Limited, providing worldwide cover to indemnify all past, present and future Directors and Officers (D&O) of the Company and its subsidiaries. The policy is extended worldwide with a total cover of US\$ 1.mn. The premium paid was Rs 0.7mn (2010-Rs 0.7mn) .

Payment of Remuneration to Directors:

Executive Directors remuneration is determined within an established framework by the Board's Remuneration Committee to whom this task is entrusted.

The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The total remuneration for Executive Directors for the year ended 2011 is Rs.6.4 mn (2010-Rs 4.8 mn), which includes the value of perquisites granted as part of terms of service and is formally approved. The total remuneration of Non-Executive Directors

Annual Report

of the Board of Directors on the affairs of the Company Contd.

for the year ended 2011 is Rs.1.7mn (2010 - Rs1.6mn) determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of remuneration is fair to the company.

Corporate Donations

No donations were made during the year (2010 - Nil) by the Company and its subsidiaries.

Directorate

The names of the Directors of the Company who held office at the end of the financial year are given below and their brief profiles appear on pages 97 to 99.

Executive Directors

Mr A M Pandithage (Chairman)
Mr S T Gunatilleke (Chief Executive)
Mr J A G Anandarajah

Non- Executive Directors

Mr Merrill J Fernando (Alternate Ms M D A Perera)
Mr Malik J Fernando (Alternate Mr D C Fernando)
Mr M M M De Silva
Mr G K Seneviratne
Dr K I M Ranasoma (Appointed - 10th October 2011)
Mr W D N H Perera (Appointed - 13th October 2011)

Independent Non- Executive Directors

Prof U Liyanage
Dr S S S B D G Jayawardena
Mr L N De S Wijeyeratne

The basis on which Directors are classified as Independent Non – Executive Directors is discussed in the Corporate Governance Statement.

Consequent to the sale of shares of the holding Company - Hayleys Plantation Services (Private) Ltd by Hayleys PLC to DPL Plantations (Pvt) Ltd PLC, Dr K I M Ranasoma was appointed to the Board since the last Annual General meeting and in terms of the Article 28(2) of the Articles of Association of the Company, shareholders will be requested to re-elect him at the Annual General Meeting.

Mr M M M De Silva resigned from the Board with effect from 5th January 2012. Mr W D N H Perera and Ms M D A Perera Non- Executive Directors were appointed to the Board since the last Annual General meeting and in terms of the Article 28(2) of the Articles of Association of the Company,

shareholders will be requested to re-elect them at the Annual General Meeting.

Mr L N De S Wijeyeratne and Mr Malik J Fernando retire by rotation and being eligible, offer themselves for re-election.

Notice has been given pursuant to Section 211 of the Companies Act No 07 of 2007, of the intention to propose an ordinary resolution for re-election of Mr. Merrill J. Fernando, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act. Mr. Fernando is 81 years old.

The names of Directors holding office at the end of the financial year in respect of subsidiaries appear on pages 101 to 102

Management Fees

The management fee has been charged at 5% of EBITDA by Hayleys Plantation Services (Private) Limited for the year under review.

Corporate Governance

The Company has complied with the Corporate Governance rules laid down under the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka. The Corporate Governance section on pages 73 to 96 discusses this further.

Auditors

Messrs. Ernst & Young Chartered Accountants are deemed re-appointed as Auditors of the Company, in accordance with Section 158 of the Companies Act No. 07 of 2007.

A resolution proposing the Directors be authorised to determine their remuneration will be submitted at the Annual General Meeting.

The Auditors Messrs Ernst & Young Chartered Accountants were paid Rs 2.4mn (2010-Rs 2.1mn) as audit fees and audit related work.

Messrs KPMG Ford Rhodes, Thornton & Co were paid as Auditors fees of the two subsidiaries, TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited Rs 0.16 mn (2010 - Rs 0.10 mn) as audit fees for the year.

The Auditors of the Company and its Subsidiaries, have confirmed that they do not have any relationship (other than that of an auditor) with, or interests in, the Company or any of its Subsidiaries other than those disclosed above.

Share Information

Information relating to earnings, dividends, net assets, market value per share and share trading is given on pages 149 and 150

Goldern Shareholder

Rights of the Golden Shareholder as given in the Articles of Association of the Company

Definition of the 'Golden share' - a share allotted to the Secretary to the Treasury in his official capacity and not in his own name, for and on behalf of the state of the Democratic Socialist Republic of Sri Lanka, and or by any transferee permitted in terms of the Articles.

Definition of 'Golden shareholder' – the holder of the 'Golden Share'.

- The concurrence of the Golden Shareholder in writing shall be first obtained to amend the definition of the words 'Golden Share' and 'Golden Shareholder' and the Articles 5(1) to 5(12) of the Articles of Association of the Company which deals with the Golden shareholder.
- The Golden Share may be converted into an ordinary share with the concurrence of the Golden Shareholder and the concurrence of a majority of the shareholders.

- The Company shall obtain the written consent of the Golden Shareholder prior to sub-leasing, ceding or assigning its rights in part or all of the lands set out in the Article of Association of the Company.
- The Golden Shareholder shall be entitled to call upon the Board of Directors of the Company once in every three month period if desired to meet with the Golden Shareholder and or his nominees, and the Directors if so called upon shall meet with the Golden Shareholder and or his nominees to discuss matters of the Company of interest to the State of the Democratic Socialist Republic of Sri Lanka.
- The Golden Share shall only be held by the Secretary to the Treasury in his official capacity and not in his own name, for and on behalf of the State of the Democratic Socialist Republic of Sri Lanka, or by a company in which the State of the Democratic Socialist Republic of Sri Lanka owns ninety nine (99) per centum or more of the issued share capital.
- The Golden Shareholder and/or his nominee shall be entitled to inspect the books of accounts of the Company after giving two weeks written notice to the Company.

Annual Report

of the Board of Directors on the affairs of the Company Contd.

- The Company shall submit to the Golden Shareholder, within sixty 60 days of the end of each quarter, a quarterly report relating to the performance of the Company during the said quarter in a pre-specified format agreed to by the Golden Shareholder and the Company.
- The Company shall submit to the Golden Shareholder, within ninety 90 days of the end of each fiscal year, information relating to the Company in a pre-specified format agreed to by the Golden Shareholder and the Company.
- Golden shareholder has power to appoint not more than 03 persons as his proxies to attend on the same occasion at the general meetings.

Events Occurring After The Balance Sheet Date

No circumstances have arisen since the Balance Sheet date that would require adjustment, or disclosure, other than those disclosed in Note 29 to the Financial Statements on page 145.

Employment

The number of persons employed by the Company at year end was 10,049 (2010 -10,859) of which 10,019 (2010- 10,824) are engaged in employment outside the District of Colombo.

Shareholders

It is the Groups policy to endower to ensure equitable treatment to its share holders.

Statutory Payments

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 111.

Environmental Protection

The Group's efforts to conserve scarce and non renewable resources, as well as its environmental objectives and key initiatives, are described in the Sustainability Report on pages 34 to 64

The Group's business activities can have direct and indirect effects on the environment. It is the Group's policy to minimise any adverse effects its activities have on the environment and to promote corporation and compliance with the relevant authorities and regulations

Related Party Transactions

The details of related party transactions of the Company and the Group are given in Note 30 to the Financial Statements.

Internal Controls

The Directors acknowledge their responsibility for the Group's system of internal control. The system is designed to give assurance, inter alia, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can only ensure reasonable, and not absolute, assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the system of internal controls, is satisfied with its effectiveness of these controls for the period up to the date of signing the Financial Statements.

Going Concern

The Directors, after making necessary inquiries and reviews including reviews of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Therefore, the going concern basis has been adopted in the preparation of the Financial Statements.

Directors' Shareholdings

Directors' holdings of ordinary shares in the Company are given below.

There had been no share dealings by Directors during the year.

Mr. Merrill J Fernando - 1,184,700 (2010 -1,184,700).

These shares are held through Merrill J Fernando & Sons (Private) Limited.

Mr G K Seneviratne - 300 (2010 – 300 shares)

Dr K I M Ranasoma - 500 (2010 – 500 shares)

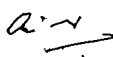
No shares are held by the Directors in the subsidiaries of the Company


Major Shareholdings

The twenty major shareholders as at 31st December, 2011 are given on page 150 of this report.

Annual General Meeting

The Annual General Meeting will be held at the Registered Office of the Company, No.400, Deans Road, Colombo 10 at 10.30 am on 28th March 2012. The Notice of the Annual General Meeting appears on page 153 For and on behalf of the Board


A.M. Pandithage
Chairman


J A G Anandarajah
Director


Hayleys Group Services (Pvt) Ltd.
Secretaries

Date : 13th February 2012

Our Estates

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Location	Name of Estates	Brand/ Mark	Total		Area in Tea		Area in Rubber		Other		Total	Buildings Bungalows Garden & Roads	Name of Manager	No. of	Crop	Yield	factory	Type	factory
			Extent		Ha.	Im	Ha.	Ha.	Ha.	Ha.									
Talawakelle/Manu Oya																			
Bearwell	Bearwell		423.41	27.26	317.67				28.41	373.34	50.07	S Edirisinghe	684	528	1,661	1,280	Ortho		720
Calsay	Calsay/Maha Eliya		282.25	24.95	179.55				51.75	256.25	26.00	D G B Dassanayake	464	244	1,361	1,463	Ortho		430
Clarendon	Clarendon		191.42	15.81	148.04				7.09	170.94	20.48	D MAS Dissanayake	293	173	1,167	1,555	Ortho		600
Dessford	Dessford		431.99	26.91	291.63				72.70	391.24	40.75	N P Abeysinghe	808	452	1,546	1,382	Ortho		720
Great Western	Great Western		628.48	33.98	385.85				174.12	593.95	34.53	G K Wijesekera	898	616	1,596	1,448	Ortho		720
Holyrood	Holyrood		465.96	39.50	308.20				99.83	447.53	18.43	H R J C Senanayake	714	455	1,449	1,341	Ortho		720
Logie	Logie		329.88	18.63	209.59				57.22	285.44	44.44	L N Rathnayake	455	371	1,770	1,220	Ortho		500
Mattakelle	Mattakelle		361.96	26.58	232.58				66.62	325.78	36.18	P G G Jayathilake	771	544	2,313	1,372	Ortho		720
Palmerston	Palmerston		203.11	15.00	147.86				27.00	189.86	13.25	E S B A Egodawela	345	255	1,723				
Radella	Radella		458.76	34.27	239.23				136.74	410.24	48.52	A C M Bandaranayake	758	391	1,636	1,402	Ortho/ Gr. T		720
Somerset	Somerset		458.90	39.46	301.86				69.83	411.15	47.75	S B Alawattagama	859	560	1,857	1,102	Ortho		720
Wattegoda	Wattegoda		529.89	25.75	293.50				174.09	493.34	36.55	M W S K Wijewardena	779	465	1,584	1,219	Ortho		720
Sub Total			4,766.01	328.10	3,055.56				965.40	4,349.06	416.95		7,828	5,055	1,649				7,290
Galle																			
Moragalla	Moragalla A1		384.78	25.80	84.61			10.30	121.14	377.84	6.94	H P W Vithanage	354	354	1,731	38	Ortho		600
Pityagoda	Pityagoda Sithakandura											H P W Vithanage	10				Ortho		400
Sub Total			384.78	25.80	84.61			10.30	121.14	377.84	6.94		364	354	1,731				1,000
Deniyaya/ Urubokka																			
Deniyaya	Deniyaya, New Deniyaya		329.71	28.70	135.12				146.69	310.51	19.20	G P G K Pathirana	351	434	1,242	310	Ortho		600
Handford	Handford		248.44	27.95	51.04				152.64	231.63	16.81	C D Sabaragamuwa	174	277		400	Ortho		600
Indola	Indola		282.16	13.25	92.49			20.66	90.68	276.28	5.88	W D Jayasinghe	259	98	1,060				
Kiruwanaganga	New Kiruwanaganga		482.71	22.31	345.51				88.25	456.07	26.64	D M H U Mahadivulwewa	874	678	1,234	310	Ortho		1,050
Sub Total			1,343.02	92.21	624.16			20.66	478.26	1,274.49	68.53		1,658	1,486	1,211				2,250
Grand Total			6,493.81	446.11	3,764.33			30.96	1,579.65	6,001.39	492.42		9,850	6,895	1,578				10,540

Statement

of Directors' Responsibilities

The Directors are responsible, under Section 150 (1), 151, 152 (1), 153 of the Companies Act No.7 of 2007, to ensure compliance with the requirements set out there in to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit & loss of the Company and the Group for the financial year.

The Directors are also responsible, under Section 148 for ensuring that proper accounting records are kept to enable, determination of financial position with reasonable accuracy, preparation of the Financial Statements and audit of such statements to be carried out readily and properly.

The Board accepts responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that in preparing the Financial Statements, appropriate accounting policies have been selected and applied consistently while reasonable and prudent judgements have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards, Companies Act No. 7 of 2007 and the Listing Rules of The Colombo Stock Exchange. Further the Financial Statements provide the information required by the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are of the opinion, based on their knowledge of the Company, key operations and specific inquiries, that adequate resources exist to support the Company on a going concern basis over the next year. These Financial Statements have been prepared on that basis.

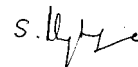
The Directors have taken reasonable measures to safeguard the assets of the Company and the Group and, in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

The External Auditors, Messrs Ernst & Young, reappointed in terms of section 158 of the Companies Act were provided with every opportunity to undertake the inspections they considered appropriate to enable them form their opinion on the Financial Statements. The Report of the Auditors, shown on page 117 sets out their responsibilities in relation to the Financial Statements.

Compliance Report

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government that were due in respect of the Company and its Subsidiaries as at the Balance Sheet date have been paid or where relevant, provided for.

By order of the Board



**HAYLEYS GROUP SERVICES
(PVT) LTD**
Secretaries

13th February 2012



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Financial Reports

Financial Calendar

First & Final Dividend	08th April 2011
1st Quarter Report	28th April 2011
2nd Quarter Report	29th July 2011
3rd Quarter Report	02nd November 2011
Annual Report 2011	13th February 2012
20th Annual General Meeting	28th March 2012

Audit

Committee Report

Role Of The Audit Committee

The role of the Committee, which has specific terms of reference, is described in the Corporate Governance Report on pages 73 to 96

Composition Of The Audit Committee

The Audit Committee appointed by and responsible to the Board of Directors comprises of three Non-Executive Directors two of whom are Independent. The Director/CEO, Chief Financial Officer (CFO) attend the meetings and the Company Secretary act as the Secretary. The Chairman and the other Executive Director attend meetings as required.

The Chairman of the Audit Committee is a senior Chartered Accountant. The names of the members of the committee are given below and their brief profiles are given on pages 97 to 99 of this report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgment on matters that come within the Committee's purview.

Meetings

The Committee met 4 times during the year. The attendance of the members at these meetings is as follows:

Mr. L N de S Wijeyeratne	4/4
Dr. S S S B D G Jayawardena	4/4
Mr. Malik J Fernando	0/4

Other members of the Board and of the Management Committee, representative from Hayleys Management Audit & Systems Review Department (MA&SRD), Internal auditors as well as the External Auditors were present at these meetings as appropriate. The proceedings of the Audit Committee are regularly reported to the Board of Directors.

Tasks Of The Audit Committee

Financial Reporting System

The Committee reviewed the financial reporting system adopted by the Company in the preparation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards. The committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its evaluation of the financial reporting system, also recognised the adequacy of the content and quality of routine management information reports forwarded to its members.

Internal Audits

The Committee reviewed the process to assess the effectiveness of the internal financial controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Group Hayleys Management Audit & Systems Review Department reports on key control element and procedures that are selected according an annual plan were reviewed.

Internal Audits are outsourced to leading audit firms in line with the agreed annual audit plan. Follow up and reviews were held with management to ensure that audit recommendations are being acted upon. The Committee obtained and reviewed statements from the management of the company as to the mitigatory action taken or contemplated as to risks arising from liquidity, internal control systems and procedures and adequacy of insurance for safeguarding of assets.

The Committee obtained representations from the Company on the adequacy of provisions made to possible liabilities and reviewed reports tabled, certifying their compliance with relevant statutory requirements.

External Audits

The committee held meeting with the External Auditors to review the nature, approach and scope of Audit and the Audit Management Letters of the Company. Actions taken by

Audit

Committee Report

the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the Company. Remedial action was recommended wherever necessary.

The Audit committee has reviewed the other services provided by the External Auditors to the Company, to ensure that their independence as Auditors has not been compromised.

Appointment of External Auditors

The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young be continued as Auditors for the Year ending 31st December 2012.

Support to the Committee

The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively.



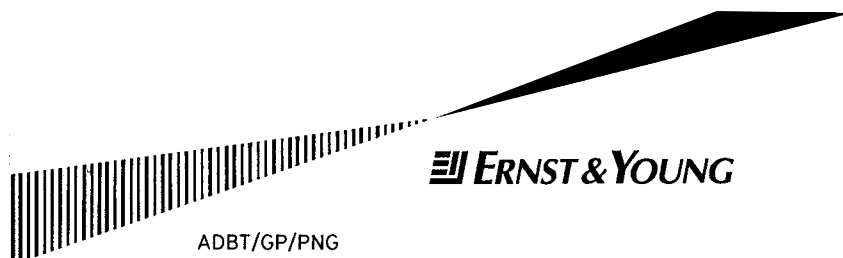
L N De S Wijeyaratne

Chairman

Audit Committee

09th February 2012

Independent Auditors' Report



ADBT/GP/PNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TALAWAKELLE TEA ESTATES PLC

ADBT/GP/PNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TALAWAKELLE TEA ESTATES PLC

We have audited the accompanying Financial Statements of Talawakelle Tea Estates PLC and the consolidated Financial Statements of the Company and its subsidiaries which comprise the Balance Sheets as at December 31, 2011 and the Income Statements, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
We therefore believe that our audit provides a reasonable basis for our opinion.

Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
eysi@lk.ey.com

Opinion

Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2011, and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2011 and its Loss and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2011 and the loss and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of section 151(2) and 153 (2) to 153 (7) of the companies act No.07 of 2007

Ernst & Young

Chartered Accountants

13 February 2012
Colombo

Partners: A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A de Silva ACA W R H Fernando FCA FCMA W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA Ms. L C G Nanayakkara FCA FCMA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

Income Statement

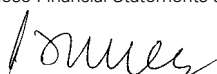
For the year ended 31 December	Notes	Company		Group	
		2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Revenue	3	2,683,014,818	2,876,740,448	2,792,345,791	3,002,624,212
Cost Of Sales		(2,639,798,052)	(2,533,232,780)	(2,670,486,258)	(2,557,139,885)
Gross Profit		43,216,766	343,507,668	121,859,533	445,484,327
Other Income And Gains	20	48,126,105	26,955,676	35,981,904	21,435,676
Administrative Expenses		(92,258,300)	(81,064,470)	(98,505,026)	(97,922,214)
Management Fee		(5,921,880)	(23,587,468)	(5,921,880)	(23,587,468)
Government Lease Interest	21 a	(19,613,501)	(27,010,452)	(19,613,501)	(27,010,452)
Finance Cost	21 b	(69,693,125)	(100,931,545)	(89,858,004)	(149,200,238)
Profit/ (Loss) Before Tax	22	(96,143,935)	137,869,409	(56,056,974)	169,199,631
Income Tax Expense	23	(3,100,101)	(2,679,379)	(17,829,486)	(4,690,905)
Profit/ (Loss) For The Year		(99,244,036)	135,190,030	(73,886,460)	164,508,726
Attributable To:					
Equity Holders Of The Parent		(99,244,036)	135,190,030	(92,576,127)	147,437,764
Minority Interest		-	-	18,689,667	17,070,962
Profit/ (Loss) For The Year		(99,244,036)	135,190,030	(73,886,460)	164,508,726
Basic Earnings/ (Loss) Per Share	24	(4.18)	5.69	(3.90)	6.21
Dividends Per Share	25	-	2.50	-	2.50

The Accounting Policies and Notes on pages 123 to 147 form an integral part of the Financial Statements.

Balance Sheet

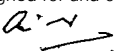
		Company		Group	
As at 31 December	Notes	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
ASSETS					
Non Current Assets					
Leasehold property	4	139,979,317	144,096,356	139,979,317	144,096,356
Property, Plant & Equipment Immovable estate assets on finance lease (other than Leasehold Property)	5	123,902,220	134,885,990	123,902,220	134,885,990
Tangible assets other than Immature/Mature Plantations	6A	588,272,551	571,450,533	1,015,473,995	1,013,964,109
Immature/Mature Plantations	6B	1,713,392,950	1,669,023,664	1,713,392,950	1,669,023,664
Development Cost		-	-	12,539,782	13,758,982
Investments	6C	134,932,700	119,054,400	-	-
		2,700,479,738	2,638,510,943	3,005,288,264	2,975,729,101
Current Assets					
Inventories	7	410,213,899	359,649,349	410,213,899	359,649,349
Trade and Other Receivables	8	71,559,580	69,907,985	90,266,834	115,605,437
Amounts due from Related Companies	9	4,495,391	17,168,699	8,351,264	-
ACT Recoverable		7,473,037	7,473,037	7,473,037	7,473,037
VAT Recoverable		-	212,222	4,512,888	212,222
Short Term Investments	10	-	-	5,000,000	-
Cash and Bank Balances		21,206,339	30,089,348	33,110,052	32,155,304
		514,948,246	484,500,640	558,927,974	515,095,349
TOTAL ASSETS		3,215,427,984	3,123,011,583	3,564,216,238	3,490,824,450
EQUITY AND LIABILITIES					
Capital and Reserves					
Stated Capital	11	350,000,010	350,000,010	350,000,010	350,000,010
Retained Earnings		652,969,560	811,588,599	656,390,620	808,341,750
Equity		1,002,969,570	1,161,588,609	1,006,390,630	1,158,341,760
Minority Interest	12	-	-	128,329,178	122,622,551
Total Equity		1,002,969,570	1,161,588,609	1,134,719,808	1,280,964,311
Non Current Liabilities & Deferred Income					
Interest Bearing Loans & Borrowings	13	453,577,179	484,894,687	615,813,605	669,225,357
Retiring Benefit Obligations	15	826,914,157	730,622,441	826,914,157	730,622,441
Deferred Tax Liability	23.2	-	-	26,087,602	12,728,236
Deferred Income	16	226,532,416	250,473,963	226,532,416	250,473,963
Net Liability to the Lessor Payable after one year	17	130,076,365	132,020,613	130,076,365	132,020,613
		1,637,100,117	1,598,011,704	1,825,424,145	1,795,070,610
Current Liabilities					
Trade and Other Payables	18	283,487,066	291,866,769	291,212,638	304,896,353
Interest Bearing Loans & Borrowings	13	31,317,504	43,413,016	62,976,124	79,853,866
Net Liability to the Lessor Payable within one year	17	1,944,249	1,869,471	1,944,249	1,869,471
VAT Payable		2,568,470	339,691	2,568,470	339,691
Amounts due to Related Companies	19	14,316,676	10,602,086	3,607,027	12,509,911
Short Term Borrowings	14	218,200,000	-	218,200,000	-
Bank Overdraft		23,524,332	15,320,237	23,563,777	15,320,237
		575,358,297	363,411,270	604,072,285	414,789,529
TOTAL EQUITY AND LIABILITIES		3,215,427,984	3,123,011,583	3,564,216,238	3,490,824,450

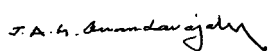
These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



D. S. Seneviratne
Chief Finance Officer/Deputy Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board by


A. M. Pandithage
Chairman/Director


J. A. G. Anandarajah
Director

The Accounting Policies and Notes on pages 123 to 147 form an integral part of the Financial Statements.

13 February 2012
Colombo.

Statement of Changes in Equity

Year ended 31 December 2011

	Notes	Stated Capital	Retained Earnings	Minority Interest	Total
Company		Rs.	Rs.	Rs.	Rs.
Balance as at 31 December 2009		350,000,010	676,398,569	-	1,026,398,579
Profit/ (Loss) for the year		-	135,190,030	-	135,190,030
Dividends		-	-	-	-
Balance as at 31 December 2010		350,000,010	811,588,599	-	1,161,588,609
Profit/ (Loss) for the year		-	(99,244,036)	-	(99,244,036)
Dividends	26	-	(59,375,003)	-	(59,375,003)
Balance as at 31 December 2011		350,000,010	652,969,560	-	1,002,969,570
Group					
Balance as at 31 December 2009		350,000,010	660,903,986	54,375,989	1,065,279,985
Issue of Preference Shares		-	-	51,175,600	51,175,600
Profit/ (Loss) for the year		-	147,437,764	17,070,962	164,508,726
Dividends		-	-	-	-
Balance as at 31 December 2010		350,000,010	808,341,750	122,622,551	1,280,964,311
Issue of Preference Shares		-	-	-	-
Profit/ (Loss) for the year		-	(92,576,127)	18,689,667	(73,886,460)
Dividends		-	(59,375,003)	(12,983,040)	(72,358,043)
Balance as at 31 December 2011		350,000,010	656,390,620	128,329,178	1,134,719,808

The Accounting Policies and Notes on pages 123 to 147 form an integral part of the Financial Statements.

Cash Flow

Statement

		Company		Group	
Year ended 31 December	Notes	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit/ (Loss) before Taxation		(96,143,935)	137,869,409	(56,056,974)	169,199,631
ADJUSTMENTS FOR					
Provision For Defined Benefit Plan Costs	15	160,565,943	131,199,521	160,565,943	131,199,521
Depreciation/Amortisation	22	124,162,662	119,180,803	141,472,464	135,437,334
Amortisation of Grants	16	(27,398,297)	(5,904,988)	(27,398,297)	(5,904,988)
Finance Costs	21	69,693,125	100,931,545	89,858,004	149,200,238
Government Lease Interest		19,613,501	27,010,452	19,613,501	27,010,452
(Profit)/ Loss on disposal of Assets		(2,505,983)	17,256,678	(2,505,983)	17,256,678
Operating Profit before Working Capital Changes		247,987,016	527,543,420	325,548,658	623,398,866
(Increase)/Decrease in Inventories		(50,564,550)	2,103,096	(50,564,550)	2,103,096
(Increase)/Decrease in Trade and Other Receivables		(1,651,594)	57,067,727	25,338,604	36,915,850
(Increase)/Decrease in VAT/ACT/WHT Recoverable		212,222	-	(4,300,666)	-
Increase/(Decrease) in Trade and Other Payables		(3,438,159)	(61,493,341)	(10,112,190)	(73,018,377)
(Increase)/Decrease in amounts due from Related Companies		12,673,308	60,590,516	(8,351,264)	1,958,596
Increase/(Decrease) in amounts due to Related Companies		3,714,590	8,489,452	(8,902,884)	(42,246,605)
Increase/(Decrease) in VAT Payables		2,228,779	339,691	2,228,779	339,691
Cash Generated from Operations		211,161,612	594,640,561	270,884,487	549,451,117
Finance Costs Paid		(69,693,125)	(105,567,241)	(89,858,004)	(153,835,934)
Payment of ESC / Income Tax / SRL		(8,041,645)	(8,668,419)	(8,041,645)	(8,668,419)
Defined Benefit Plan Costs paid	15	(64,274,227)	(65,101,261)	(64,274,227)	(65,101,261)
Net Cash from Operating Activities		69,152,615	415,303,640	108,710,611	321,845,503
CASH FLOWS FROM INVESTING ACTIVITIES					
Long Term Investment		(15,878,300)	(53,264,400)	-	-
Grant Received	16	3,456,750	34,442,918	3,456,750	34,442,918
Proceeds from Disposal of Property, Plant & Equipment		2,505,983	615,520	2,505,983	615,520
Field Development Expenditure (Note A)	6B	(102,215,924)	(180,805,858)	(102,215,924)	(180,805,858)
Purchase of Property, Plant & Equipment (Note B)		(68,037,234)	(17,682,396)	(68,815,704)	(24,630,637)
Net Cash used in Investing Activities		(180,168,725)	(216,694,216)	(165,068,895)	(170,378,057)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend Paid		(59,375,003)	-	(72,358,043)	-
Repayments of Debentures		-	(95,000,000)	-	(95,000,000)
Lease Rentals Paid		-	-	-	-
Payment of Government lease rentals		(21,482,971)	(24,172,323)	(21,482,971)	(24,172,323)
Proceeds from loans		-	52,937,431	-	52,937,431
Repayment /Transfer of loans		(43,413,020)	(227,139,395)	(70,289,494)	(251,651,700)
Minority Shareholders		-	-	-	68,246,562
Net Cash from Financing Activities		(124,270,994)	(293,374,287)	(164,130,508)	(249,640,030)
Net Increase / (Decrease) in Cash & Cash Equivalents		(235,287,104)	(94,764,863)	(220,488,792)	(98,172,584)
C. Cash & Cash Equivalents at the beginning of the year		14,769,111	109,533,973	16,835,067	115,007,650
D. Cash & Cash Equivalents at the end of the year		(220,517,993)	14,769,110	(203,653,725)	16,835,066

The Accounting Policies and Notes on pages 123 to 147 form an integral part of the Financial Statements.

Cash Flow

Statement

Year ended 31 December	Company				Total
	Tea Rs.	Rubber Rs.	Unallocated Rs.	Hydro Rs.	

NOTE A: Investment in field development expenditure

Investment in Immature Plantations and field development 2011	93,290,799	8,925,125	-	-	102,215,924
Investment in Immature Plantations 2010	152,879,232	3,835,525	24,091,101	-	180,805,858

NOTE B: Investment in Property, Plant & Equipment

Investment in Property, Plant & Equipment 2011	68,037,234	-	-	-	68,037,234
Investment in Property, Plant & Equipment 2010	17,682,396	-	-	-	17,682,396

	Group				Total
	Tea Rs.	Rubber Rs.	Unallocated Rs.	Hydro Rs.	

NOTE A: Investment in field development expenditure

Investment in Immature Plantations and field development 2011	93,290,799	8,925,125	-	-	102,215,924
Investment in Immature Plantations 2010	152,879,232	3,835,525	24,091,101	-	180,805,858

NOTE B: Investment in Property, Plant & Equipment

Investment in Property, Plant & Equipment 2011	68,037,234	-	-	778,470	68,815,704
Investment in Property, Plant & Equipment 2010	17,682,396	-	-	6,948,241	24,630,637

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
NOTE C				
Cash & Cash Equivalents at the beginning of the year				
Cash & Bank Balances	30,089,348	39,738,468	32,155,304	45,212,145
Short term Investments	-	148,792,880	-	148,792,880
Bank Overdrafts	(15,320,237)	(20,804,225)	(15,320,237)	(20,804,225)
Short term Loans	-	(58,193,150)	-	(58,193,150)
	14,769,111	109,533,973	16,835,067	115,007,650
NOTE D				
Cash & Cash Equivalents at the end of the year				
Cash & Bank Balances	21,206,339	30,089,348	33,110,052	32,155,304
Short term Investments	-	-	5,000,000	-
Bank Overdrafts	(23,524,332)	(15,320,237)	(23,563,777)	(15,320,237)
Short term Loans	(218,200,000)	-	(218,200,000)	-
	(220,517,993)	14,769,111	(203,653,725)	16,835,067

NOTE

During the Financial Year, the Company & the Group acquired Property, Plant & Equipment to the aggregate value of Rs.68,037,234/= & Rs.68,815,705/= respectively.

The Accounting Policies and Notes on pages 123 to 147an integral part of the Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1 Domicile and Legal Form

Talawakelle Tea Estates PLC is a limited liability Company incorporated and domiciled in Sri Lanka, under the Companies Act No. 17 of 1982 (The Company re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporations or Government Owned Business Undertaking into Public Companies Act No. 23 of 1987. The registered office of the Company is located at No 400, Deans Road, Colombo 10, and Plantations are situated in the planting districts of Talawakelle, Nanuoya, Galle and Deniyaya.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were the cultivation, manufacture and sale of Tea.

1.3 Parent enterprise and Ultimate Parent Enterprise

The Company's parent undertaking is Hayleys Plantation Services (Pvt) Ltd which is incorporated in Sri Lanka.

1.4 Date of Authorization for issue.

The financial statements of Talawakelle Tea Estates PLC for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 13th February 2012.

2.1 Basis of Preparation

These financial statements have been prepared on a historical cost basis except for leasehold property, certain property, plant and equipment which are stated at revalued amounts. The Financial Statements are presented in Sri Lanka Rupees and all values are rounded to the nearest Rupee.

2.1.1 Statement of Compliance

The Financial Statements of Talawakelle Tea Estates PLC have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL) and also in compliance with the requirements of the Companies Act No 07 of 2007.

2.1.2 Going Concern

The Directors have made an assessment of the Talawakella Tea Estates PLC's ability to continue as a going concern in the foreseeable future and they do not intend either to liquidate or to cease trading. However the Company has incurred a net loss of Rs. 99,244,036/- as at 31 December 2011 and Company's current liabilities exceeded its current assets by Rs. 60,410,051/-.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year unless otherwise stated.

2.1.4 The Consolidated Financial Statements

The Consolidated Financial Statements comprise of the Financial Statements of Talawakelle Tea Estates PLC and its subsidiaries, TTEL Hydro Power Company (Pvt) Ltd and TTEL Somerset Hydro Power (Pvt) Ltd in terms of Sri Lanka Accounting Standard No. 26 – "Consolidated and separate Financial Statements".

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power directly or indirectly to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control effectively commences until the date that control effectively ceases.

The total profits and losses for the period of the Company and its subsidiaries included in consolidation are shown in the consolidated income statement with the proportion of profit or loss after taxation applicable to minority shareholders of the subsidiaries being deducted as "Minority Shareholders' Interest".

All assets and liabilities of the Company and of its subsidiaries are included in the consolidated balance sheet. The proportionate interest of minority shareholders in the net assets employed by the group is disclosed separately in the consolidated balance sheet under the heading "Minority Shareholders' Interest".

Notes to the

Financial Statements Contd.

The financial statements of the Company and its subsidiaries included in the consolidated financial statements are prepared under uniform accounting policies and the financial year of Talawakelle Tea Estates PLC ends on 31st December and subsidiaries end on 31st March.

Intra – group balances, intra- group transactions are eliminated in full in the consolidated financial statements.

2.2 Significant Accounting Judgments, Estimates And Assumptions

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

Inventory Valuation

The Company has valued the unsold produce stock as at the balance sheet date at their actual or estimated realisable values, net of direct selling expenses based on most recent selling prices available subsequent to the year end.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the cash generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate present value of those cash flows.

Deferred Tax Assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Defined Benefit Plans

The cost of defined benefit plan -gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount

rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The actuarial present value of promised retirement benefits at the most recent actuarial valuation is Rs. 826,914,157/=. Further details are given in Note 15.

Effect of Sri Lanka Accounting Standards issued but not yet effective:

a) The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.

- Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)
- Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)
- Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These three standards have been amended and forms a part of the new set of financial reporting standards mentioned under note (b) below.

b) Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01 January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

2.3 Summary Of Significant Accounting Policies

2.3.1 Taxation

a) Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used for the computation are those that are enacted or substantively enacted by the balance sheet date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the relevant tax legislations.

b) Deferred Taxation

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

2.3.2 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.3.3 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition of the intangible assets, the cost model is applied requiring the assets to be carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function/nature of the intangible asset. Amortisation was commenced when the assets were available for use.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such

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intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Intangible assets that are not yet available for sale are tested for impairments at each financial year end, even if there is no indication that the asset is impaired.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

2.3.4 Inventories

Inventories other than produce stocks are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business after allowing for the estimated cost of completion/ conversion to bring to a saleable condition.

The costs incurred in bringing inventories to its present location and condition is accounted using the following cost formula.

Input Material	At average cost.
Growing Crop-Nurseries	At the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads less provision for over grown plants.
Produce Stocks	Valued at estimated selling prices or since realised prices.
Spares, Consumables and Packing Materials	At actual cost

2.3.5 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from related parties are recognised at cost less provision for bad and doubtful receivables.

2.3.6 Cash and Cash Equivalents

Cash and Cash Equivalents are defined as cash in hand, demand deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of Cash Flow Statement Cash and Cash Equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts.

Investments with short maturities i.e. three months or less from the date of acquisitions are also treated as Cash Equivalents.

Interest paid and received is classified as operating Cash Flows.

The Cash Flow Statements are reported based on indirect method.

2.3.7 Property, Plant and Equipment

a) Cost

Property, Plant & Equipment is recorded at cost less accumulated depreciation and less any impairment in value.

b) Cost and Valuation

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the balance sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous written down value. When an asset's carrying amount

is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increment relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to accumulated profits or loss on retirement or disposal of the asset.

c) Leasehold Property

Leasehold property comprising of land use rights obtained on a long term basis is stated at recoded carrying values as at the effective date of Sri Lanka Accounting Standard 19 – Leases in line with ruling of the urgent issues task force of the Institute of Chartered Accountants of Sri Lanka. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. No further revaluations of this leasehold Property will be carried out.

d) Depreciation

The provision for depreciation is calculated on the cost or valuation of all property, plant and equipment other than freehold land, in order to write off such amounts over the estimated useful lives by equal installments as follows,

Buildings	Over 35 years (Over the remaining lease period.)
Plant & Machinery	Over 13 years
Furniture & Fittings	Over 10 years
Vehicles	Over 05 years
Equipments	Over 04 years
Computers	Over 04 years
Mini Hydro Power Plant	Over 20 years
Roads	Over 05 years

Replanting and New Planting

Tea	Over 33 years
Rubber	Over 20 years

The leasehold properties are being amortised in equal amounts over the following periods.

Bare land	Over 53 years
Mature Plantations	Over 30 years
Buildings	Over 25 years
Machinery	Over 15 years
Improvements to Land	Over 30 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

The policy has been changed from current year to depreciable assets when it's available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or it is derecognised.

e) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

2.3.8 Immature and Mature Plantations

The cost of Replanting and New Planting are classified as immature plantations up to the time of harvesting the crop.

Further, the general charges on labour incurred on the plantation are apportioned based on the labour days spent on respective Replanting and New Planting, and capitalised on the immature areas. The remaining portion of the general charges is expensed in the accounting period in which it is incurred.

The cost of areas coming into bearing are transferred to mature plantations and depreciated over their useful life period.

2.3.9 Infilling Cost

Where infilling results in an increase in the economic life of the relevant field beyond its previously assessed

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standard of performance, the costs are capitalised in accordance with Sri Lanka Accounting Standard No. 32 and depreciated over the useful life at rates applicable to mature plantation.

Infilling costs that are not capitalised have been charged to the Income Statement in the year in which they are incurred.

2.3.10 Leases

a) Finance leases - where the company is the lessee

Property, plant and equipment on finance leases, (which effectively transfer to the company substantially all of the risks and benefits incidental to ownership of the leased item) are capitalised at their cash price and depreciated/amortised over the period the Company is expected to benefit from the use of the leased assets.

The corresponding principal amount payable to the lessor is shown as a liability.

The finance charges allocated to future periods are separately disclosed under Note 17.

The interest element of the rental obligation applicable to each financial year is charged to the Income Statement over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The cost of improvements to or on leased property is capitalised, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

b) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases.

Lease payments (excluding costs for services such as insurance and maintenance) paid under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.3.11 Short Term Investments

Treasury bills and other interest bearing securities held for resale in the near future to benefit from short-term market movements are accounted for at cost plus the relevant proportion of the discounts or premiums.

2.3.12 Long Term Investments

Long term investments are stated at cost. Carrying amounts are reduced to recognise a decline other than temporary, determined for each investment individually. These reductions for other than temporary declines in carrying amounts are charged to income statement.

2.3.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.3.14 Retirement Benefit Obligation

a) Defined Benefit Plans - Gratuity

The Retirement benefit plan adopted is as required under the Payment of Gratuity Act No 12 of 1983 and Indian repatriate Act No 34 of 1978 to eligible employees.

The Company measures the present value of the promised retirement benefits of gratuity which is a defined benefit plan every two years using Projected Unit Credit (PUC) method as recommended by Sri Lanka accounting Standards 16- Retirement Benefits Costs. The Actuarial valuation certificate was obtained from a professional firm of actuaries-Messer's Actuarial and Management Consultants (Pvt) Limited as at 31st December 2011. The Company expects to carry out the actuarial valuation once in every two years.

The key assumptions used by the actuary include the following:

i)	Rate of Interest		10% (per annum)
ii)	Rate of Salary Increase	Workers Staff	18.5% every two years 10% (per annum)
iii)	Retirement Age	Workers -Staff	60 years 55 years
iv)	The Company will continue as a going concern.		

Actuarial gains and losses are recognised as income or expenses over the expected average remaining working lives of the participants of the plan.

This item is grouped under retirement benefit obligations in the balance sheet. The liability is not externally funded.

b) Defined Contribution Plans – Employees’ Provident Fund & Employees’ Trust Fund

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to the Employees’ Provident Fund and to the Employees’ Trust Fund respectively.

2.3.15 Grants and Subsidies

Grants and subsidies are recognised at their fair value where there is reasonable assurance that the grant/subsidy will be received and all attaching conditions, if any, will be complied with. When the grant or subsidy relates to an income item it is recognised as income over the periods necessary to match them to the costs to which it is intended to compensate on a systematic basis.

Grants and subsidies related to assets, including non-monetary grants at fair value are deducted at arriving at the carrying value of the asset (or -are deferred in the balance sheet and credited to the income statement over the useful life of the asset.)

2.3.16 Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects

current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are collaborated by valuation multiples, quoted share prices or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot “exceed” the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior

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years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment losses recognised in relation to goodwill are not reversed for subsequent increases in its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Company performs its annual impairment test of goodwill as at 31 December.

Intangible Assets

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 December either individually or at the cash generating unit level, as appropriate.

2.3.17 Income Statement

Revenue Recognition

(a) Sale of Goods

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

(b) Interest

Interest Income is recognised as the interest accrued (taking into account the effective yield on the asset) unless collectibility is in doubt.

(c) Dividends

Dividend income is recognised on a cash basis.

(d) Rental income

Rental income is recognised on an accrual basis.

(e) Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement.

(f) Others

Other income is recognised on an accrual basis.

Net Gains and losses of a revenue nature on the disposal of property, plant & equipment and other non current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued property, plant and equipment, amount remaining in Revaluation Reserve relating to that asset is transferred directly to Accumulated Profit / (Loss).

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

Expenditure Recognition

a) Expenses are recognised in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

b) For the purpose of presentation of the Income Statement the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

Year ended 31 December	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
3 REVENUE				
3.1 Summary				
Sale of Goods				
Tea	2,605,833,762	2,821,477,457	2,605,833,762	2,821,477,457
Rubber	55,098,360	36,489,971	55,098,360	36,489,971
Mini Hydro Power	-	-	109,330,973	116,658,524
Others	22,082,696	18,773,020	22,082,696	27,998,260
	2,683,014,818	2,876,740,448	2,792,345,791	3,002,624,212
3.2 Segment Information				
a) Segment Revenue				
Tea				
Revenue	2,605,833,762	2,821,477,457	2,605,833,762	2,821,477,457
Revenue Expenditure	(2,328,132,624)	(2,264,478,911)	(2,328,132,624)	(2,264,478,911)
Depreciation	(121,569,525)	(116,585,666)	(121,569,525)	(116,585,666)
Other Non Cash Expenditure	(160,565,943)	(131,199,521)	(160,565,943)	(131,199,521)
Segment Results	(4,434,330)	309,213,359	(4,434,330)	309,213,359
Rubber				
Revenue	55,098,360	36,489,971	55,098,360	36,489,971
Revenue Expenditure	(26,936,822)	(18,373,545)	(26,936,822)	(18,373,545)
Depreciation	(2,593,137)	(2,595,137)	(2,593,137)	(2,595,137)
Other Non Cash Expenditure	-	-	-	-
Segment Results	25,568,401	15,521,289	25,568,401	15,521,289
Mini Hydro Power				
Revenue	-	-	109,330,973	116,658,524
Revenue Expenditure	-	-	(13,378,404)	(7,650,574)
Depreciation	-	-	(17,309,802)	(16,256,531)
Other Non Cash Expenditure	-	-	-	-
Segment Results	-	-	78,642,767	92,751,419
Unallocated				
Revenue	22,082,696	18,773,020	22,082,696	27,998,260
Revenue Expenditure	-	-	-	-
Depreciation	-	-	-	-
Other Non Cash Expenditure	-	-	-	-
Segment Results	22,082,696	18,773,020	22,082,696	27,998,260
Total				
Revenue	2,683,014,818	2,876,740,448	2,792,345,791	3,002,624,212
Revenue Expenditure	(2,355,069,446)	(2,282,852,456)	(2,368,447,850)	(2,290,503,030)
Depreciation	(124,162,662)	(119,180,803)	(141,472,464)	(135,437,334)
Other Non Cash Expenditure	(160,565,943)	(131,199,521)	(160,565,943)	(131,199,521)
Segment Results	43,216,766	343,507,668	121,859,533	445,484,327

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Year ended 31 December	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Other Income	48,126,105	26,955,676	35,981,904	21,435,676
Administrative Expenses	(92,258,300)	(81,064,470)	(98,505,026)	(97,922,214)
Management Fees	(5,921,880)	(23,587,468)	(5,921,880)	(23,587,468)
Government Lease Interest	(19,613,501)	(27,010,452)	(19,613,501)	(27,010,452)
Finance Cost	(69,693,125)	(100,931,545)	(89,858,004)	(149,200,238)
Operating Profit of the Company	(96,143,935)	137,869,409	(56,056,974)	169,199,631
b) Segment Assets				
Non Current Assets				
Tea	2,501,050,366	2,461,289,850	2,501,050,366	2,461,289,850
Rubber	64,496,672	58,166,684	64,496,672	58,166,684
Mini Hydro Power	-	-	439,741,226	456,272,567
Investment	134,932,700	119,054,409	-	-
	2,700,479,738	2,638,510,943	3,005,288,264	2,975,729,101
Current Assets				
Tea	510,926,541	480,604,515	510,926,541	480,604,515
Rubber	4,021,705	3,896,125	4,021,705	3,896,125
Mini Hydro Power	-	-	45,408,865	30,594,709
Unallocated	-	-	-	-
	514,948,246	484,500,640	560,357,111	515,095,349
Total Assets	3,215,427,984	3,123,011,583	3,565,645,375	3,490,824,450
c) Segment Liabilities				
Non Current Liabilities and Deferred Income				
Tea	1,637,100,117	1,598,011,704	1,637,100,117	1,598,011,704
Rubber	-	-	-	-
Mini Hydro Power	-	-	188,324,028	197,058,906
	1,637,100,117	1,598,011,704	1,825,424,145	1,795,070,610
Current Liabilities				
Tea	575,358,297	363,411,270	575,358,297	363,411,270
Rubber	-	-	-	-
Mini Hydro Power	-	-	30,143,125	51,378,259
	575,358,297	363,411,270	605,501,422	414,789,529
Total Liabilities	2,212,458,414	1,961,422,974	2,430,925,567	2,209,860,139
d) Segment Capital Expenditure				
Cost				
Tea	161,328,033	194,652,729	161,328,033	194,652,729
Rubber	8,925,125	3,835,525	8,925,125	3,835,525
Mini Hydro Power	-	-	778,470	6,948,241
Unallocated	-	-	-	-
	170,253,158	198,488,254	171,031,628	205,436,495

4. LEASEHOLD PROPERTY

Leases have been executed for all estates for a period of 53 years. All of these leases are retroactive to June, 22nd 1992 the date of formation of the Company. The leasehold right to the land on all of these estates have been taken into the books of the Company on June 22, 1992 immediately after formation of the Company, in terms of the ruling obtained from the Urgent Issue Task Force (UITF) of the Institute of Chartered Accountants of Sri Lanka. For this purpose the Board decided at its meeting on 8th March 1995 that this bare land would be revalued at the value established for this land by valuation specialist, Mr D.R. Wickramasinghe just prior to the formation of the Company.

The above mentioned leasehold right to bare land comprising of land use rights obtained on a long term basis is re-classified as leasehold property and stated at the recorded carrying values as at the effective date of Sri Lanka Accounting Standard 19 Leases, in line with revised Ruling of the Urgent Issues Task Force of the Institute of Chartered Accountants of Sri Lanka. Such carrying amounts are amortised over the remaining lease term or useful life of the leased property whichever is shorter. The leasehold right to land is disclosed under non current assets under leasehold property. The revised UITF ruling does not permit further revaluation of Leasehold Property. The values taken into the 22nd June 1992 balance sheet and amortisation of the leasehold property up to 31 December 2011 are as follows.

	Company					Group				
	Revaluation* As at 22/06/1992 Rs.	Additions for the year Rs.	Disposals During the year Rs.	Balance as at 31/12/2011 Rs.	Balance as at 31/12/2010 Rs.	Revaluation As at 22/06/1992 Rs.	Additions for the year Rs.	Disposals During the year Rs.	Balance as at 31/12/2011 Rs.	Balance as at 31/12/2010 Rs.
Leasehold Property	218,203,052	-	-	218,203,052	218,203,052	218,203,052	-	-	218,203,052	218,203,052
	218,203,052	-	-	218,203,052	218,203,052	218,203,052	-	-	218,203,052	218,203,052

	Accumulated Amortization Rs.	Amotization for the year Rs.	Transfers During the year Rs.	Balance as at 31/12/2011 Rs.	Balance as at 31/12/2010 Rs.	Accumulated Amortization Rs.	Amotization for the year Rs.	Transfers During the year Rs.	Balance as at 31/12/2011 Rs.	Balance as at 31/12/2010 Rs.
Amortization	74,106,696	4,117,039	-	78,223,735	74,106,696	74,106,696	4,117,039	-	78,223,735	74,106,696
	74,106,696	4,117,039	-	78,223,735	74,106,696	74,106,696	4,117,039	-	78,223,735	74,106,696
Written down value				139,979,317	144,096,356				139,979,317	144,096,356

The leasehold property is being amortised by equal amounts over a 53 year period and the unexpired period of the lease as at the balance sheet date is 33 years.

* Revaluation amount is arrived at after adjusting for assets handed over to Tea Smallholdings Development Authority.

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5. IMMOVABLE ESTATE ASSETS ON FINANCE LEASE (OTHER THAN BARE LAND)

In terms of the ruling of the UITF of the Institute of Chartered Accountants of Sri Lanka all immovable assets in these estates under finance leases have been taken into the books of the Company retroactive to 22nd June 1992. For this purpose the Board decided at its meeting on March 8, 1995 that these assets would be taken at their book values as they appear in the books of the SLSPC, on the day immediately preceding the date of formation of the Company. These assets are taken into the 22nd June 1992 balance sheet and the amortisation of immovable estate assets to 31 December 2011 are as follows.

Cost/ Revaluation	Company					Group				
	Improvement to Land Rs.	Mature Plantations Rs.	Buildings Rs.	Plant & Machinery Rs.	Total Rs.	Improvement to Land Rs.	Mature Plantations Rs.	Buildings Rs.	Plant & Machinery Rs.	Total Rs.
*Revaluation as at 22.06.1992	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813
Cost/ Revaluation as at 31.12.2011	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813	9,083,597	243,838,242	63,826,020	12,006,954	328,754,813
Accumulated Amortisation										
as at 01.01.2011	5,448,429	130,457,333	45,956,107	12,006,954	193,868,823	5,448,429	130,457,333	45,956,107	12,006,954	193,868,823
Charge for the year	302,787	8,127,940	2,553,043	-	10,983,770	302,787	8,127,940	2,553,043	-	10,983,770
as at 31.12.2011	5,751,216	138,585,273	48,509,150	12,006,954	204,852,593	5,751,216	138,585,273	48,509,150	12,006,954	204,852,593
Written down value as at 31.12.2011	3,332,381	105,252,969	15,316,870	-	123,902,220	3,332,381	105,252,969	15,316,870	-	123,902,220
Written down value as at 31.12.2010	3,635,168	113,380,909	17,869,913	-	134,885,990	3,635,168	113,380,909	17,869,913	-	134,885,990

These assets are being amortised in equal annual amounts over the following periods:

Mature plantations/improvement to land	30 years
Buildings	25 years
Machinery	15 years

*Revaluation amount is arrived at after adjusting for assets handed over to Tea Smallholdings Development Authority.

6 A TANGIBLE ASSETS OTHER THAN IMMATURE/MATURE PLANTATIONS

Cost	Company					Group				
	Balance as at 01.01.2011 Rs.	Additions for the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2011 Rs.		Balance as at 01.01.2011 Rs.	Additions for the year Rs.	Disposals during the year Rs.	Balance as at 31.12.2011 Rs.	
Buildings	381,041,443	14,954,591	-	395,996,034		381,041,443	14,954,591	-	395,996,034	
Motor Vehicles	110,606,253	3,575,505	-	114,181,758		110,606,253	3,575,505	-	114,181,758	
Plant & Machinery	477,337,486	19,629,890	-	496,967,376		955,887,457	22,486,098	-	978,373,554	
Furniture & Fittings	7,907,350	441,057	-	8,348,407		7,907,350	441,057	-	8,348,407	
Equipment & Tools	61,172,782	3,008,413	(187,000)	63,994,195		61,202,782	3,008,413	(187,000)	64,024,195	
	1,038,065,314	41,609,456	(187,000)	1,079,487,770		1,516,645,285	44,465,664	(187,000)	1,560,923,948	

	Balance as at 01.01.2010 Rs.	Charge for the year Rs.	Accumulated depreciation on disposals Rs.	Balance as at 31.12.2011 Rs.	Balance as at 01.01.2010 Rs.	Charge for the year Rs.	Accumulated depreciation on disposals Rs.	Balance as at 31.12.2011 Rs.
Depreciation								
Buildings	54,401,297	10,006,744	-	64,408,041	54,401,297	10,006,744	-	64,408,041
Motor Vehicles	94,077,167	5,538,078	-	99,615,245	94,077,167	5,538,078	-	99,615,245
Plant & Machinery	276,776,249	31,344,833	-	308,121,082	314,916,007	47,427,935	-	362,343,942
Furniture & Fittings	5,036,650	440,848	-	5,477,498	5,036,650	440,848	-	5,477,498
Equipment & Tools	53,724,988	3,948,858	(64,146)	57,609,700	53,729,363	3,956,357	(64,146)	57,621,574
	484,016,351	51,279,361	(64,146)	535,231,566	522,160,484	67,369,962	(64,146)	589,466,300
Written Down Value	554,048,963			544,256,204	994,484,801			971,457,648

	Balance as at 01.01.2011 Rs.	Additions for the year Rs.	Capitalised/ Disposed during the year Rs.	Balance as at 31.12.2011 Rs.	Balance as at 01.01.2011 Rs.	Additions for the year Rs.	Capitalised/ Disposed during the year Rs.	Balance as at 31.12.2011 Rs.
Capital Work-in-Progress	17,401,570	47,204,131	(20,589,354)	44,016,347	19,479,308	47,982,601	(23,445,562)	44,016,347
TOTAL WRITTEN DOWN VALUE	571,450,533			588,272,551	1,013,964,109			1,015,473,995

Note : The assets shown above are those movable assets vested in the Company by Gazette Notification at the date of formation of the Company (22nd June 1992) and all investments intangibal assets by the Company since its formation. The assets taken over by way of estate leases are set out in Notes 4 and 5.

6.B IMMATURE/MATURE PLANTATIONS

	Company					Group				
	Permanent Land Development Cost	Roads	Immature Plantations	Mature Plantations	Total	Permanent Land Development Cost	Roads	Immature Plantations	Mature Plantations	Total
cost	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
*At the beginning of the year	21,691,097	81,224,690	504,760,121	1,313,309,000	1,920,984,908	21,691,097	81,224,690	504,760,121	1,313,309,000	1,920,984,908
Additions	-	-	102,216,148	166,805,033	269,021,181	-	-	102,216,148	166,805,033	269,021,181
Transfers	-	-	(166,805,256)	-	(166,805,256)	-	-	(166,805,256)	-	(166,805,256)
At the end of the year	21,691,097	81,224,690	440,171,013	1,480,114,033	2,023,200,833	21,691,097	81,224,690	440,171,013	1,480,114,033	2,023,200,833
Depreciation										
*At the beginning of the year	6,554,414	22,223,899	-	223,182,931	251,961,244	6,554,414	22,223,899	-	223,182,931	251,961,244
Charge for the year	723,036	16,304,039	-	40,819,564	57,846,639	723,036	16,304,039	-	40,819,564	57,846,639
At the end of the year	7,277,450	38,527,938	-	264,002,495	309,807,883	7,277,450	38,527,938	-	264,002,495	309,807,883
Written Down Value - as at 31.12.2011	14,413,647	42,696,752	440,171,013	1,216,111,538	1,713,392,950	14,413,647	42,696,752	440,171,013	1,216,111,538	1,713,392,950
Written Down Value - as at 31.12.2010	15,136,683	59,000,791	504,760,121	1,090,126,069	1,669,023,664	15,136,683	59,000,791	504,760,121	1,090,126,069	1,669,023,664

* The figures above are stated after adjusting for assets handed over to Tea Smallholdings Development Authority.

Note :

These are investments in immature/ mature plantations since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Notes 4 and 5. Further investment in immature plantations taken over by way of these leases are shown in the above note. When such plantations become mature, the additional investments since take over to bring them to maturity, will be moved from immature to mature under this note.

Notes to the

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6.C INVESTMENTS

Talawakelle Tea Estates PLC holds 3,519,000 (51%) ordinary shares of TTEL Hydro Power Company (Pvt) Ltd and 3,060,000 (51%) ordinary shares of TTEL Somerset Hydro Power (Pvt) Ltd., and 14% redeemable cumulative preference shares of Rs.10/= each TTEL Hydro Power Company (Pvt) Ltd and TTEL Somerset Hydro Power (Pvt) Ltd. amounting to Rs. 53,108,300/= and Rs. 16,034,400/= redeemable in, December 2015.

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Ordinary Shares				
TTEL Hydro Power Company (Pvt) Ltd	35,190,000	35,190,000	-	-
TTEL Somerset Hydro Power (Pvt) Ltd	30,600,000	30,600,000	-	-
	65,790,000	65,790,000	-	-
Preference Shares				
TTEL Hydro Power Company (Pvt) Ltd				
As at 01.01.2011	37,230,000	37,230,000	-	-
Issued during the year	15,878,300	-	-	-
As at 31.12.2011	53,108,300	37,230,000		
TTEL Somerset Hydro Power (Pvt) Ltd	16,034,400	16,034,400	-	-
	69,142,700	53,264,400	-	-
Total Investment	134,932,700	119,054,400	-	-

7. INVENTORIES

Growing Crop - Nurseries	20,136,200	21,904,752	20,136,200	21,904,752
Harvested Crop	359,551,896	315,243,640	359,551,896	315,243,640
Input Stocks, Consumables & spares	30,525,803	22,500,957	30,525,803	22,500,957
	410,213,899	359,649,349	410,213,899	359,649,349

8. TRADE AND OTHER RECEIVABLES

Produce Debtors	8,711,658	13,355,009	27,276,612	52,355,097
Advances & Prepayments	40,477,028	40,494,459	40,619,328	41,668,707
Other debtors	22,370,894	16,058,517	22,370,894	21,581,633
	71,559,580	69,907,985	90,266,834	115,605,437

9. AMOUNTS DUE FROM RELATED COMPANIES

	Relationship				
Hayleys Plantation Services(Pvt) Limited	Parent Enterprise	4,495,391	-	4,495,391	-
Hayleys Industrial Solutions(Pvt) Ltd	Group Company	-	-	3,855,873	-
TTEL Somerset Hydro Power(Pvt) Ltd	Group Company	-	2,932,902	-	-
TTEL Hydro Power Co. (Pvt) Ltd	Group Company	-	14,235,797	-	-
		4,495,391	17,168,699	8,351,264	-

10. SHORT TERM INVESTMENT

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Fixed Deposits with Hatton National Bank	-	-	5,000,000	-
	-	-	5,000,000	-

11. STATED CAPITAL

Issued and Fully Paid Stated Capital

Number of ordinary shares including one golden share held by the Treasury which has special rights	23,750,001	23,750,001	23,750,001	23,750,001
Stated Capital including one Golden Share held by the Treasury which has special rights	350,000,010	350,000,010	350,000,010	350,000,010

Stated capital represents the amount paid to the Company in respect of issuing 23,750,000 ordinary shares and Golden Share which has special rights. With the enactment of the Companies Act No. 07 of 2007 which is applicable with effect from 03 May 2007, the concept of authorised share capital and par value is no longer applicable.

12. MINORITY INTEREST

	2011 Rs.	2010 Rs.
TTEL Hydro Power Company (Pvt) Ltd	70,581,048	68,002,618
TTEL Somerset Hydro Power (Pvt) Ltd	57,748,130	54,619,933
	128,329,178	122,622,551

13. INTEREST BEARING LOANS AND BORROWINGS

Company	2011					2010				
	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2011	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
13.1 National Development Bank	14,158,228	237,800,734	88,603,445	326,404,179	340,562,407	11,705,525	188,513,911	152,048,496	340,562,407	352,267,932
13.2 Sampath Bank	13,044,000	80,526,000	46,647,000	127,173,000	140,217,000	10,471,000	67,926,000	72,291,000	140,217,000	150,688,000
13.3 Hatton National Bank	-	-	-	-	-	-	-	-	-	-
13.4 Commercial Bank	4,115,276	-	-	-	4,115,276	5,236,491	4,115,280	-	4,115,280	9,351,771
13.5 Indian Bank	-	-	-	-	-	16,000,000	-	-	-	16,000,000
	31,317,504	318,326,734	135,250,445	453,577,179	484,894,683	43,413,016	260,555,191	224,339,496	484,894,687	528,307,703

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Group	2011				Total as at 31.12.2011	2010				Total as at 31.12.2010
	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total		Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
13.1 National Development Bank	14,158,228	237,800,734	88,603,445	326,404,179	340,562,407	11,705,525	188,513,911	152,048,496	340,562,407	352,267,932
13.2 Sampath Bank	26,274,000	153,291,000	79,722,000	233,013,000	259,287,000	28,662,250	140,691,000	107,374,050	248,065,050	276,727,300
13.3 Hattton National Bank	18,428,620	56,396,426	-	56,396,426	74,825,046	18,249,600	60,130,620	16,352,000	76,482,620	94,732,220
13.4 Commercial Bank	4,115,276	-	-	-	4,115,276	5,236,491	4,115,280	-	4,115,280	9,351,771
13.5 Indian Bank	-	-	-	-	-	16,000,000	-	-	-	16,000,000
	62,976,124	447,488,160	168,325,445	615,813,605	678,789,729	79,853,866	393,450,811	275,774,546	669,225,357	749,079,223

13.1 LONG TERM LOANS

Company	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2011	Total as at 31.12.2010	Rate of Interest	Terms of Repayment
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
National Development Bank								
Field Development								
4th Disbursement	11,705,525	46,822,100	23,381,140	70,203,240	81,908,765	93,614,290	9.42%	96 monthly installments commencing from January 2011
5th Disbursement	2,452,703	117,729,732	26,974,307	144,704,039	147,156,742	147,156,742	13.25%	60 monthly installments commencing from December 2012
Process Development								
3rd Disbursement	-	46,949,487	25,280,513	72,230,000	72,230,000	72,230,000	13.07%	60 monthly installments commencing from October 2013.
4th Disbursement	-	6,441,963	3,468,798	9,910,761	9,910,761	9,910,761	13.07%	60 monthly installments commencing from October 2013.
5th Disbursement	-	10,500,000	4,500,000	15,000,000	15,000,000	15,000,000	13.07%	60 monthly installments commencing from July 2013.
6th Disbursement	-	5,262,452	2,793,687	8,056,139	8,056,139	8,056,139	13.07%	60 monthly installments commencing from October 2013.
7th Disbursement	-	4,095,000	2,205,000	6,300,000	6,300,000	6,300,000	13.07%	60 monthly installments commencing from October 2013.
	14,158,228	237,800,734	88,603,445	326,404,179	340,562,407	352,267,932		
Group								
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		
National Development Bank								
Field Development								
4th Disbursement	11,705,525	46,822,100	23,381,140	70,203,240	81,908,765	93,614,290	9.42%	96 monthly installments commencing from January 2011
5th Disbursement	2,452,703	117,729,732	26,974,307	144,704,039	147,156,742	147,156,742	13.25%	60 monthly installments commencing from December 2012
Process Development								
3rd Disbursement	-	46,949,487	25,280,513	72,230,000	72,230,000	72,230,000	13.07%	60 monthly installments commencing from October 2013.
4th Disbursement	-	6,441,963	3,468,798	9,910,761	9,910,761	9,910,761	13.07%	60 monthly installments commencing from October 2013.
5th Disbursement	-	10,500,000	4,500,000	15,000,000	15,000,000	15,000,000	13.07%	60 monthly installments commencing from July 2013.
6th Disbursement	-	5,262,452	2,793,687	8,056,139	8,056,139	8,056,139	13.07%	60 monthly installments commencing from October 2013.
7th Disbursement	-	4,095,000	2,205,000	6,300,000	6,300,000	6,300,000	13.07%	60 monthly installments commencing from October 2013.
	14,158,228	237,800,734	88,603,445	326,404,179	340,562,407	352,267,932		

13.2 Sampath Bank

Company	Repayable within 1 year Rs.	Repayable after one year less than five years Rs.	Repayable after five years Rs.	Sub Total Rs.	Total as at 31.12.2011 Rs.	Total as at 31.12.2010 Rs.	Rate of Interest	Terms of Repayment
Replanting Loan	13,044,000	52,176,000	24,997,000	77,173,000	90,217,000	100,000,000	10.24%	92 monthly installments commencing from April 2011.
Replanting Loan	-	28,350,000	21,650,000	50,000,000	50,000,000	50,000,000	10.76%	48 monthly installments commencing from October 2014.
Loans for Boiler Units	-	-	-	-	-	688,000	6.50%	60 monthly installments commencing from May 2006.
	13,044,000	80,526,000	46,647,000	127,173,000	140,217,000	150,688,000		
Group								
Replanting Loan	13,044,000	52,176,000	24,997,000	77,173,000	90,217,000	100,000,000	10.24%	92 monthly installments commencing from April 2011.
Replanting Loan	-	28,350,000	21,650,000	50,000,000	50,000,000	50,000,000	10.76%	48 monthly installments commencing from October 2014.
Loans for Boiler Units	-	-	-	-	-	688,000	6.50%	60 monthly installments commencing from May 2006.
Mini Hydro	13,230,000	72,765,000	33,075,000	105,840,000	119,070,000	126,039,300	AWDR+5%	96 monthly installments commencing from January 2010.
	26,274,000	153,291,000	79,722,000	233,013,000	259,287,000	276,727,300		

13.3 Hatton National Bank

Company	-	-	-	-	-	-		
	-	-	-	-	-	-		
Group								
Mini Hydro - Radella	4,138,620	-	-	-	4,138,620	8,390,220	AWDR+4%	96 monthly installments commencing from February 2005.
Mini Hydro - Somerset	14,290,000	56,396,426	-	56,396,426	70,686,426	86,342,000	AWDR+4%	96 monthly installments commencing from January 2010.
	18,428,620	56,396,426	-	56,396,426	74,825,046	94,732,220		

13.4 Commercial Bank

Company								
Loans for Boiler Units	1,731,949	-	-	-	1,731,949	4,368,438	6.50%	60 monthly installments commencing from September 2007.
E - Friends - ii Scheme	2,383,327	-	-	-	2,383,327	4,983,333	6.50%	60 monthly installments commencing from December 2007.
	4,115,276	-	-	-	4,115,276	9,351,771		
Group								
Loans for Boiler Units	1,731,949	-	-	-	1,731,949	4,368,438	6.50%	60 monthly installments commencing from September 2007.
E - Friends - ii Scheme	2,383,327	-	-	-	2,383,327	4,983,333	6.50%	60 monthly installments commencing from December 2007.
	4,115,276	-	-	-	4,115,276	9,351,771		

13.5 Indian Bank

Company								
2nd Disbursement	-	-	-	-	-	16,000,000	AWPLR+0.5%	24 monthly installments commencing from April 2009.
	-	-	-	-	-	16,000,000		
Group								
2nd Disbursement	-	-	-	-	-	16,000,000	AWPLR+0.5%	24 monthly installments commencing from April 2009
	-	-	-	-	-	16,000,000		

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14 SHORT TERM BORROWINGS

Company	Repayable within 1 year Rs.	Repayable after one year less than five years Rs.	Repayable after five years Rs.	Sub Total Rs.	Total as at 31.12.2011 Rs.	Total as at 31.12.2010 Rs.	Rate of Interest
Commercial Bank of Ceylon PLC	55,100,000	-	-	-	55,100,000	-	} Prevailing money market rates
Hatton National Bank	88,100,000	-	-	-	88,100,000	-	
Hongkong and Shanghai Banking Co	60,000,000	-	-	-	60,000,000	-	
National Development Bank	15,000,000	-	-	-	15,000,000	-	
	218,200,000	-	-	-	218,200,000	-	
Group							
Commercial Bank of Ceylon PLC	55,100,000	-	-	-	55,100,000	-	} Prevailing money market rates
Hatton National Bank	88,100,000	-	-	-	88,100,000	-	
Hongkong and Shanghai Banking Co	60,000,000	-	-	-	60,000,000	-	
Packing Credit Loan	15,000,000	-	-	-	15,000,000	-	
	218,200,000	-	-	-	218,200,000	-	

15 RETIRING BENEFIT OBLIGATIONS

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Provision for retiring gratuity				
At the beginning of the year	730,622,441	664,524,181	730,622,441	664,524,181
Interest Cost	73,062,244	66,452,418	73,062,244	66,452,418
Current Service Cost	52,623,469	42,412,620	52,623,469	42,412,620
Gratuity Payments for the year	(64,274,227)	(65,101,261)	(64,274,227)	(65,101,261)
Actuarial (Gain) / Loss	34,880,230	22,334,483	34,880,230	22,334,483
At the end of the year	826,914,157	730,622,441	826,914,157	730,622,441

According to the actuarial valuation report issued by the actuarial valuer as at 31 December 2011 the actuarial present value of promised retirement benefits amounted to Rs. 826,914,157/=. If the Company had provided for gratuity on the basis of 14 days wages & half months salary for each completed year of service, the liability would have been Rs. 876,572,192/=. Hence, there is a contingent liability of Rs. 49,658,035/= , which would crystallise only if the Company ceases to be a going concern.

16. DEFERRED INCOME

	Company		Group	
Deferred Grants and Subsidies	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Balance at the beginning of the year	250,473,963	221,936,033	250,473,963	221,936,033
Add : Grants received / (refunded) during the year	3,456,750	34,442,918	3,456,750	34,442,918
Less : Amortisation for the year	(27,398,297)	(5,904,988)	(27,398,297)	(5,904,988)
Balance at the end of the year	226,532,416	250,473,963	226,532,416	250,473,963

The Company has received funding from the Plantation Housing and Social Welfare Trust and Plantation Development Project (PDP) for the development of workers facilities such as re-roofing of line rooms, latrines, water supply, sanitation and roads etc. The amounts spent are included under the relevant classification of property, plant & equipment and the grant component is reflected under Deferred Grants and Subsidies. Grants are amortised over the life of the assets for which they are being deployed.

17. NET LIABILITY TO THE LESSOR OF SLSPC ESTATES

Company	Repayable within 1 year Rs.	Repayable after One year		Sub Total Rs.	2011 Total Rs.	2010 Total Rs.
		Repayable after one year less than five years Rs.	Repayable after five years Rs.			
Gross liability	7,225,074	28,900,296	205,726,559	234,626,855	241,851,929	249,077,003
Less : finance charges	(5,280,825)	(20,313,864)	(84,236,626)	(104,550,490)	(109,831,315)	(115,186,919)
Net liability	1,944,249	8,586,432	121,489,933	130,076,365	132,020,614	133,890,084
Group						
Gross liability	7,225,074	28,900,296	205,726,559	234,626,855	241,851,929	249,077,003
Less : finance charges	(5,280,825)	(20,313,864)	(84,236,626)	(104,550,490)	(109,831,315)	(115,186,919)
Net liability	1,944,249	8,586,432	121,489,933	130,076,365	132,020,614	133,890,084

The lease of the estates was amended, with effect from 22nd June 1996 to an amount substantially higher than the previous lease rental of Rs 500 per estate per annum. The rental payable under the revised basis is Rs 7.225 Mn per year and to be inflated annually by the Gross Domestic Product (GDP) deflator, and it is in the form of a contingent rental. This lease agreement was further amended with effect from 22nd June 2002, to provide relief to the Company by freezing the lease rental as at 2002 for a period of 05 calendar years, from the fiscal years 2003/2004 to 2007/2008. In 2010 lease agreement was revert back to the previous agreement with retrospective effect from 2008/2009.

18. TRADE AND OTHER PAYABLES

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Trade creditors	69,383,111	96,349,012	77,108,683	120,929,325
Others	114,692,455	102,536,717	114,692,455	137,907,005
Accrued expenses	99,411,500	92,981,040	99,411,500	97,451,120
	283,487,066	291,866,769	291,212,638	356,287,450

19. AMOUNTS DUE TO RELATED COMPANIES

	Relationship				
Hayleys PLC.	Group Company	3,607,027	2,357,172	3,607,027	2,357,172
Hayleys Industrial Solutions (Pvt) Ltd.	Group Company	-	-	-	1,907,825
Hayleys Plantation Services (Pvt) Limited.	Parent Enterprise	-	8,244,914	-	8,244,914
TTEL Hydro Power Co. (Pvt.) Ltd.	Group Company	8,924,649	-	-	-
TTEL Somerset Hydro Power (Pvt.) Ltd.	Group Company	1,785,000	-	-	-
		14,316,676	10,602,086	3,607,027	12,509,911

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20. OTHER INCOME AND GAINS

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Sale of Trees	4,584,800	7,833,300	4,584,800	7,833,300
Interest Income	1,464,345	7,081,868	1,492,824	7,081,868
Amortisation of Capital Grants	27,398,297	5,904,988	27,398,297	5,904,988
Profit on Disposal of Assets	2,505,983	615,520	2,505,983	615,520
Development Fee	-	5,520,000	-	-
Dividend Income	12,172,680	-	-	-
	48,126,105	26,955,676	35,981,904	21,435,676

21. FINANCE COST

21 a Government Lease Interest

	19,613,501	27,010,452	19,613,501	27,010,452
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21 b Finance Cost

Overdraft Interest	2,585,987	4,906,319	2,593,679	4,992,175
Short Term Loan Interest	8,566,988	5,343,988	8,695,340	12,378,138
Term Loan Interest	58,540,151	79,521,315	78,568,986	120,670,002
Debenture Interest	-	11,159,923	-	11,159,923
	69,693,125	100,931,545	89,858,004	149,200,238

22. PROFIT BEFORE TAX IS STATED AFTER CHARGING

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Directors Emoluments	6,426,000	4,825,500	6,426,000	4,825,500
Key Management Compensation	11,736,380	14,524,800	11,736,380	14,524,800
Auditors Fees	2,736,048	2,082,500	2,891,095	2,184,500
Depreciation/Amortisation	124,162,662	119,180,803	141,472,464	135,437,334
Defined Benefit Plan Costs	160,565,943	131,199,521	160,565,943	131,199,521
Employees' Profit Share	-	6,759,501	-	6,759,501
Defined Contributions Plan Costs - EPF & ETF	151,908,412	136,562,187	151,908,412	136,562,187
Others - Staff Costs	1,390,538,967	1,261,216,398	1,390,538,967	1,261,216,398
Donations	-	-	-	-

23. INCOME TAX EXPENSE

The major component of income tax expenses for the year ended 31st December 2011 are as follows :-

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Current Tax Expenses				
Current Income Tax Charges	3,100,101	13,247,564	4,452,621	13,247,564
Deferred Taxation Charge / (Reversal)	-	(10,568,185)	13,376,865	(8,556,659)
	3,100,101	2,679,379	17,829,486	4,690,905

Deferred tax provision has been reduced due to the temporary difference of the tax losses during the period and change in the applicable tax rates.

23.1 Reconciliation Between Tax Expenses and The Product of Accounting Profit Multiplied by The Statutory Effective Tax Rates are as Follows:

Tax effect on Accounting Profit / (Loss) Before Tax	(14,633,107)	48,254,293
Tax effect on Aggregate disallowed items	48,070,729	114,328,776
Tax effect on Aggregate allowable items	(39,455,900)	(123,620,032)
	(6,018,278)	38,963,037
Tax effect on Profit from Agriculture	10,191,042	(19,464,985)
Tax effect on Tax Loss B/F & Utilised	(1,528,494)	(6,446,265)
	2,644,270	13,051,787
Other Income	410,017	-
	3,054,287	13,051,787
SRL @ 1.5%	45,814	195,777
Income Tax Charge/(Reversal)	3,100,101	13,247,564

23.2 Deferred Tax Assets and Liabilities

	Balance Sheet		Income Statement	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Deferred Tax Liability				
Capital allowances for tax purposes	(315,443,945)	(301,865,191)		
	(315,443,945)	(301,865,191)		
Deferred Tax Assets				
Deferred Benefit Plans	130,321,671	115,146,097		
Tax Losses	152,132,329	152,092,789		
Grants	35,701,509	39,474,696		
	318,155,509	306,713,582		
Deferred Taxation Charge / (Reversal)	-	(10,568,185)	-	(10,568,185)
Net Deferred Tax Liability	-	-		

Notes to the

Financial Statements Contd.

24. EARNINGS PER SHARE

24.1 The calculation of the basic earnings per share is based on after tax profit for the year divided by the weighted average number of ordinary shares outstanding during the period.

24.2 The following reflects the income and share data used in the basic earnings per share computations.

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Amounts used as the Numerator :				
Net profit applicable to ordinary shareholders for basic earnings per share	(99,244,036)	135,190,030	(92,576,127)	147,437,764
	(99,244,036)	135,190,030	(92,576,127)	147,437,764
Amounts used as the Denominator :				
Weighted average number of ordinary shares in issue applicable to basic earnings per share	23,750,001	23,750,001	23,750,001	23,750,001
	23,750,001	23,750,001	23,750,001	23,750,001
Earnings per share	(4.18)	5.69	(3.90)	6.21

25. DIVIDENDS PAID AND PROPOSED

	Company		Group	
	2011 Rs.	2010 Rs.	2011 Rs.	2010 Rs.
Dividend on Ordinary Shares				
Dividend paid during the year	-	-	-	-
	-	-	-	-
Proposed for approval at AGM (not recognised as a liability as at 31 December 2010)				
Final dividend for 2010 Rs. 2.50 per share	-	59,375,003	-	59,375,003
	-	59,375,003	-	59,375,003
Dividends per share	-	2.50	-	2.50

26. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Bank	Nature of Assets	Nature of Liability	Carrying Amount Pledged	
			2011 Rs	2010 Rs
Hatton National Bank	Primary floating mortgage for Rs. 109 Mn over lease hold rights of Radella, Palmerstone and Handford Estates.	Term Loan, Short Term Loan & Over Draft	35,645,868	37,739,897
Sampath Bank	Primary mortgage over stock for Rs.45Mn & Primary mortgage bond for Rs.46 Mn over leasehold rights of Deniyaya Estate.	Over Draft	18,071,412	19,525,887
.	Primary mortgage over lease hold rights to the value of Rs. 30 Mn of Clarendon Estate Secondary mortgage over leasehold rights to the value of Rs. 20 Mn of Deniyaya Estate.	Term Loan	23,612,057	25,383,084
.	Primary mortgage over lease hold rights of Matakelle Estate for 100 Mn.	Term Loan	13,213,010	13,967,176
.	Primary mortgage bond for Rs. 10.6 Mn over 3 numbers of Hot Water Generators of Barewell, Holyrood and Great Western Estates.	Term Loan	21,422,247	22,600,029
National Development Bank	Primary mortgage over lease hold rights of Somerset, Great Western, Holyrood, Logie and Dessford Estates.	Term Loan	81,571,183	86,191,743
Commercial Bank	Concurrent mortgage over stock in trade and debtors for Rs. 100 Mn & additional mortgage over stocks and debtors for Rs.50Mn	Over Draft, Money Market,	368,263,554	328,598,649
	Export packing/ Bill nego guaranty.			
	Primary mortgage bond for Rs. 13 Mn. Over 2 numbers of hot water generators Radella and Wattagoda Estates.	Term Loan	11,134,877	12,526,737
	Primary mortgage bond for Rs. 14 Mn. Over 2 numbers of hot water generators Logie and Dessford Estates.	Term Loan	13,267,288	14,533,934
Hongkong & Shanghai Banking Corporation	Concurrent mortgage over stocks and debtors for Rs. 65 Mn.	OD/ Short Term Loan	368,263,554	328,598,649
Bank Of Ceylon	Guarantee by Hayleys Plantation Services (Pvt) Ltd for Rs. 50 Mn.	Over Draft		

27. CAPITAL COMMITMENTS

Followings are the capital commitments as at the balance sheet date.

	2011 Rs.Mn	2010 Rs.Mn
Approved by the Board & Contracted for	-	-
Approved by the Board & not Contracted for	120	108
	120	108

28. COMMITMENTS AND CONTINGENCIES

No known contingent assets or liabilities exist as at balance sheet date other than the matters disclosed in Note 15 and 17 to the Financial Statements.

29. POST BALANCE SHEET EVENTS

There have been no material events occurring after the balance sheet date that require adjustments or disclosure in the Financial Statements.

Notes to the

Financial Statements Contd.

30. RELATED PARTY DISCLOSURES

Details of Significant Related Party Disclosures are as follows.

30.1 Transactions with the parent and related entities

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2011 Rs.	2010 Rs.
Hayleys Plantation Services (Pvt) Limited	Parent enterprise	Mr. A. M. Pandithage	Managing Agent's Fee	18,662,180	23,587,468
		Mr. S. T. Gunatilleke	Reimbursable of Insurance	712,687	719,674
		Mr. Merrill J. Fernando			
		Mr. Malik J. Fernando			
		Mr. D. S. Senaviratne			
		Mr. M. M. M. De Silva			
		Mr. J. A. G. Anandarajah			
		Mr. G. K. Senaviratne			
Hayleys Travels & Tours (Pvt) Ltd.	Related Company	Mr. A. M. Pandithage	Providing of Air Ticketing Services	657,308	-
Hayleys PLC	Related Company	Mr. A. M. Pandithage	Data Processing Services Secretarial Services , Office Rent & Management Salaries	18,567,093	14,929,831
		Mr. J. A. G. Anandarajah			
		Dr. K. I. M. Ranasoma			
		Mr. W. D. N. H. Perera			
MIT Cargo (Pvt) Limited	Related Company	Mr. A. M. Pandithage	Providing of Warehousing Services	148,764	978,727
Hayleys Agriculture Holdings Limited.	Related Company	Mr. A. M. Pandithage Mr. M. M. M. De Silva	Purchase of Equipments & Chemicals	8,292,110	10,374,104
Hayleys Industrial Solutions (Private) Limited.	Related Company	Mr. A. M. Pandithage Mr. M. M. M. De Silva	Providing of Maintenance to Generator	219,197	919,630
Volanka Insurance Services (Pvt) Ltd	Related Company	Mr. A. M. Pandithage	Insurance and Brokering Charges	-	10,326,519
		Mr. M. M. M. De Silva			
Hayleys Agro Fertilizers (Pvt) Limited.	Related Company	Mr. A. M. Pandithage	Purchase of Fertilizer	145,398,744	42,793,068
TTEL Hydro Power Company (Pvt) Limited	Related Company	Mr. A. M. Pandithage	Labour Charges Issue of Preference Shares	15,878,300	1,167,596 37,230,000
		Mr. S. T. Gunatilleke			
		Mr. Merrill J. Fernando			
		Mr. Malik J. Fernando			
		Mr. M. M. M. De Silva			
		Mr. J. A. G. Anandarajah			
		Mr. N. Y. Fernando			
Mabroc Teas (Pvt) Ltd.	Related Company	Mr. A. M. Pandithage	Tea Blending & Packing Charges	98,607	-
		Mr. S. T. Gunatilleke			
		Mr. J. A. G. Anandarajah			
		Mr. G. K. Senaviratne			
Alumex (Pvt) Ltd.	Related Company	Mr. A. M. Pandithage	Purchase of Aluminium Items	335,567	-
		Mr. J. A. G. Anandarajah			

30. RELATED PARTY DISCLOSURES (Contd.)

30.1 Transactions with the parent and related entities

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2011 Rs.	2010 Rs.
Alutec Anodizing & Machine Tools (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage	Purchase of Aluminium Bars	214,747	-
Hayleys Business Solutions International (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage Mr. M.M.M. De Silva	Project Study Charges	114,285	-
HS Cargo (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage	Providing of Warehousing Services	108,521	-
TTEL Somerset Hydro Power (Pvt) Ltd	Related Company	Mr.A M Pandithage	Labour Charges	-	1,338,370
		Mr.S.T.Gunatilleke Mr. Merrill J. Fernando Mr. Malik J. Fernando Mr.M.M.M. De Silva Mr. J.A.G.Anandarajah Mr. N.Y.Fernando	Issue of Preference Shares	-	16,034,400
Hayleys Agro Technica Ltd	Related Company	Mr. A.M. Pandithage	Purchase of Chemicals	573,302	109,760
Logiwiz Ltd	Related Company	Mr. A.M. Pandithage	Providing of document Storing Service	385,974	394,530
Global Holidays (Private) Limited	Related Company	Mr. A.M. Pandithage	Providing of Air Ticketing Services	-	756,566
Hayleys Consumer Products Limited	Related Company	Mr. A.M. Pandithage Mr.M.M.M. De Silva	Purchase of Electrical Items	-	62,196

30.2 Transactions with the key management personnel of the company or parent

There were no material transactions with the Key Management Personnel of the Company and its parent other than those disclosed in Notes 22 & 30.1 to the Financial Statements.

31 RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 9, 19 & 30 to the financial statements.

31.1 PRICING POLICIES

Purchase of goods and services to related parties were made at normal trading terms under arm's length basis.

Management Fee has been paid at 5% of earnings before interest,tax,depreciation,amortisation and management fees in accordance with a decision of the Board of Hayleys Plantations Services (Pvt) Limited.

10 Year summary

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group revenue	2,792,345	3,002,624	2,772,124	2,264,085	1,924,383	1,731,612	1,619,598	1,492,412	1,349,330	1,381,642
Profit before taxation	(56,057)	169,200	(27,887)	111,958	113,017	100,272	112,289	142,894	60,322	42,011
Taxation	(17,829)	(4,691)	(2,514)	(3,952)	(14,700)	(19,906)	(6,895)	(12,179)	-	-
Profit after tax	(73,886)	164,509	(30,401)	108,006	98,317	80,366	105,394	130,715	60,322	42,011
Minority interest	18,690	(17,071)	(8,118)	(1,273)	(1,288)	7	-	-	-	-
Profit attributable to equity holders	(92,576)	147,438	(22,283)	109,279	99,605	80,359	105,394	130,715	60,322	42,011
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Revenue reserve	656,391	808,342	660,904	712,875	669,094	569,488	560,133	490,364	377,771	335,117
Shareholders' funds	1,006,391	1,158,342	1,010,904	1,062,875	1,019,094	919,488	910,133	840,364	727,771	685,117
Minority interest	128,329	122,623	54,376	62,494	63,595	22,254	-	-	-	-
Convertible debentures	-	-	-	-	-	-	-	-	-	-
Borrowings (both short- and long-term)	1,052,574	898,289	1,257,478	1,160,182	911,210	729,975	626,852	656,113	696,119	681,638
	2,187,294	2,179,254	2,322,758	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890	1,366,755
Non-current assets	3,005,288	2,975,729	2,923,602	2,782,252	2,285,360	2,027,207	1,874,245	1,808,168	1,743,455	1,696,856
Current assets	558,928	515,095	717,923	538,701	550,554	332,646	253,272	305,101	301,284	272,341
Current liabilities net of borrowings	(297,388)	(317,746)	(411,043)	(320,697)	(307,733)	(238,308)	(189,753)	(216,892)	(230,330)	(214,513)
Provisions	(853,002)	(743,350)	(685,786)	(516,788)	(403,161)	(329,804)	(258,881)	(257,808)	(238,774)	(234,512)
Deferred income	(226,532)	(250,474)	(221,936)	(197,917)	(131,121)	(120,024)	(141,898)	(142,092)	(151,745)	(153,417)
Capital employed	2,187,294	2,179,254	2,322,760	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890	1,366,755
Net cash inflow/(outflow) from operating activities	108,711	321,845	315,964	298,251	190,692	228,839	211,616	161,640	139,117	123,040
Net cash inflow/(outflow) from investing activities	(165,069)	(170,378)	(231,723)	(530,418)	(334,118)	(223,975)	(118,626)	(121,337)	(88,825)	(153,145)
Net cash inflow/(outflow) from finance activities	(164,130)	(249,640)	176,655	149,279	198,440	(51,480)	8,377	(3,976)	56,597	12,551
Increase/(decrease) in cash & cash equivalents	(220,488)	(98,173)	260,896	(82,888)	55,014	(46,616)	101,367	36,327	106,889	(17,554)
Key Indicators										
EPS (basic) (Rs.)	(3.90)	6.21	(0.94)	4.60	4.19	3.38	4.44	5.50	2.54	1.77
Net assets per share (Rs.)	42.37	48.77	42.56	44.75	42.91	38.72	38.32	35.38	30.64	28.85
Market price per share (Rs.)	29.70	46.40	25.25	13.00	35.75	25.25	17.00	16.25	*	*
Price earning ratio (times)	(7.62)	7.47	(26.86)	2.80	8.50	7.50	3.80	3.00	*	*
Current ratio (times)	0.93	1.24	1.16	0.90	0.90	0.70	0.70	0.70	0.60	0.60
Return on equity %	(8.55)	13.59	(2.15)	10.50	10.30	8.80	12.00	16.70	8.50	7.00
Debt to equity %	104.59	77.55	124.39	109.20	89.40	79.40	68.90	78.10	95.70	99.50
Dividends per share (Rs.)	-	2.50	-	1.25	2.50	2.50	1.50	0.75	0.75	0.75
Dividend payout ratio (times)	-	0.40	-	0.27	0.60	0.74	0.34	0.14	0.30	0.42

* was not quoted during this period

Investor Information

1. STOCK EXCHANGE

Interim Financial Statements of the 4th Quarter, for the year ended 31st December 2011, have been submitted to the Colombo Stock Exchange as required by the Listing Rules.

2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST DECEMBER 2011

Number of shareholders as at 31st December 2011 is 13,767 (2010 -13,826)

No. of shares held	No. of Shareholders	No. of Shares	%	NON RESIDENTS			TOTAL		
				No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	13,546	2,241,140	9.4363	1	400	0.0017	13,547	2,241,540	9.4380
1,001 - 10,000	177	517,561	2.1792	3	14,000	0.0589	180	531,561	2.2382
10,001 - 100,000	31	967,299	4.0728	3	48,200	0.2029	34	1,015,499	4.2758
100,001 - 1,000,000	4	1,026,700	4.3229	-	-	-	4	1,026,700	4.3230
Over 1,000,000	2	18,934,700	79.7250	-	-	-	2	18,934,700	79.7250
	13,760	23,687,400	99.7362	7	62,600	0.2636	13,767	23,750,000	100.0000

CATEGORY

Individuals	13,687	3,367,808	72.6521	5	37,600	0.2218	13,692	3,405,408	72.8739
Institutions	73	20,319,592	27.0844	2	25,000	0.0418	75	20,344,592	27.1261
	13,760	23,687,400	99.7362	7	62,600	0.2636	13,767	23,750,000	100.0000

Of the issued ordinary share capital, 99.73% is held by residents of Sri Lanka.

3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27% (2010 -20.27%).

4. MARKET VALUE

The market value of Talawakelle Tea Estates PLC ordinary shares was:

	2011 Rs.	2010 Rs.	2009 Rs.
Highest	55.00 (7th January 2011)	55.00 (17th September 2010)	29.25 (21st July 2009)
Lowest	20.40 (14th November 2011)	24.75 (07th January 2010)	13.50 (31st March 2009)
Year end	29.70	46.40	25.25

Investor

Information Contd.

5. DIVIDEND PAYMENT

No dividend was proposed for 2011.

First and final dividend 2010 - Rs 2.50 per share was paid on 8th April 2011.

6. SHARE TRADING

	2011	2010	2009
No. of transactions	2,292	3,187	3,019
No. of shares traded	1,763,600	3,959,500	2,901,800
Value of shares traded (Rs.)	80,009,080	147,458,505	62,660,600

7. TWENTY MAJOR SHAREHOLDERS

	Name of the Shareholder	No.of Shares as at 31.12.2011	%	No.of Shares as at 31.12.2010	%
1	Hayleys Plantation Services (Private) Limited	17,750,000	74.74	17,750,000	74.74
2	Merrill J. Fernando & Sons (Pvt) Limited	1,184,700	4.99	1,184,700	4.99
3	Anverally And Sons (Pvt) Ltd A/C No 01	613,200	2.58	734,700	3.09
4	Waldock Mackenzie Ltd/Ceylinco Shriram Capital Management Services Co (Pvt) Limited	181,900	0.77	235,000	0.99
5	Mrs. P.N. Bhatt	126,000	0.53	126,000	0.53
6	Sri Lanka Insurance Corporation Ltd-Life Fund	105,600	0.44	105,600	0.44
7	Cocoshell Activated Carbon Company Limited	93,600	0.39	100,600	0.42
8	Mr. M.S. Pinto	86,000	0.36	-	-
9	Mr. M.M. Udeshi	64,000	0.27	64,000	0.27
10	Employees Provident Fund	59,100	0.25	59,100	0.25
11	Bank of Ceylon A/C Eagle Growth Fund	55,000	0.23	55,000	0.23
12	Mr. P.A.D. Samarasekera	53,400	0.22	53,400	0.22
13	Mr. K.C. Vignarajah	48,800	0.20	46,500	0.20
14	Mr. M. Radhakrishnan	40,000	0.17	40,000	0.17
15	Mr. M. Asokan	39,540	0.16	39,040	0.16
16	Waldock Mackenzie Ltd/Hi-Line Towers (Pvt) Ltd	36,400	0.15	-	-
17	First Capital Markets Limited/Ms.S S De Fonseka	34,600	0.14	42,800	0.18
18	Ms. M.J. Nihara	29,000	0.12	27,000	0.11
19	Mr. H.A. Abdulhussein	25,000	0.10	25,000	0.10
20	Mr. M.J.M. Amjad	24,100	0.10	14,100	0.06

Glossary

FINANCIAL TERMS	Deferred Taxation	Related Parties
Accounting Policies	The Tax effect of timing differences deferred to/from other periods, which would only qualify for inclusion on a tax return at a future date.	Parties who could control or significantly influence the financial and operating policies of the business.
Amortisation	Dividends	Return on Equity
The systematic allocation of depreciable amount of an intangible asset over its useful life.	Distribution of profits to holders of equity investments.	Attributable profits divided by average shareholders' funds.
Borrowings	Dividend Pay Out	Revenue Reserves
Bank loans, overdrafts, long term loans, debentures, finance lease obligations and interest bearing liabilities.	Dividend divided by earnings	Reserves considered as being available for distributions and investments.
Capital Employed	EBITDA	SLAS
Total assets less interest free liabilities and provisions.	Abbreviation for earnings before Interest Tax Depreciation & Amortisation.	Sri Lanka Accounting Standards.
Cash Equivalents	Earnings per Share	Segment
Liquid investments with original maturity periods of three months or less.	Profits attributable to ordinary shareholders divided by the number of ordinary shares in issue.	Constituent business units grouped in terms of nature and similarity of operations.
Contingent Liability	Equity	Working Capital
A possible obligation that arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.	Shareholders' funds, i.e.: Share capital and reserves.	Capital required to finance the day-to-day operations (current assets minus current liabilities).
Current Ratio	Interest Cover	UITF
Current assets divided by current liabilities.	Profit from operating activities divided by total finance cost paid.	Urgent Issue Tasks Force of The Institute of Chartered Accountants of Sri Lanka
	Market Capitalisation	
Debt Equity	Number of shares in issue multiplied by the market value of each share at the year end.	
Borrowings divided by equity at year end.		
	Net Assets per Share	
	Shareholders' funds divided by the number of ordinary shares.	
	Price Earnings Ratio	
	Market price of a share divided by earnings per share.	

Glossary

Contd.

NON-FINANCIAL TERMS
COP
Cost of Production. This generally refers to the cost of producing a kilo of produce (Tea/Rubber/Coconut).
Crop
The total produce harvested over a given period of time. (Usually during a financial year).
Extent in bearing
The extent of land from which crop is being harvested. Also see "Mature Plantation".
Field
A unit extent of land. Estates are divided into fields in order to facilitate management.
GSA
The Gross Sales Average. This is the average sale price obtained (over a period of time, for a kilo of produce) before any deductions such as Brokerage etc.
ISO
International Organisation for Standardisation. A worldwide federation of national standard bodies.
HACCP
Hazard Analysis Critical Control Point System. A Scientific system which identifies, evaluates and control hazards which are significant for food safety.

Immature Plantation
The extent of plantation that is under development and is not being harvested.
Infilling
A method of field development whereby planting of individual plants is done in order to increase the yield of a given field, whilst allowing the field to be harvested.
Mature Plantation
The extent of plantation from which crop is being harvested. Also see "Extent in Bearing".
NSA
The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting Brokerage fees and Cost of Gratis teas. (Also see GSA).
Replanting
A method of field development where an entire unit of land is taken out of "bearing" and developed by way of uprooting the existing tree/bushes and replanting with new trees/ bushes.
Seedling Tea
Tea grown from a seed. (Also see VP Tea).
TASL
Tea Association of Sri Lanka
VP Tea
Vegetatively Propagated tea. i.e. Tea grown from a cutting of a branch of tea plant. (Also see "Seedling").

Yield
The average crop per unit extent of land over a given period of time. (Usually Kg per hectare per year).
5S
A Japanese management technique on the organization of the work place. 5S stands for Seiri (sorting), Seiton (organizing), Seiso (cleaning) Seiketsu (standardisation), Shitsuke (sustenance).
ETP - Ethical Tea Partnership
An initiative in ethical sourcing approved by UK based tea packing companies to work in partnership with producers to demonstrate that ethical conditions exist within the tea industry.
ISO 22000
International Standard for Food Safety Management Systems (FSMS) released by ISO in September 2005.
CQC – QMS – Ceylon Tea Quality Certification – Quality Management System
A legal declaration by the Tea Commissioner to a registered Tea Manufacturer in modern Quality Management Systems that the building, equipment and manner of operations of the tea factory are of excellent standard to manufacture made tea of good quality.
FLO–Fair-trade Labelling Organisation International
A leading Standard Setting and Certification Organisation for labelling fair-trade established in 1997 in Germany.

Notice

of Meeting

PQ 36

NOTICE IS HEREBY GIVEN that the Twentieth Annual General Meeting of Talawakelle Tea Estates PLC, will be held at No. 400, Deans Road, Colombo 10, on 28th March, 2012 at 10.30 a.m. and the business to be brought before the meeting will be :

- 1) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2011, with the Report of the Auditors thereon.
- 2) To re-elect Dr. K.I.M. Ranasoma, who has been appointed by the Board, since the last Annual General Meeting, a Director.
- 3) To re-elect Mr. W.D.N.H. Perera, who has been appointed by the Board, since the last Annual General Meeting, a Director.
- 4) To re-elect Ms. M.D.A. Perera, who has been appointed by the Board, since the last Annual General Meeting, a Director.
- 5) To re-elect Mr. L.N. de S. Wijeyeratne, who retires by rotation at the Annual General meeting, a Director.
- 6) To re-elect Mr. Malik J. Fernando, who retires by rotation at the Annual General meeting , a Director.
- 7) To re-appoint Mr. Merrill J Fernando, who retires having attained the age of eighty one years and the company has received special notice of the undernoted ordinary resolution in compliance with section 211 of the companies Act no.7 of 2007 in relation to his re-appointment.

Ordinary Resolution

That, Merrill Joseph Fernando a retiring Director, who has attained the age of eighty one years be and is hereby re-appointed a Director of the Company and it is hereby declared that the age limit of seventy years referred to in section 210 of the Companies Act No.7 of 2007 shall not apply to the appointment of the said Director.

- 8) To authorise the Directors to determine contributions to charities.
- 9) To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young , who are deemed to have been re-appointed as Auditors in terms of Section 158 of the Companies Act no.7 of 2007.
- 10) To consider any other business of which due notice has been given.

Note :

- (1) A Shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office No. 400, Deans Road, Colombo 10 by 10.30am on 26th March 2012.

By Order of the Board

TALAWAKELLE TEA ESTATES PLC

Hayleys Group Services (Private) Limited

Secretaries

Colombo

24th February, 2012

[illegible]

Form

of Proxy

I/We*
 of

being a shareholder/ shareholders* of TALAWAKELLE TEA ESTATES PLC hereby appoint,

1.
 Of
 or failing him,*

2. ABEYAKUMAR MOHAN PANDITHAGE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our* proxy to attend and vote as indicated hereunder for me/us* and on my/our* behalf at the Twentieth Annual General Meeting of the Company to be held on Wednesday, 28th March, 2012 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof:

	For	Against
1) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2011, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-elect Dr. K.I.M. Ranasoma, who has been appointed by the board, since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3) To re-elect Mr. W.D.N.H. Perera, who has been appointed by the board, since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4) To re-elect Ms. M.D.A. Perera, who has been appointed by the board, since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5) To re-elect Mr. L.N. de S. Wijeyeratne, who retires by rotation at the Annual General meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6) To re-elect Mr. Malik J. Fernando, who retires by rotation at the Annual General meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
7) To re-appoint Mr. Merrill J Fernando, who retires having attained the age of Eighty one years, a Director by passing the Ordinary Resolution set out in the Notice.	<input type="checkbox"/>	<input type="checkbox"/>
8) To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>
9) To authorise the Directors to determine the remuneration of the Auditors, Messrs.Ernst & Young, who are deemed to have been re-appointed as Auditors.	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>

(**) The proxy may vote as he thinks fit on any other resolution brought before the Meeting.

As witness my/our* hands this day of2012.

Witnesses:

.....
 Signature of Shareholder

NOTE : * Please delete the inappropriate words.

1. A proxy need not be a member of the Company.
2. Instructions as to completion appear on the reverse.

Instructions as to Completion

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No.400, Deans Road, Colombo 10, by 10.30 a.m. on 26th March, 2012.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (**) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company / Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

Corporate Information

Name Of Company

Talawakelle Tea Estates PLC

Legal Form

A Public Limited Company

Incorporated in Sri Lanka on 22 June 1992

Company Number

PQ 36

Accounting Year End

31st December

Principal Line Of Business

Cultivation and Manufacture of Black Tea

Stock Exchange Listing

The ordinary Shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka

Registered Office

400, Deans Road, Colombo 10, Sri Lanka

Head Office

400, Deans Road, Colombo 10, Sri Lanka

Telephone : (94-11) - 2627753-5, 2697203

Fax : (94-11) - 2627782, 2674592

e- mail : tpl.tea@ttel.hayleys.com

website : www.talawakelleteas.com

Directors

Mr. A M Pandithage - Chairman

Mr. S T Gunatilleke - Chief Executive Officer

Mr. Merrill J Fernando (Alternate - Ms. M D A Perera)

Mr. Malik J Fernando (Alternate - Mr D C Fernando)

Mr. M M M De Silva (Resigned-05th January 2012)

Mr. J A G Anandarajah

Mr. G K Seneviratne

Prof. U Liyanage

Dr. S S S B D G Jayawardena

Mr. L N De S Wijeyeratne

Dr. K I M Ranasoma (Appointed - 10th October 2011)

Mr. W D N H Perera (Appointed -13th October 2011)

Ms. M D A Perera (Appointed - 5th January 2012)

Managing Agent

Hayleys Plantation Services (Private) Limited

400, Deans Road, Colombo 10, Sri Lanka

Secretaries

Hayleys Group Services (Private) Limited

400, Deans Road, Colombo 10, Sri Lanka

Bankers

Commercial Bank of Ceylon PLC

Sampath Bank PLC

National Development Bank PLC

Hatton National Bank PLC

Bank of Ceylon

Hongkong And Shanghai Banking Corporation Limited

Deutsche Bank Ag

Indian Bank

Union Bank of Colombo Ltd

DFCC Vardhana Bank Limited

Auditors

M/S Ernst & Young

Chartered Accountants

201, De Saram Place,

Colombo 10, Sri Lanka

Legal Advisors

M/S F.J. & G De Saram & Company ,

Attorneys – At – Law

216, De Saram Place,

Colombo 10, Sri Lanka

Tax Advisors

K P M G Ford , Rhodes, Thornton & Co

Chartered Accountants

32A, Sir Mohamed Macan Markar Mawatha,

Colombo 3, Sri Lanka



No.400, Deans Road, Colombo
10, Sri Lanka.