



Cultured



Talawakelle Tea Estates PLC
Annual Report 2018/19

As our cover portrays, we have mastered the art of producing premium teas, specialising in three distinct varieties, high grown as our core, followed by low grown and green tea to a lesser extent. Our report this year will tell the story on how we stand resilient amidst the challenges of our industry to make the finest cuppa, with 'two leaves and a bud'.



Cultured

They say tea is the beverage of the cultured. We believe that it is our culture that makes it transcend to new heights. Having persevered through a trial-filled year, we at Talawakelle Tea Estates PLC attribute our unceasing growth to the performance oriented culture that we have strive to create. Our team is a diverse one, but united in achieving our goals even amidst challenges. Apart from the passion that exudes from every member of our collective, we are also wholeheartedly invested in maintaining processes and financials that are impeccable while adhering to the regulations that have not only raised our standards but also won us acclaim. We are cultured for growth.

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Cultured

reaching more heights
in quality and value

Talawakelle Region

With an extent of over 2,946.69 hectares and a total factory capacity of 4.08 million kilograms, our eight estates in the Talawakelle region specialise in high grown orthodox black tea, much sought after by our key markets, Russia, Japan and European Union. With over 3,205 employees, mainly living as residents within our estates, the cluster is our largest contributor, accounting for nearly half of our total tea production.



Talawakelle
Tea Estates®

Welcome to Home of Talawakelle
Teas

— **Taster of Excellence** —

It is a matter of pride for Talawakelle Tea Estates PLC to be a part of the Hayleys Group, one of the largest and most diversified multinational conglomerates in Sri Lanka with a history spanning 140 years, with whom we continue to bring you the greatest Ceylon teas of the land.

It is one of the leading tea plantations in Sri Lanka. Talawakelle Tea Estates PLC produces quality Ceylon Tea in 17 of the finest tea gardens, duly situated in the


Talawakelle
Tea Estates®

About This Report

 **GRI: Disclosures:** 102-10, 12, 45, 46, 48, 49, 50, 51, 52, 53, 54 & 56

Reporting Period

The annual report of Talawakelle Tea Estates PLC (TTE) follows a reporting cycle of 12 months, covering 1st April to 31st March. This annual report is published for the financial year ended 31st March 2019. Building on our reporting, we draw relevant data and information from the annual report published in the preceding year as references and for comparisons. We also make pertinent comparisons against the industry performance. Future outlook and our way forward including our strategy, plans, targets and forecasts are set out for the ensuing financial year, 2019/20.

Reporting Boundary

This report covers our tea plantations and processing operations spanning 16 estates and 15 factories in the high and low grown areas in the country along with our corporate office located in Colombo. In the reporting year there were no significant changes to the organisation and its supply chain. The report also covers our two subsidiary operations in the hydro-power sector, when deemed material, particularly, in terms of operational and financial performance and within the natural capital section of this report.

“The report sets out our principal risks and opportunities, business model, strategy, along with the progress we have made in the financial year under review and our future outlook in a volatile plantation industry backdrop.”



Reporting Guidelines and Frameworks



Overall Reporting

- Integrated Reporting <IR> Framework, IIRC, 2013

Sustainability Reporting

- GRI Standards, 2016 - Comprehensive
- UN Global Compact Principles
- National Green Reporting System (NGRS) Sri Lanka - Tier 5
- Recognised ISO 26000 as a reference document that provides guidance

Financial/Operational

- Company's Act No. 07 of 2007
- International Financial Reporting Standards, IFRS Foundation
- Sri Lanka Accounting Standards, Institute of Chartered Accountants

Corporate Governance

- Code of Best Practice on Corporate Governance, 2017
- Continuous Listing Rules, Colombo Stock Exchange

Content and Scope

Following the integrated reporting principles, this year, we continue to provide a balanced, fair and a holistic account on how we create shared value over short, medium to long-term. We highlight and discuss in detail on material matters from an economic, environmental, social and governance standpoint. According to our material assessment, three material topics were changed as per mentioned in page 46 over the preceding year.

The report sets out our principal risks and opportunities, business model, strategy, along with the progress we have made in the financial year under review and our future outlook in a volatile plantation industry backdrop. We discuss at length on how we engage our stakeholders, manage our core capitals and the trade-offs we make in our decision-making process to optimise value and ensure sustainability of operations. We also elaborate on our risk management, internal controls and good governance practices and the latest initiatives. With equal emphasis to both quantitative and qualitative information and data, the report content is prioritised as per the materiality analysis as set out on pages 45 to 49.

For the fifth consecutive year, our report is prepared in line with the Integrated Reporting <IR> guidelines published by the International Integrated Reporting Council (IIRC). As was the case since 2011, our sustainability reporting continues to follow the guidelines set out by the Global Reporting Initiative (GRI) and we report in line with the latest Standards published in 2016 in accordance with the 'comprehensive' option. The GRI content index is given on pages 291 to 300. We also give due considerations to the ten principles covering human rights, labour, social and environmental issues, as guided by the UN Global Compact Framework.

This report is in compliance with NGRS Tier 5 and recognised ISO 26000 as a reference document that provides guidance.

Aside from sustainability reporting guidelines, our operational and financial reporting conforms with the guidelines set by the Company's Act No. 07 of 2007 and the relevant accounting standards. The report on governance complies with the latest code on corporate governance and the regulatory requirements as a listed entity.

Targeted Stakeholders

Our annual report is principally aimed at supporting information requirements of our shareholders and prospective investors. As an integrated report, this report is also intended to address other stakeholders including our buyers, employees, resident communities and regulators.

Joint Assurance

The reporting process and the content developed are jointly assured, both internally as well as externally. From an internal standpoint, the report is assured by the Board Audit Committee, the internal auditors and the senior management. From an external standpoint, our financial statements and the related notes are audited by M/s Ernst & Young – Chartered Accountants as set out on page 223 to 225.

Information Sources



Operations and Finance

- Interim financial statements
- Past and present audited annual financial statements and notes
- Management information reports
- Board progress reports

Economy and Industry

- World Economic Outlook, International Monetary Fund
- Annual Report, Central Bank of Sri Lanka
- Industry sources

Workforce and labour relations

- HR clusters at estates
- HR department - corporate office
- Collective agreements

Product Responsibility

- Buyer review reports
- ISO certification

Community development and relations

- 'A Home for Every Plantation Worker' programme
- Ethical Tea Partnership

Environmental issues

- Rainforest Alliance-Sustainable Farm
- Ethical Tea Partnership
- Biodiversity surveys

Governance

- Board progress reports
- Compliance reports on codes of ethics and governance
- Board disclosures

Risk Management

- Risk Management Governance Framework of TTE

About This Report

whilst sustainability reporting is audited by M/s Ernst & Young – Chartered Accountants as set out on page 24.

The report content was largely developed based on the data and information given in the management information reports, corporate strategy and plans and reports compiled for our certification programmes. We also held detailed discussions with the corporate management team and with the management and executive level staff at the estate level. The report content with regard to external matters is developed based on publicly available information sourced through desk research. The report content is validated by the senior management. There is restatement of GHG calculation as mentioned in page 176.

Disclaimer

The forward-looking statements and information herein this Annual Report in terms of the future outlook, strategy, plans and forecasts are developed with due care and consideration, factoring past and present data and trends under diverse scenarios. However, we are not accountable for such statements and we do not guarantee that they may materialise as expected. We urge our stakeholders to be conscious that our futuristic statements may be subject to change in reality and we advise not to place undue reliance on these statements. We are not under obligation and do not undertake responsibility to publicly update our forward-looking statements in response to the changes in our business backdrop after the date of publication.

Board Endorsement

The TTE Board assures the veracity, reliability and transparency of our integrated reporting process. The Board gives its assurance that we follow best practices in reporting, addressing material matters that represents the Company's integrated thinking in value creation, the overall performance in the year under review along with future prospects. The Board Audit Committee hereby endorses the publication of our Annual Report 2018/19, themed "Cultured".

Inquiries

Any questions or inquiries regarding our integrated Annual Report 2018/19 may be directed to the sustainability monitoring unit as follows:

Deputy General Manager - Finance
Talawakelle Tea Estates PLC
400, Deans Road, Colombo 10
Tel : +94 11 2627785
Email : tpl.tea@ttl.hayleys.com



Vision, Mission and Business Philosophy

 GRI: Disclosures: 102-16

Our Vision

**To be the most admired
plantation company
in Sri Lanka.**

Mission

**Manage the plantations to enhance
Quality of life of all employees.
Produce and market quality teas that
delight our customers. Drive
sustainable growth. Enhance share
holder value.**

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 Organisation and continuously
improving Building mutually beneficial long term
relationships with our Customers and Suppliers**
-  **Positively contributing to the conservation
of the environment**

Financial Highlights

GRI: Disclosures: 102-7

Rs. 47.5Mn

Group Finance Expenses

Rs. 412.7 Mn

Second Ever Highest
Group Net Profit

Rs. 201.9 Mn

Dividends Paid
Rs. 8.50 per share



Rs. 647.4 Mn

Group Free Cash Flow Positive
for the 7th consecutive year

Rs. 994.0 Mn

Short Term Investments

9.77%

Group Debt Equity

Rs.17.05

Group Earning per share

Rs. 1.16 Bn

Market Capitalisation

Rs. 5.0 Bn

Group Total Assets

14.64%

Group Return on Equity



Non Financial Highlights

 GRI: Disclosures: 102-7

Overall Gold National Business Excellence Award

1st Time won by Agri and Plantation Company

171 Top Price

Rankings

6,650

Number of Employees

TTE'S Second Roof Top Solar Project

at Moragalla Factory

5.3 Mn kWh

Electricity consumption

0.78 tCO₂e

GHG emission intensity

GSA Rank No 01

High Grown, Low Grown and Overall
Amongst Regional Plantation Companies

Gold Award Annual Report

CA Sri Lanka - 5th consecutive year

4,877 tCO₂e

GHG emission


Rs. 16.7 Mn-R & D

New products, Agriculture MIS using drones

Rs. 124.8 Mn

Worker welfare and Community
Development

Chairman's Statement

 GRI: Disclosures: 102-14



Dear Shareholder,

I am pleased to present the Annual Report and the Audited Financial Statements of Talawakelle Tea Estates PLC for the year ended 31st March 2019.

I have the pleasure to announce that the company has surpassed average industry performance benchmarks to record a Consolidated turnover of Rs. 4.02 billion and a profit after tax of Rs. 412.7 million amidst a challenging year.

Operating Landscape

The Sri Lankan economy posted a GDP growth of 3.2 percent, lower compared to the previous year of 3.4 percent, mainly due to a significant slowdown in industry activities. The service and agriculture sectors supported GDP growth, where the agriculture sector performed well driven by higher paddy production. The tea sub-sector made a noteworthy contribution to the overall economic and social development of the country, with a production of 303.8 million kilograms and export earnings of US dollars 1.27 billion, albeit, lower than the previous year by 3.9 million kilograms and US dollars 260.1 million, respectively. In our export markets, Iraq emerged as the largest buyer of our teas with Turkey, Russia and Iran being the other major buyers. The Colombo Tea Auctions continued to record the highest US dollar prices for teas compared to the other auction centers, although, at a lower average price of US dollars 3.18 per kilogram compared to US dollars 4.05 per kilogram recorded in the previous year.

During the year, the tea sector continued to grapple with extremities in weather, decline in tea exports to Japan, lower tea prices compared to the previous year at the Colombo Tea Auctions, higher wage costs consequent to the new Wage Agreement in January 2019 and with key export markets

under economic and geopolitical tensions. Consequently, industry earnings were under pressure.

Corporate Performance

The Company's turnover for the year under review was Rs. 3.95 billion as compared to Rs. 4.0 billion in the previous year. Net profit after tax was Rs. 398.2 million compared to Rs. 550.8 million in the previous year. On consolidated financials, the turnover of the Group stood at Rs. 4.02 billion, a decrease of Rs. 35.3 million. The Group's net profit after tax stood at Rs. 412.7 million. With higher generation of electricity, our two subsidiary companies in the mini hydropower sector recorded a profit of Rs. 18.4 million, a substantial improvement from a loss of Rs. 1.7 million in the previous year.

Lower tea production and tea prices along with higher wage costs had a significant impact on the earnings in the year. The impact of the increased wage increase including higher gratuity cost was Rs. 120 million. We executed a focused strategy to support the company to produce a quality tea consistently at a competitive cost. This enabled us to optimize prices in a less remunerative market and retain our market leadership. Our efforts in encompassing sustainable agricultural and manufacturing practices in a performance-oriented culture, guided by our values and prudent financial management, minimized the adverse industry dynamics, to post a profit after tax of Rs. 398.2 million, by the company which was higher than industry average earnings.

The Company emerged as the industry leader for premium tea prices amongst the Regional Plantation Companies, ranking at the top for high and low grown elevations at the Colombo Tea Auctions; a position held now for ten years. This together with effective cost and productivity management and good industrial relations ensured a creditable performance in a challenging year.

LKR 4.02 Bn
Group Turnover

“The Company emerged as the industry leader for premium tea prices amongst the Regional Plantation Companies, ranking at the top for high and low grown elevations at the Colombo Tea Auctions; a position held now for ten years”

Chairman's Statement

Dividends

An interim dividend of Rs. 6 00 per share was paid in March 2019.

Certifications and Standards

In our quest to produce finest quality teas, we continued in the year to pledge our allegiance to renowned certification programmes including ISO, Rainforest Alliance and Ethical Tea Partnership. This in turn, stood us in good stead, reinforcing our quality and standards in our operational processes and in our products. This year, we became the first amongst the Regional Plantation Companies to embrace ISO standards for environmental management with Great Western estate securing ISO 14001 certification. Currently, one of our estates, is working on obtaining ISO 50001 energy management standard.

Recognition and Awards

This was indeed a year of accolades. We were acclaimed as an exemplary organization for business acumen, social consciousness and responsibility, both nationally and internationally. We were honored to be the first amongst the agriculture sector companies to be recognised as the overall winner of the 'National Business Excellence Awards 2018', organized by the National Chamber of Commerce of Sri Lanka; along with Gold Awards in the agriculture and plantation sector category, performance management and capacity building; whilst receiving silver for excellence in environmental sustainability and local market reach. Our leading estates made their mark at the 'Presidential Environmental Awards 2018', organized by the Central Environmental Authority and at the 'National Social Dialogue & Workplace Cooperation Awards 2018', by the Sri Lanka Labour Department.

Reporting Best Practices

Stepping up best practices, we continued to further our integrated approach to reporting, combined with latest sustainability

reporting standards. Our Annual Report 2017/18, themed 'To the Rhythm', was acclaimed with several awards for excellence in reporting standards. We retained our gold title in the plantation sector category for the fifth consecutive year at the prestigious 'CA Sri Lanka 54th Annual Report Awards 2018'. We were adjudged as the best integrated report 2018 in the sector category at the 'CMA Excellence in Integrated Reporting 2018'. As the highlight in the year, we were awarded the winner of Asia's best integrated report at the 'Asia Sustainability Reporting Awards 2018'. We are truly honoured to receive this award, competing amongst over 30 countries in the continent.

Changes to the Board

During the year DR K.I.M Ranasoma retired from the Board. I take this opportunity to thank him for his valuable contribution during his tenure as a Board member.

Strategic Direction and Outlook 2019

In the year under review, we have displayed our confidence in meeting industry challenges with leadership and strategic focus that steered through industry dynamics and also optimized revenue and earnings—once again, setting industry benchmarks. The year 2018/19 can be described as a resilient performance in a challenging year; upholding our value proposition for producing premium quality teas and setting ourselves apart in the industry.

With tea prices to date on a downward trend compared to last year and impact of higher wage costs, we expect industry earnings to be under pressure in the current year. In this context improving productivity and enhancing revenue are of critical importance. However, the shortage of workers and moving away from a productivity linked wage structure at the recently signed Collective Agreement is a matter of concern. Our response to this

LKR 412.7 Mn
Group Net Profit After Tax

**“Our earnings
was higher than
industry average
earnings”**



challenge is to promote and encourage a revenue share model of remuneration; where the workers see themselves more as partners rather than wage-earners. We will invest in sustainable agricultural practices and renewable energy — solar, implement automation and mechanization of operations, obtaining international certifications for quality assurance and ethical practices to meet global market consumer trends.

We look forward to the full roll out of tea marketing campaign led by the Tea Board and strengthening of the Tea Research Institute. A strong Ceylon tea brand presence with an industry that can face climate change challenges, have product diversity and meet new regulatory requirements, is essential for the Sri Lankan tea industry to be sustainable and globally competitive.

Ad hoc land acquisition, non-receipt of compensation and absence of a national land use plan for the Regional Plantation Companies, impede the optimum utilization of the land bank that is available with the sector. With policy consistency, there will be an incentive for crop diversification — developing energy plantations, among others. These initiatives will add value and enhance sustainability of the sector.

We thank the authorities for the continuation of the fertilizer subsidy and the availability of the weedicide, Glyphosate, following the lifting of the ban towards the end of the year. The beneficial impact on cost, quality and crop production will be forthcoming in the ensuing year. We also urge the authorities to enhance the subsidy substantially for tea replanting, as an incentive to enhance national tea output, especially from the smallholders who constitute the backbone of the industry.

We look to the ensuing financial year 2019/20 with cautious optimism—

nevertheless, with confidence. Our concerns are rising costs of production; extremities in weather; geopolitical tensions in our key markets; slowdown of global trade due to trade tensions; and instabilities brewing within the domestic socio-economic and political front. With strategic focus and a committed team, we are well-poised to capitalize on the opportunities that may emerge from changes in the global tea trade—maximizing our earnings and setting, once again, benchmarks in the industry.

Appreciation

Confronted with manifold challenges in the year, the team worked hard and worked together to deliver a solid performance and secure our corporate goals. My sincere appreciation goes out to our Managing Director, Chief Executive Officer and the team for their competence, dedication and determination. I also wish to extend a warm thank you to our buyers, brokers, business partners and financiers along with all other stakeholders, for their continued support and loyalty. I am grateful to my colleagues on the Board for their farsighted direction, taking our organization towards sustainable heights.,



Mohan Pandithage
Chairman
Talawakelle Tea Estates PLC

08th May 2019

Managing Director's Review



R. Rajadurai

Dr. Roshan Rajadurai
Managing Director

Notwithstanding an unsettling year, 2018/19, Talawakelle Tea Estates PLC stood its ground, consolidated and delivered a perceptive strategy. Following through an integrated management approach, we were both decisive and agile in raising the bar and securing quality and standards in the teas we produced amidst significant pressures unfolding a complex and challenging operating backdrop. My review this year, highlights how we focused on building our strengths, carefully assessing risks and responding pragmatically to keep pace with the evolving industry; whilst setting out our future plans for a better tomorrow, for all our stakeholders.

Industry Challenges

Moving away from optimistic market conditions that prevailed in the preceding year, the industry once again, was challenged on multiple fronts. We saw rising downside risks within the global economy along with growing geopolitical uncertainties. Our key export markets, particularly, Russia and Turkey were fragile with depressive economic conditions whilst US sanctions hit the Iran market.

On the domestic scene, the country was troubled with political upheaval, lacklustre growth and imbalances in macro fundamentals. Inclement weather that prevailed in the year along with intense wage negotiations which culminated in a flat-wage increase formula, disregarding productivity as a determinant, added to the industry woes. The far-reaching consequences that prevailed even after lifting the ill-advised ban on the chemical weedicide, Glyphosate, particularly, leading up to maximum residue levels for MCPA weedicide in Ceylon teas, and the subsequent backlash from the quality conscious Japanese market followed by the European Union, further undermined the industry prospects. In this dismal backdrop, crop production slumped whilst demand-supply dynamics remained subdued with average prices far less than rewarding. This is despite the sharp depreciation of the Sri Lankan rupee.

Perceptive Strategy

With difficult market dynamics in the year, it was imperative and we remained smarter, alert and disciplined in our strategic delivery. Our planning was solid—reinforcing our integrated management approach where the focus was on creating shareholder value whilst building our fundamentals to champion environmental and social responsibility.

We continued to invest and consolidate on our core competencies to secure our value proposition of producing premium quality teas. We maintained good agricultural and manufacturing practices; fine-tuned our processes; and invested well in our people, developing their skills and raising their productivity. We remained committed to our community development initiatives and to manage our environmental footprint. Our efforts to strengthen financial management to maintain an optimal cost structure along with best practices in governance and risk management gave us a steady platform to steer through the demanding market conditions and achieve our strategic goals.

Corporate Results

Unfavourable weather conditions that prevailed in the year impacted negatively on our crop production, quality of the leaf and worker productivity. Our crop volumes in both elevations moderated, taking the total to 5.8 million kilograms, down by 3.5 percent compared to the previous year. Bought leaf volumes also fell by 10.7 percent.

The loss of discerning key markets, Japan and the European Union, had a considerable impact on the Colombo Tea Auctions and on our earning potential. Yet, our teas were consistent and stood apart for quality and standards, thereby, competing well and fetching strong prices, albeit, 5.8 percent lower on national average than the prices recorded in the preceding year. This cushioned our top-line earnings, posting slight decrease of 0.8 percent year-on-year to Rs. 4.0 billion.

LKR 412.7 Mn
Group Net Profit After Tax

“Notwithstanding an unsettling year, 2018/19, Talawakelle Tea Estates PLC stood its ground, consolidated and delivered a perceptive strategy.”

Managing Director's Review

We remained cost conscious, driving for optimisation which assumed more significance in a wage increase year. Our treasury and cash flow management were on point to fit in with more accommodative monetary policy signals. In this context, we managed to maintain a strong bottom-line, with profit after tax at Rs. 398.2 million, although corresponding to a 27.7 percent drop year-on-year. Nevertheless, this is commendable considering the complexities in our operating backdrop. Our return on equity in the reporting year stood at 15.3 percent.

Our financial position as at the year-end 31st March 2019 was robust with net asset position growing by 4.7 percent to Rs.2.6 billion. Our liability obligations were well-managed with a healthy current ratio.

From a consolidated standpoint, our revenue reached Rs. 4.0 billion whilst profit after tax was Rs. 412.7 million. The performance of our hydro-power sector subsidiaries remained modest, with our plants operating below potential capacity levels. Our subsidiaries accounted for only 3.5 percent of our consolidated profits.

Exemplary Business Practices

Reaching out to business excellence, we sought to step up our value chain management with higher quality and standards. The teas we produce remained under the ISO 22000:2005 food safety standards. Aside core operations, we continued to brace our social and environmental management practices; all estates obtained re-certification under the Rainforest Alliance whilst some complied with UTZ and Ethical Tea Partnership standards. Our largest factory, Great Western, in the high grown, aligned their environmental management practices to ISO 14001 whilst Holyrood estate worked towards obtaining energy management standards aligned to ISO 50001. We have laid out our plans for two other estates to adopt ISO environmental standards in the near future. As an organisation, we have pledged our allegiance to the UN

sustainability principles and continued to work towards contributing to the Sustainable Development Goals.

This year, amidst market difficulties, our commitment to quality earned the confidence of buyers. Our teas attracted higher prices on the Colombo Tea Auctions, surpassing the national elevation averages. Our low grown tea prices ranked at the top amongst the Regional Plantation Companies for the 14th successive year. Our high grown teas also ranked number one. Our leading estate, Mattakelle, once again, topped the Western high grown catalogue and 5 estate marks were amongst the top fifteen price earners. Kiruwanaganga estate in the low grown also topped the prices whilst all 3 of our estate marks were within the first five price earners within the Regional Plantation companies.

Our discerning strategy and our exemplary business practices were recognised in the reporting year both nationally and internationally, with coveted awards as discussed under the Chairman's Message. Amongst many accolades we received, we were honoured to be placed at the top, clinching the Gold at the National Business Excellence Awards 2018, organised by the National Chamber of Commerce.

New Paradigm

Meeting present-day challenges, we sought to progressively move towards a new paradigm defined on productivity, revenue-share and the entrepreneurial spirit of our estate workforce. Under this model, we propose to assign some of the estate lands to high achiever workers and they in turn, as block managers, will be responsible for field work including planting and harvesting. We on the other hand, will supervise and support these workers to ensure that they adhere to good agricultural practices and work ethics to ensure sustainability of our tea fields and maintain the leaf quality. This we believe, is a 'win-win' situation for us, as a plantation organisation, where we could drive for greater productivity, secure better yields and increase profitability; and

“Our financial position as at the year-end 31st March 2019 was robust with net asset position growing by 4.7 percent to Rs. 2.6 billion. Our liability obligations were well-managed with a healthy current ratio.”



to our estate workers, where they could develop their self-worth, be in control of their work life and optimise their earning capacity. Already, we have introduced this model as pilot initiatives in two of our estates, Somerset in the high grown and Deniyaya in the low grown. We have given out 207.3hectares of land in total to 605 of our most productive workers along with the necessary support for the transition.

Field and Factory Development

Addressing productivity and less-than-optimal yields in a waning plantation industry, we continued in the year to invest and follow through good agricultural practices in our field operations. We were conscientious in our replanting

programme and gave due precedence to soil and water management, responsible fertiliser application and pest control. Our investment in field development in the year touched Rs. 56.3 million, down by 12.6 percent over the previous year.

We also followed through with our capex plans, mainly focusing on bringing in greater automation, infrastructure development, upgrading machinery and equipment in our factories and modernising our processes. This year too, we sought to further our investments in solar energy under the national initiative, 'Soorya Bala Sangramaya' with our second roof-top solar project at Moragalla estate, with an investment of Rs.15.45 million. The expected return on this investment stands at 22.3 percent. Our total capex on non-field operations increased by 11.7 percent to Rs.112.1 million.

Driving for Productivity

Fostering greater productivity across our estates, we continued in the year to give strategic precedence to our key value driver programme. Our estates in the high grown were proactive in their value driver activities covering 5,042 estate workers—their health, nutrition, hygiene, financial security, work-life balance and family values. Our investment in this programme in the year under review stood at Rs.9.4 million, posting an increase of 49.2 percent over the previous year. Apart from these key measures, we also organised the 'best plucker' competition across estates, with attractive prizes for the top three pluckers. Subsequently, the winners will go on to compete at the group level within the Hayleys Plantation Sector. Supported and complemented by these initiatives, estate worker productivity improved; with the rate of absenteeism at 14.8 percent, higher compared to 14.0 percent in the preceding year.

Monitoring Performance

Our performance management system remained a critical enabler. We continued in the year to brace and fine-tune the



system—closely monitoring employee performance against our corporate and estate targets. Performance evaluations were transparent, equitable and aligned to the balanced scorecard method. In the year, we duly evaluated staff, executive and management categories and rewarded their performance with increments and incentives. This year, we celebrated 47 of our high achievers and recognised their hard work and commitment to the organisation at the staff awards held jointly with the Plantation Sector Group Companies.

Team Focus

Engaging our employees and extending an enabling workplace culture remained central to our corporate strategy. This year too, we remained consistent in our efforts to build employee capacity at all levels, develop their skills, boost worker morale and foster team work. We invested Rs.4.2 million in our training initiatives, an increase of 44.8 percent year-on-year. Our senior and middle management cadre supported our internal training programmes whilst renowned resource persons and institutions were invited to roll out well-structured external training programmes.

In collaboration with the Employer's Federation of Ceylon, this reporting year, we extended the well-recognised Vocational Training Qualification for our estate employees. The first batch of 35 representing 16 estates has already commenced this course—in turn, giving them a significant exposure to develop their skills and their careers. This batch is scheduled to complete Level 3 of the programme, entailing 56 training hours, by August 2020. Necessary training facilities and time-off from official duties are given to these employees to follow this course.

Responsible Plantations

Committed to uplift the lives of our estate workers and the communities of over 42,000 people living in our estates, we followed through with our dedicated social responsibility programme, 'Home for Every Plantation Worker'. Despite the ebbs in the industry, we did not compromise on our social investments in developing and improving housing, sanitation, health and nutrition, capacity building and youth empowerment. This year, all of our estates constructed restroom facilities in the fields for the estate workers. Although a trade-off against estate profitability, we

Managing Director's Review

must commend our estate management for opting for this investment and thereby, securing worker well-being. Our social investment in the year including infrastructure development of Rs. 54.9 million was Rs. 90.8 million and expenditure on worker welfare and community development was Rs. 124.8 million.

We also followed through with our environmental initiatives, seeking to be resource efficient, manage solid waste, be sustainable in energy and water management, protect biodiversity and work towards carbon neutrality. This year, our environmental related expenditure stood at Rs. 40.8 million, a decrease of 5.7 percent over the preceding year.

Path Ahead and Plans

With increasing downside risks, the year ahead is uncertain and bleak. The slow-down in the global economy, particularly, in our key markets, partisan politics brewing within the country, economic instability together with climate change and productivity issues will weigh down on the industry prospects in the short-to medium term.

The onus is on stakeholders to work in unison to strengthen the industry and ensure its viability in the short, medium to long-term. In this light, the industry way forward lies within a new paradigm where the estate worker takes on more responsibility and acts with an entrepreneurial mind set. It is heartening to see the growing consensus on the necessity to transition to a revenue-share model. This will open up opportunities for the industry to address productivity and labour out-migration issues. As a top-tier plantation organisation, we have already taken the lead and we will assess our pilot initiatives as discussed above and consolidate our revenue-share block model in the ensuing years.

Fortifying our core business, we will continue to bolt on our total quality management approach where we work

as a team, accountable to uphold our value proposition. We will give time, effort and allocate necessary resources to strengthen agronomy practices; develop better systems and processes to fine-tune factory operations; streamline supply chain management; and build stronger ties, develop products and improve buyer experience. We will remain committed to our employees, engaging them, building their work ethics and rolling out more structured learning and development opportunities. We will continue to give precedence to performance and mentor high achievers, map their career paths and strengthen succession planning. Complementing our operational way forward, we will work towards optimising on costs, strengthening risk management, governance and reinforcing our commitment to social and environmental stewardship.

Our medium-term strategy and plans will focus on crop diversification in terms of cinnamon, coconut and agriculture forestry. From a long-term perspective, we will look for opportunities to venture into tea tourism and management consultancy services in plantations both within and beyond borders.

In Appreciation

Our stakeholders have always been our pillar of strength. It is fitting to pay a tribute to all for their role, support and confidence placed in us, defining and underlining our strategic delivery in a year that was tremendously challenging.

My appreciation goes out to our Chairman and my colleagues on the Board for their business insight and direction in consolidating our organisation from a long-term standpoint, in these trying times.

I wish to place my heartfelt appreciation to Dilantha Seneviratne, our Chief Executive Officer, who is due to retire at the end of this year after a long and illustrious career with the Hayleys plantation sector. His sense of pragmatism, work ethic and steady disposition inspired us all to work in concert

“Our social investment in the year including infrastructure development of Rs. 54.9 million was Rs. 90.8 million and expenditure on worker welfare and community development was Rs. 124.8 million”

and reach out to higher ground. Under his guidance, our corporate management and the team were well poised, outstanding and their fortitude served us well in steering through the challenges of our evolving industry. My commendation is with the team for a job-well-done and I hope that they will continue to work and be similarly spirited in taking forward our organisation in the ensuing years.

A warm thank you to our shareholders, buyers, brokers, suppliers and all other stakeholders for their cooperation, loyalty and patronage. I earnestly hope that they will continue to rally around and support us in our path to address industry issues and secure better and sustainable goals.



Dr. Roshan Rajadurai
Managing Director

Talawakelle Tea Estates PLC

08th May 2019

Cultured

**working with and empowering
exceptional people**

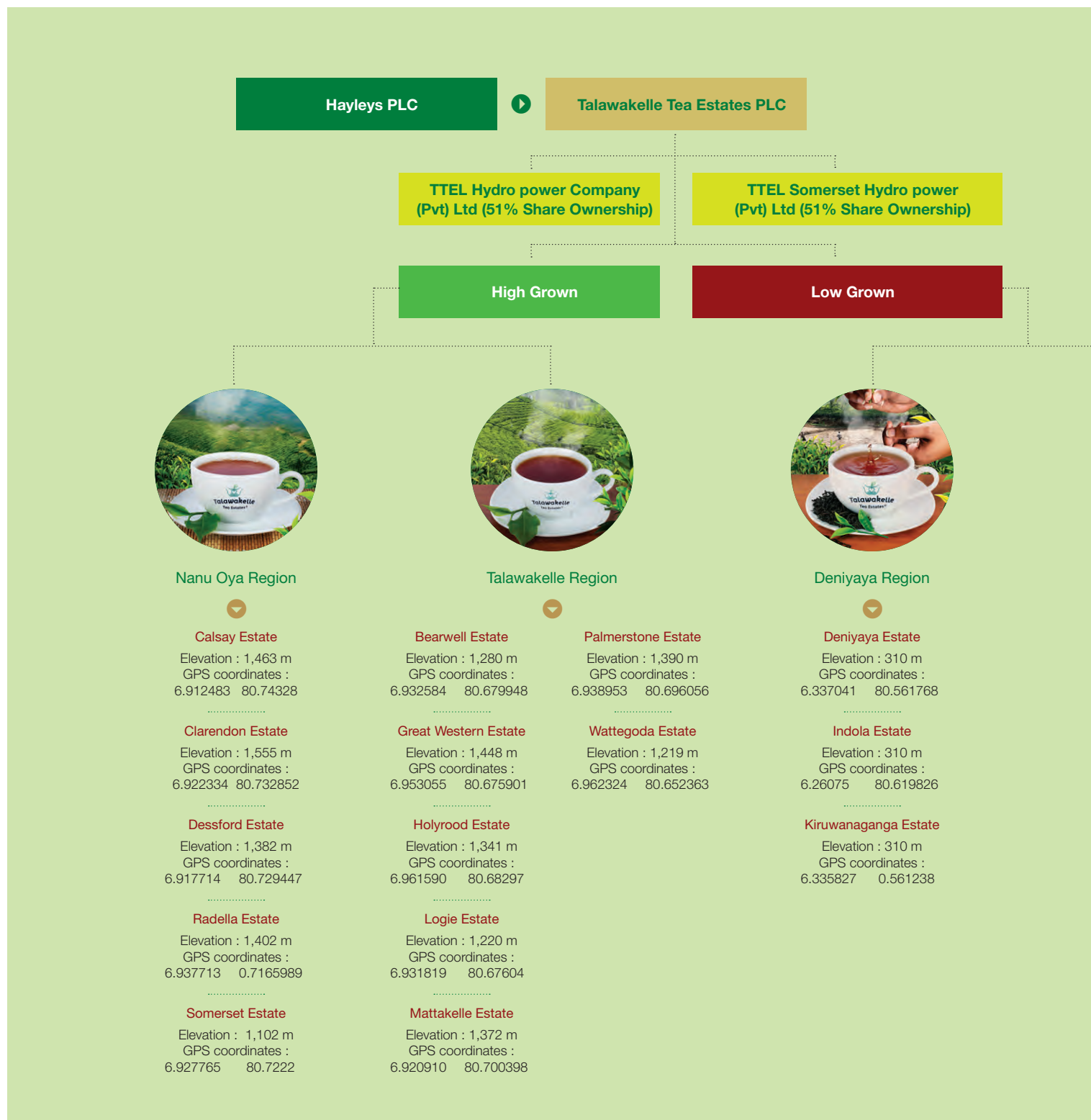
Deniyaya Region

Our three estates in the Deniyaya region covering an area of 1,343.02 hectares and a factory capacity of 2.25 million kilograms, specialise in producing low grown orthodox black tea, mainly serving the markets in the Middle East. With 21.2 percent share of the total tea production, the cluster gives employment to 1,039 people along with a large bought-leaf supplier base of 1,482.



Map of Estates

 GRI: Disclosures: 102-4, 5, 6



12 High Grown

04 Low Grown



Galle Region

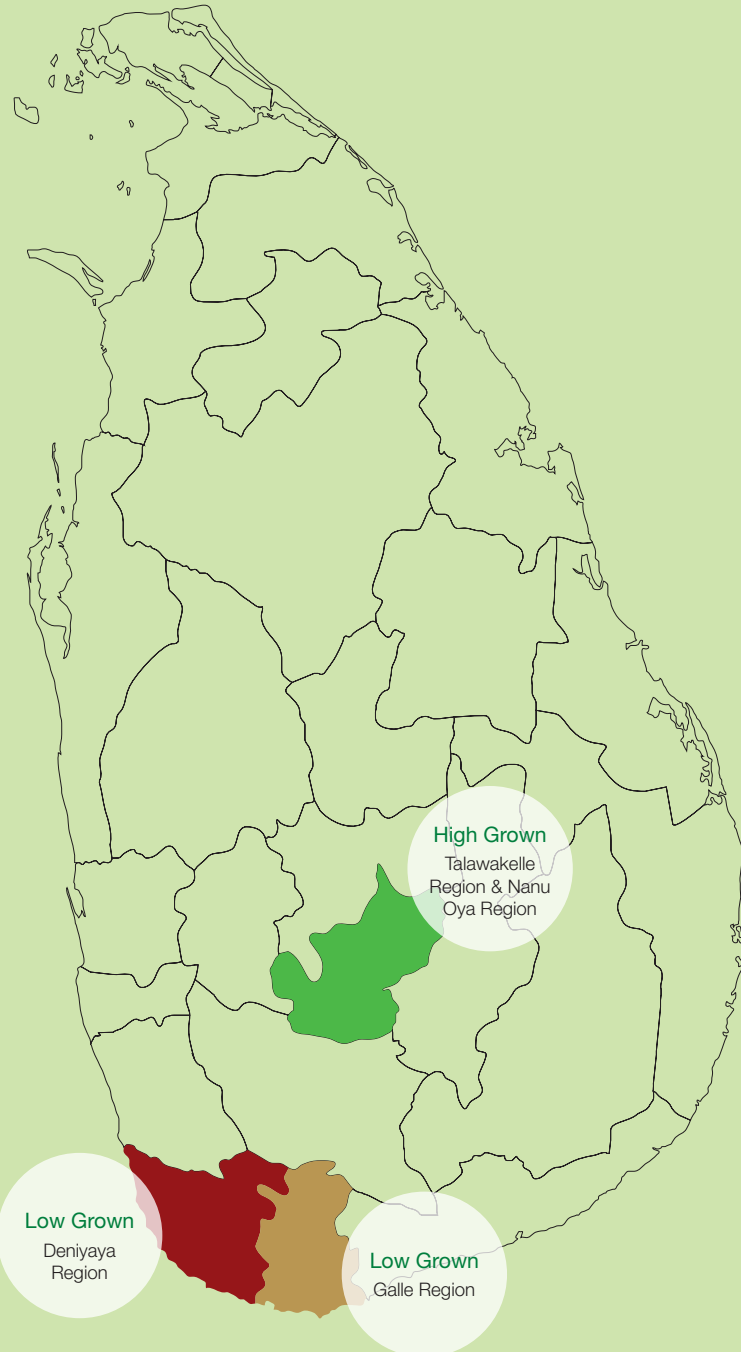


Moragalla Estate

Elevation : 38 m

GPS coordinates :

6.035745 80.372533



Independent Assurance Report



Ernst & Young
Chartered Accountants
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P.O. Box 101
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Sri Lanka

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eysl@lk.ey.com
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Independent Assurance Report to Talawakelle Tea Estates PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report- 2018/19

Introduction and scope of the engagement

The management of Talawakelle Tea Estates PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2018/19 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 71 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' – Comprehensive guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("ICASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI Standards 'In accordance' - Comprehensive guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that

might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the Report

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting

process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 30 April 2019. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the ICASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.

- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2019.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: 'In accordance' – Comprehensive guidelines.
- Our procedures did not include testing electronic systems used to collect and aggregate the information.
- Limitations and considerations
- Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

Based on the procedures performed, as described above, we conclude that;

- The information on financial performance as specified on page 71 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2019.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Comprehensive.

Ernst & Young
Chartered Accountants

8 May 2019
Colombo

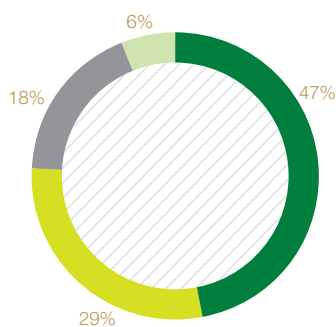
Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA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

A member firm of Ernst & Young Global Limited

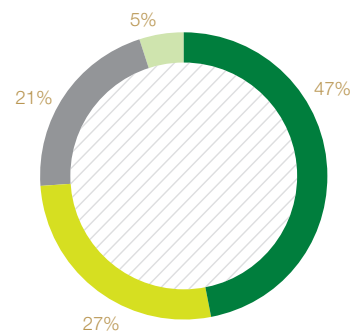
Our Estates and Factories

Estate	Total Extent	Area in Tea	Area in Rubber	Others	Total Cultivated	No. of Workers	Crop with B/L	Factory Elevation	Type of Factory
	Ha	Ha	Ha	Ha	Ha		Kg	m	
Talawakelle									
Bearwell	423.41	341.76	-	31.58	373.34	443	519,059	1,280	Ortho/RV
Great Western	628.48	404.78	-	82.02	486.80	664	553,234	1,448	Ortho/RV
Holyrood	465.96	327.20	-	79.90	407.10	460	330,102	1,341	Ortho/RV
Logie	329.88	213.80	-	45.02	258.82	305	282,695	1,220	Ortho/RV
Mattakelle	361.96	257.66	-	44.34	302.00	627	415,226	1,372	Ortho/RV
Palmerston	203.11	149.61	-	23.75	173.36	232	220,863	-	-
Wattegoda	529.89	315.00	-	100.40	415.40	474	429,686	1,219	Ortho/RV
Sub Total	2,942.69	2,009.81	-	407.01	2,416.82	3,205	2,750,865	-	-
Nanu Oya									
Calsay	282.25	198.03	-	43.11	241.14	267	177,309	1,463	Ortho/RV & RP
Clarendon	191.42	155.88	-	14.07	169.95	190	150,267	1,455	Ortho/RV
Dessford	431.99	314.38	-	4.33	318.71	521	364,085	1,382	Ortho/RV
Radella	458.76	256.64	-	119.95	376.59	394	367,394	1,402	Ortho/GR.T
Wangi Oya	-	-	-	-	-	137	-	-	RP
Somerset	456.64	333.92	-	32.06	365.98	652	503,200	1,102	Ortho/RV
Sub Total	1,821.06	1,258.85	-	213.52	1,472.37	2,161	1,562,255	-	-
Galle									
Moragalla	384.78	95.42	114.84	86.09	296.35	196	285,666	38	Ortho
Pitiyagoda	-	-	-	-	-	11	-	-	RP
Sub Total	384.78	95.42	114.84	86.09	296.35	207	285,666	-	-
Deniyaya/Urubokka									
Deniyaya	578.15	212.31	13.35	81.40	307.06	347	504,779	310	Ortho
Indola	282.16	85.89	98.14	41.43	225.46	167	61,958	-	-
Kiruwanaganga	482.71	337.02	4.00	42.58	383.60	525	670,772	310	Ortho
Sub Total	1,343.02	635.22	115.49	165.41	916.12	1,039	1,237,509	-	-
Grand Total	6,491.55	3,999.30	230.33	872.03	5,101.66	6,612	5,836,295	-	-

Total Cultivated Area



Total Crop



■ Talawakelle
■ Deniyaya
■ Nanu Oya
■ Galle

■ Talawakelle
■ Deniyaya
■ Nanu Oya
■ Galle

Our Awards for the Year 2018/19



- | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>01. Best Presented Annual Report Awards and SAARC Anniversary Awards
Corporate Governance Disclosures 2017
Agricultural Sector
Second Runner up</p> | <p>03. Asia Sustainability Reporting Awards-2018
Asia's Best Integrated Report (Winner)</p> <p>04. Presidential Environmental Awards-2018 (National Green Awards)
Silver Award
Bearwell Estate</p> <p>05. Presidential Environmental Awards-2018 (National Green Awards)
Bronze Awards
Radella & Somerset Estates</p> | <p>06. Asia Sustainability Reporting Awards-2018
Merit Awards
Mattakelle & Dessford Estates</p> <p>07. CMA Excellence in Integrated Reporting 2018
Best Integrated Report
Plantation Sector</p> <p>08. CA 54th Annual Report Awards 2018
Gold Award
Plantation Companies</p> |
| <p>02. Asia Sustainability Reporting Awards-2018 Finalist
Asia's Best Materiality Reporting
Asia's Best Environmental Reporting
Asia's Best Carbon Disclosure
Asia's Best SDG Reporting
Asia's Best Report Design</p> | | |



09. National HR Conference -2018

Great HR Practices
(You are Identified) - Winner

10. Asia Pacific HRM Congress Awards-2018

Best HR Organization to work with

11. National Business Excellence Awards 2018

Merit Award
Excellence in Corporate Governance

12. National Business Excellence Awards 2018

Merit Award
Excellence in Corporate Social Responsibility

13. National Business Excellence Awards 2018

Silver Award
Excellence in Environmental Sustainability

14. National Business Excellence Awards 2018

Gold Award
Extra Large Category

15. National Business Excellence Awards 2018

Gold Award
Excellence in Capacity Building

16. National Business Excellence Awards 2018

Gold Award
Overall Winner

17. National Business Excellence Awards 2018

Gold Award
Excellence in Performance Management

18. National Business Excellence Awards 2018

Gold Award
Agriculture & Plantation Sector

19. National Business Excellence Awards 2018

Silver Award
Excellence in Local Market Reach

Milestones

1992

- Incorporated as a Regional Plantation Company

1995

- Hayleys Plantations Services (Pvt) Ltd acquired the controlling interest

1998

- Debentures were converted to 3.75Mn additional shares
- Winner National Productivity Award & Jastica 5S Award - Great Western Estate- 1st Tea factory

2000

- Listed at CSE & were Issued 4Mn ordinary shares

2001

- HACCP certification - 1st time in the industry Great Western estate

2004

- Switch to renewable biomass from fossil fuel [Diesel] all tea factories

2005

- Set up TTEL exports division

2006

- ISO 22000:2005 first factory in Sri Lanka - Kiruwanaganga Estate

2019



- First agriculture based Company to win National Business Excellence Awards - **Overall Winner**
- Gold award won for the plantation sector for the 5th Consecutive year at CA Sri Lanka Annual Reports Awards.
- Won 'Asia's Best Integrated Report' Award at Asia Sustainability Reporting Awards organized by CSRWorks held in Singapore
- Introduced Block Management concept
- Highest dividend paid in the history of the company
- Initiated second rooftop solar project at Moragalla estate

2008

- Green Tea manufacturing Started at Radella Estate
- Invested in Mini Hydro Plants In Somerset, Palmerston & Radella

2010

- Home for every plantation worker project Initiation
- Transfer TTEL Export division to Mabroc Teas

2011

- Rainforest Alliance certification [RA] of estates
- ETP certification of estates
- Presidential award for the best replanting program among RPCs

2013

- One Million tree planting project Initiation
- Introduced ergonomically designed TRI plucking baskets
- UTZ certification-Radella Estate

2015

- R&D Unit Started - Innovative teas at Dessford estate
- "SATHDIYAWARA- CSR Project
- Introduced Electronic weighing scale & web base performance monitoring system

2016

- Enrolled under United Nations Global Compact principals (UNGC)
- Highest GSA ranking in High grown region for 11th consecutive year
- Launched domestic Tea marketing

2017

- Gold award won for the plantation sector for the 4th consecutive year at CA Sri Lanka Annual Reports Awards
- Highest GSA ranking in Low Grown region for 13th consecutive year
- Enrolled In to Advance level of UNGC
- One Million tree project- 400,000 Plants planted
- Certified ISO 9001/ 14001 First RPC - Great Western estate

2018

- Highest Ever Revenue / Profit
- First Rooftop Solar Power project of Hayleys Plantation sector
- Enrolled under UN women empowerment principals

Board of Directors

 GRI: Disclosures: 102-22



Mr. A M Pandithage *
Chairman



Dr. W G Roshan Rajadurai *
Managing Director



Mr. D S Seneviratne *
Chief Executive Officer



Mr. Merrill J Fernando **



Mr. Malik J Fernando **



Mr. D C Fernando **
(Alternate to Mr Malik J Fernando)



Dr. S S S B D G Jayawardena ***



Ms. Minette D A Perera **



Dr. N T Bogahalande ***



Mr. S L Athukorala ***



Mr. M H Jamaldeen ***

Mr. A M Pandithage ***Chairman**

Chairman and Chief Executive of Hayleys PLC. Joined the Hayleys Group in 1969. Appointed to the Board in 1998. Chairman and Chief Executive of Hayleys PLC since July 2009.

Appointed to the Board of Talawakelle Tea Estates PLC in July 2009.

Fellow of the Chartered Institute of Logistics & Transport (UK). Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Advisory Council of the Ceylon Association of Ships' Agents. Recipient of the Best Shipping Personality award by the Institute of Chartered Shipbrokers; Excellence Leadership Recognition – Institute of Chartered Accountants of Sri Lanka; Honored with lifetime achievement award at Seatrade – Sri Lanka Ports, Trade and Logistics; Life time award for most outstanding Logistics and Transport personality of the year – Chartered Institute of Logistics & Transport.

Dr. W G Roshan Rajadurai ***Managing Director**

Appointed to the Board in 2013.

Managing Director of Talawakelle Tea Estates PLC, Kelani Valley Plantations PLC and Horana Plantations PLC. A member of the Hayleys Group Management Committee.

Holds a B.Sc. in Plantation Management, an MBA from the Post Graduate Institute of Agriculture, University of Peradeniya, a D.Sc. from Wayamba University and a Ph.D from University of Hawaii, USA.

Since 1993 - 2001 held Senior Plantation Management position in Kelani Valley Plantations PLC and from 2002 - 2012 joined Kahawatte Plantations of Dilmah and was Director/CEO 2008 – 2012.

He was also the Chairman of the Planters' Association of Ceylon and was/is a member of the Sri Lanka Tea Board, Rubber Research Board, Tea Research Institute, Tea Council of Sri Lanka and the Tea Small Holdings Development Authority of Sri Lanka. He was the Chairman of the Consultative Committee on Estate and Advisory Services, a member of the Experiment and Extension Forum of the Tea Research Institute, a Member of the Consultative Committee on Research of the TRI. He is also a member of the Standing Committee on Agriculture, Veterinary and Animal Sciences of the University Grant Commission as well as a Member of the Arbitration and Mediation Steering Committee of the Chamber of Commerce.

Mr. D S Seneviratne ***Chief Executive Officer**

Appointed to the Board in 2013.

Chief Executive Officer of Talawakelle Tea Estates PLC and a Director of Hayleys Plantation Services (Pvt) Ltd. Counts 20 years of experience in the Plantation Sector.

Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow of the Institute of Certified Management Accountants (FCMA) with over 30 years of post-qualifying experience in Finance, General Management & Commercial operations in the corporate sector.

Director of Plantation Human Development Trust. He also serves as a Committee Member of the Committee of Management of Ceylon Planters' Provident Society. Served as a member of the Steering Committee on IAS 41 – Agriculture of the Institute of Chartered Accountants of Sri Lanka, Chairman of the CSR Steering Committee of Ceylon Chamber of Commerce and a Trustee of the Plantation Trust Fund.

Mr. Merrill J Fernando **

Appointed to the Board in 1998.

Mr Merrill J Fernando is the founder of the MJF Group of Companies and Sri Lanka's global tea brand, DILMAH. He re-launched Ceylon Tea in the 1980s and was the first tea producer to develop an origin packed, producer owned and genuinely ethical tea brand in any tea, coffee or cocoa producing country.

He pioneered value addition, packaging, branding and marketing consumer ready tea from source, enabling Sri Lanka to retain profits which traditionally enriched foreign traders at the expense of tea producers. Dilmah is a model for genuinely ethical trade. Mr Merrill J. Fernando showed producers of raw material the way out of the commodity trap and by maintaining an uncompromising commitment to its founding principles of Quality and Integrity, Dilmah has become a respected international tea brand.

Mr. Malik J Fernando **

Appointed to the Board in 1998.

He is a Director of MJF Holdings & Dilmah Tea. Established by Mr Merrill J. Fernando; Dilmah, named after his two sons Dilhan and Malik, was the first producer owned tea brand, offering tea 'picked, perfected and packed' at origin. Dilmah is founded on a passionate commitment to quality and authenticity in tea, it is also a part of a philosophy that goes beyond commerce in seeing business as a matter of human service.

Mr Fernando has a BSc in Business Management from Babson College in the USA.

He is also the Managing Director of Resplendent Ceylon, the first Sri Lankan luxury resort brand. Resplendent Ceylon is developing a collection of small, luxury resorts offer discriminating travellers a remarkable circuit across Sri Lanka, with a range of authentic experiences, while

Board of Directors

contributing towards local communities and the environment through the MJF Foundation & Dilmah Conservation.

Dr. S S S B D G Jayawardena ***

Appointed to the Board in 2008.

He serves as the Advisor to the Hon. Minister of Agriculture and the Chairman of Sri Lanka Council for Agricultural Research Policy. He is also a member of the Presidential Commission on National Salaries and Cadre Commission.

Former Chairman of the Tea Research Institute (2006 – 2015). Former Board Member of Sri Lanka Tea Board. Former Member of Tea Small Holdings Development Authority (TSHDA), Tea Shakthi and Research & Development Committee of National Science Foundation. Also, a former Member of the Advisory Committee on Tea of the Ministry of Plantation Industries.

He held positions as the Chairman of Coconut Research Institute (CRI), Chairman of National Institute of Plantation Management (NIPM) and a former Director General of Department of Agriculture. He has been a member of the Consultative Group on International Agriculture Research representing Asia. Served as FAO Consultant on Biodiversity and JICA Consultant on Horticulture Development to the Government of Ghana.

Ms. Minette D A Perera **

Appointed to the Board in 2012.

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.

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

Dr. N T Bogahalande ***

Appointed to the Board in 2013.

Dr Bogahalande counts over 30 years of Managerial experience in Plantation, Manufacturing, Trading and Financial sectors.

Member of the Institute of Certified Management Accountants Australia, Member of the Chartered Institute of Personnel Management (Inc) Sri Lanka and received his PhD from Management and Science University, Malaysia and published articles in international refereed journals and conference proceedings. In 2010, he was conferred with the most prestigious 'Pride of HR Profession' award by the World HRD Congress.

Group Head of Human Resources of Royal Ceramics Lanka PLC. Also serves as Director Uni Dil Packaging Ltd., LB Management Services (Pvt) Ltd., Delmege Coir (Pvt) Ltd., Vallibel Plantation Management Ltd., Janatha Estates Development Board and Alternate Director of Horana Plantations PLC.

Mr. D C Fernando **

(Alternate to Mr Malik J Fernando)

Appointed as Alternate Director to Mr Malik J Fernando in 1998.

Dilhan C. Fernando is the younger son of Dilmah Tea Founder Mr Merrill J. Fernando. He graduated from the London School of Economics and is CEO of Dilmah Tea, serving also as Chair of Global Compact Network Ceylon and Biodiversity Sri Lanka.

He holds a B.Sc. Economics (Hon) Degree from the London School of Economics.

He manages the Tea operations of the family's MJF Group, focusing on reimagining tea for the 21st Century, and also oversees the work of the MJF Charitable Foundation and Dilmah Conservation in fulfilling his father's philosophy of making business a matter of human service.

Mr. S L Athukorala ***

Appointed to the Board in 2016.

He is a Fellow of the Institute of Chartered Accountants (FCA), Fellow of Chartered Institute of Management Accountants (FCMA, UK). Master of Business Administration (MBA), University of Warwickshire, UK; Certified Management Accountant (CMA, Australia).

He counts forty years' experience in the fields of Management, Human Resources, Accountancy, Auditing, Consultancy and Finance. Former International Specialist/ Staff at Asian Development Bank, Manila, Philippines and worked in a number of countries mainly in the Asian region.

He currently serves as the Chair of Audit Committee and as an Independent Director of a Number of Leading Companies. He also serves as an Audit Committee member of the United Nations Industrial Development Organization.

Mr. M H Jamaldeen ***

Appointed to the Board in 2017.

A Finance Professional with over 17 years of experience and a seasoned commercial property investor and advisor. He is a Fellow of the Association of Certified Chartered Accountants, UK and holds a degree in Engineering and Business from the University of Warwick, UK. He is the Founding Managing Director of Steradian Capital Investments (Pvt) Ltd, responsible for Financing, Corporate Structuring, Acquisitions and Development.

He serves as a Director of Hayleys PLC, Talawakelle Tea Estates PLC, Haycarb PLC, Singer (Sri Lanka) PLC, Singer Industries (Ceylon) PLC, Regnis (Lanka) PLC and Lanka Realty Investments PLC. He is also Executive Director of numerous real estate companies focusing on commercial property investment and development.

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

Corporate Management



▶ **Mr. S B Alawattagama**
Director - Plantations



▶ **Mr. M T D Rodrigo**
General Manager - Strategic Performance Management



▶ **Mrs. V A Perera**
General Manager - Finance



▶ **Mr. D M Wickramaratne**
Deputy General Manager - Marketing



▶ **Mr. H R L S Bandara**
Deputy General Manager - Finance



▶ **Mr. D M G B Dassanayake**
Senior Manager - Agro Forestry & Projects



▶ **Mr. M E Suraweera**
Senior Manager - Information Technology



▶ **Miss. S K Dharmasekara**
Manager - Human Resource

Estate Management



▶ **Mr. N P Abeysinghe**
*Senior Regional General
Manager - Bearwell Estate*



▶ **Mr. P G G Jayathilake**
*Regional General Manager -
Kiruwanaganga Estate*



▶ **Mr. G K Wijesekera**
*Regional General Manager -
Great Western Estate*



▶ **Mr. A C M Bandaranayake**
*Deputy General Manager -
Palmerston Estate*



▶ **Mr. E S B A Egodawela**
*Deputy General Manager -
Somerset Estate*



▶ **Mr. H P W Vithanage**
Group Manager - Clarendon Estate



▶ **Mr. D M A S Dissanayake**
Senior Manager - Dessford Estate



▶ **Mr. A G R M S Ranaweera**
Senior Manager - Radella Estate



▶ **Mr. K G M N Gamage**
Senior Manager - Deniyaya Estate



▶ **Mr. W D Jayasinghe**
Manager - Pitiyagoda Factory



▶ **Mr. U B Udawatte**
Manager - Logie Estate



▶ **Mr. S G N N Kumara**
Manager - Mattakelle Estate



▶ **Mr. Y D Kumarasiri**
Manager - Holyrood Estate



▶ **Mr. D W A Jayathilake**
Manager - Wattegoda Estate



▶ **Mr. K D Manohar**
Acting Manager - Calsay Estate



▶ **Mr. V P Pelpola**
Acting Manager - Indola Estate



▶ **Mr. K M N Prasan**
Deputy Manager - Moragalla Estate



▶ **Mr. Kapila Bandara**
Manager - Sustainability & Quality System Development

Subsidiary Review

GRI: Disclosures: 102-45

TTEL Somerset Hydro Power (Pvt) Ltd

Principal Activity:
Generation of Hydro
Power

Somerset Hydro Power Project

1.1MW Capacity - Nanu Oya
Share Ownership: 51%
Date of Incorporation: 25th August 2008

Rs. 60Mn

Stated Capital

Directors

Mr. A M Pandithage (Chairman)
Mr. Merrill J Fernando
Mr. Malik J Fernando
Dr. W G R Rajadurai
Mr. A R De Silva
Mr. J A W M Jayasekara

Key Performance Indicators - 2018/19

Rs. 32.49Mn

Revenue

Rs. 6.56Mn

Profit After Tax

Rs. 164.5Mn

Total Assets

5.5%

Return on Equity

Principal Activity:
Generation of Hydro Power
Share Ownership: 51%
Date of Incorporation: 11th
August 2008

Rs. 69Mn

Stated Capital

Radella Hydro Power Project

0.2 MW Capacity - Nanu Oya

Palmerstone Hydro Power Project

0.8MW Capacity - Talawakelle

Directors

Mr. A M Pandithage
(Chairman)
Mr. Merrill J Fernando
Mr. Malik J Fernando
Dr. W G R Rajadurai
Mr. A R De Silva
Mr. J A W M Jayasekara

TTEL Hydro Power Company (Pvt) Ltd

Key Performance Indicators - 2018/19

Rs. 35.84Mn **Rs. 9.54Mn**

Revenue

Profit after tax

Rs. 201.7Mn **8.9%**

Total Assets

Return on Equity

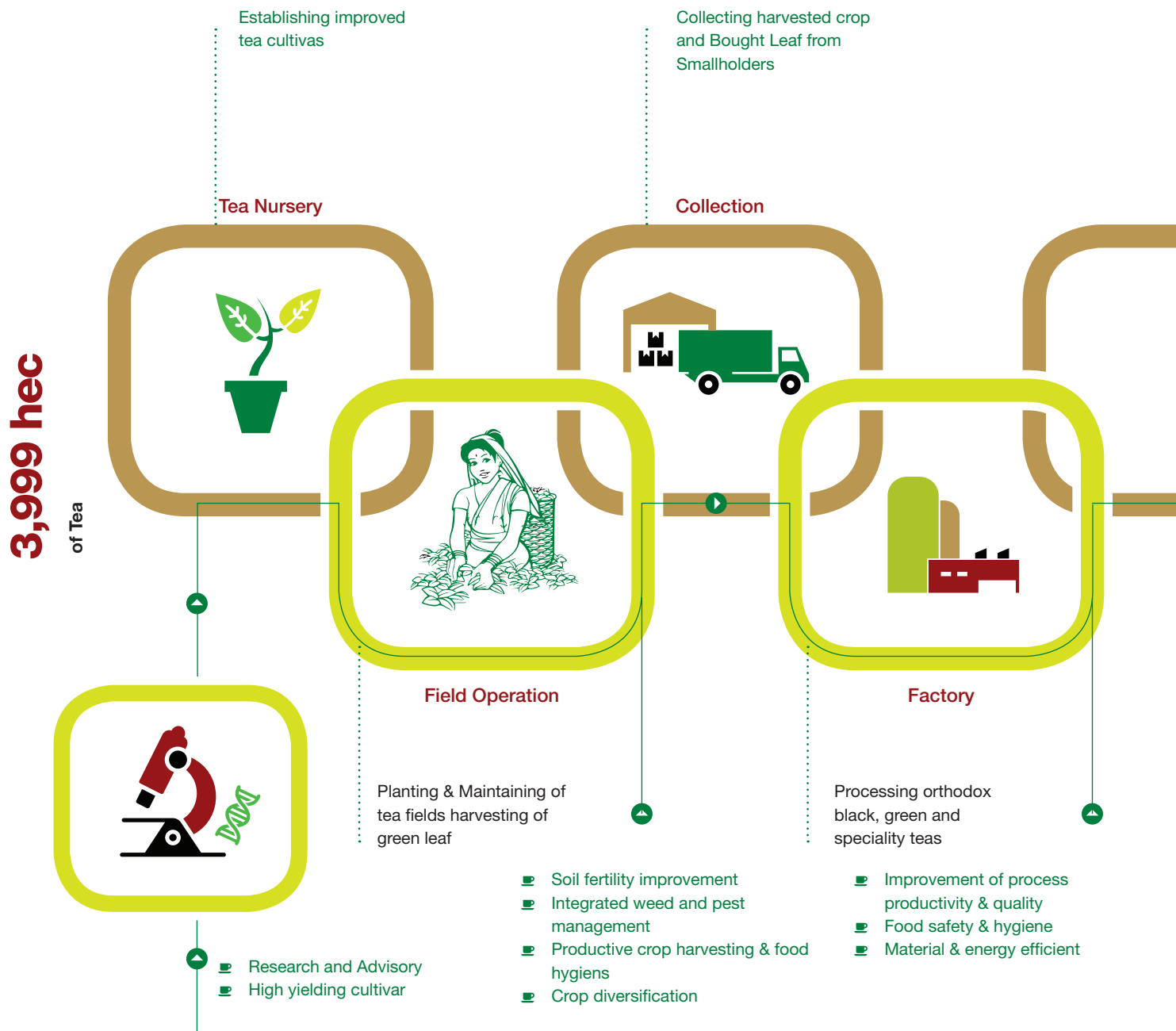
The Way We Create Value

Lucidly portrayed and likened to a 'tea cup', the business model depicts the way we create value. The very essence that defines our organisation, good governance and strategic management, as aligned to our vision and mission, pave the way for core capitals to work in harmony to create value and meet our stakeholder expectations. We bring the capitals as ingredients, blend it through our business processes and activities and transform them into a 'finest cuppa' we are renowned for, with premium quality and standards. Our outcomes and impacts encompass economic, social and environmental facets from a triple-standpoint. This process is continuous with transformed capital reassigned to further create value and impacts managed to ensure greater sustainability.

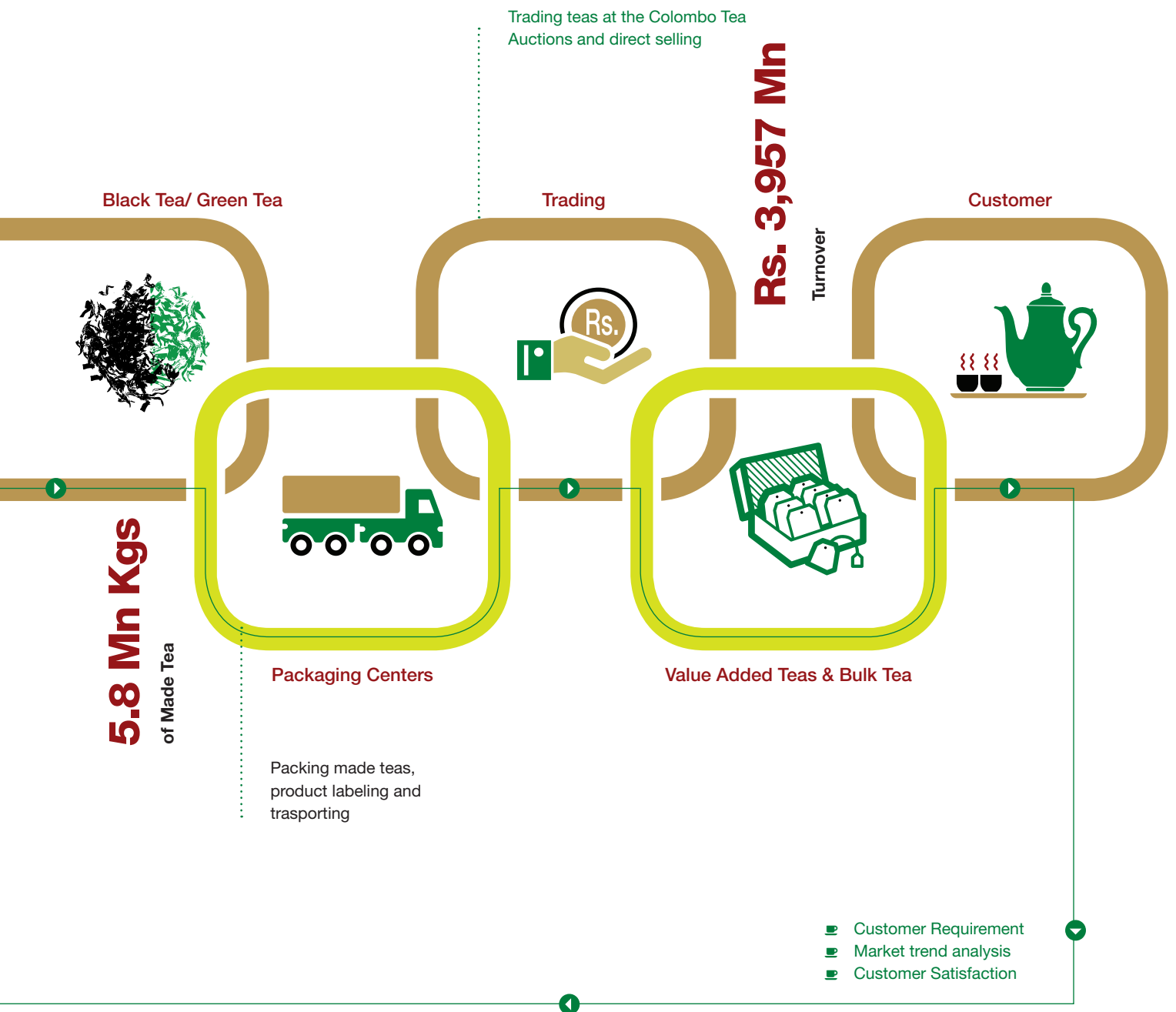
Value Creation



Value Chain



As a plantation company, we follow through an extensive six-fold value chain underlined by responsible business practices. Our value chain starts at the tea nurseries where we develop our tea cultivar. Our research and development department in collaboration with the Tea Research Institute supports our tea nurseries with high-yielding and specialty cultivar. Our field operations manage our tea fields—planting and harvesting, taking due care to maintain quality of the green leaf. The harvested leaf is collected and taken into our factories where we produce orthodox black, green and specialty tea under stringent quality and standards. The processed tea is then sent to the packaging centers for packaging and product labeling as per the set standards. Our final product, both value-added and bulk tea, is transported to the Colombo Tea Auctions where we have gained the trust and confidence of our valued buyers.



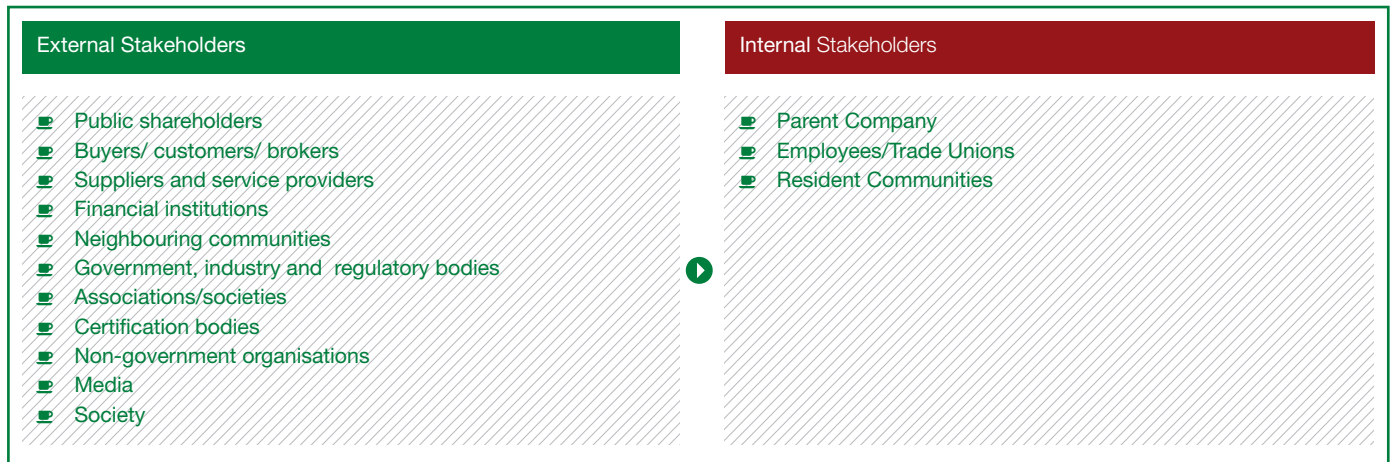
Integrated Sustainability Objectives, Goals and Achievements

ASPECT	OBJECTIVE	UNIT	GOAL 2018/19	ACHIEVEMENT				
				2018/19	2017/18	2016/17	2015/16	2014/15
FINANCIAL CAPITAL	1. Revenue	Rs-Mn	4,156	3,958	4,009	3,262	3,323	4,643
	2. Gross Profit	Rs-Mn	393	562.9	740	403	247	437
	3. Return on Equity (ROE)	%	7.3	15.32	22.15	11.9	6.7	13.9
	4. Debt to Equity	%	11.55	9.77	13.93	15.95	30.2	36.4
MANUFACTURED CAPITAL	1. New Machinery acquisitions	Rs-Mn	6.6	27.34	24.97	13.2	7.66	46.51
	2. Production	Kgs.Mn	6.5	5.83	6.05	5.65	6.8	8.8
	3. Made tea out turn	%	22	22.13	22.77	22.33	22.21	22.31
INTELLECTUAL CAPITAL	1. Recognitions & Awards	Number of main awards	20	24	27	16	15	15
	2. Certifications							
	ISO 22000:2005 –FSMS	Number of estates	15	12	12	12	13	13
	Rainforest Alliance	Number of estates	16	14	14	14	14	13
	Ethical Tea Partnership	Number of estates	16	14	14	14	14	13
	UTZ	Number of estates	2	2	02	02	01	01
	ISO 14001:2015-EMS	Number of estates	2	2	01	-	-	-
	ISO 9001:2015-QMS	Number of estates	1	-	01	-	-	-
	Reputation and brand value	RPC GSA Ranking	1	1	02	01	01	02
HUMAN CAPITAL	1. Total Worker Productivity	kgs/Worker	2.75	2.48	2.65	2.64	2.7	2.7
	2. Worker Attendance	%	80	72	78	75	65	68
	3. Investment on Employee Training	Rs. Mn	2.5	4.2	2.98	2.2	1.3	1.6
	4. Worker Turnover	%	6.0	6.8	4.5	9	6	22
SOCIAL & RELATIONSHIP CAPITAL COMMUNITY DEVELOPMENT	1. New Housing	Units	25	30	66	2	32	11
	2. New Sanitary Facilities	Units	100	113	118	388	242	30
	3. Investment on Social infrastructure Development	Rs.Mn	50	54.9	100.6	38.7	54.8	30.5
	4. Investment on Social Activities and community development	Rs.Mn	50	90.9	26.35	17.4	17.3	15.4
CUSTOMER, SUPPLIER & INVESTOR RELATIONSHIP	1. Customer Complaints	Nos	0	37	7	7	22	10
	2. Customer Satisfaction Index	%	100	81	73	73	70	71
	3. Total Local supplier percentage	%	100	99	99	100	99.7	96
	4. Tea Small holder supplies Quantity	Kgs	758,000	763,012	689,027	690,960	938,751	1,585,725
	5. Price Earnings Ratio	times	3.00	2.86	2.36	3.25	6.52	3.49
NATURAL CAPITAL Field development & performance	1. Yield per Hectare	Kgs/hec/annum	1,492	1,335	1,407	1,305	1,547	1,887
	2. Replanting-Tea	hec/annum	16.40	12.53	4	19.43	29.41	46.25
	3. Planting of Fuelwood & Timber Species	hec/annum	52	7.5	27.50	44.77	52.72	54
	4. Investment on Field Development	Rs.Mn	105.00	56.3	64	88.6	105	79.2
Environmental stewardship	1. Generation of Hydropower	kWh-mn	10	7.96	6.7	5.9	8.2	6.9
	2. GHG Emissions-Carbon Footprint	tCO2e	4,500	4,876	4,858*	4,430*	5,385*	5,486*
	3. GHG Emissions Intensity	tCO2e/tonne of Made Tea	0.60	0.78	0.75*	0.78*	0.79*	0.76*
	4. Investment on Environmental Initiatives	Rs.Mn	45	40.8	43.3	40.4	33.1	26.4

*GHG Emission Recalculated using IPCC Emission Factors

Stakeholder Engagement

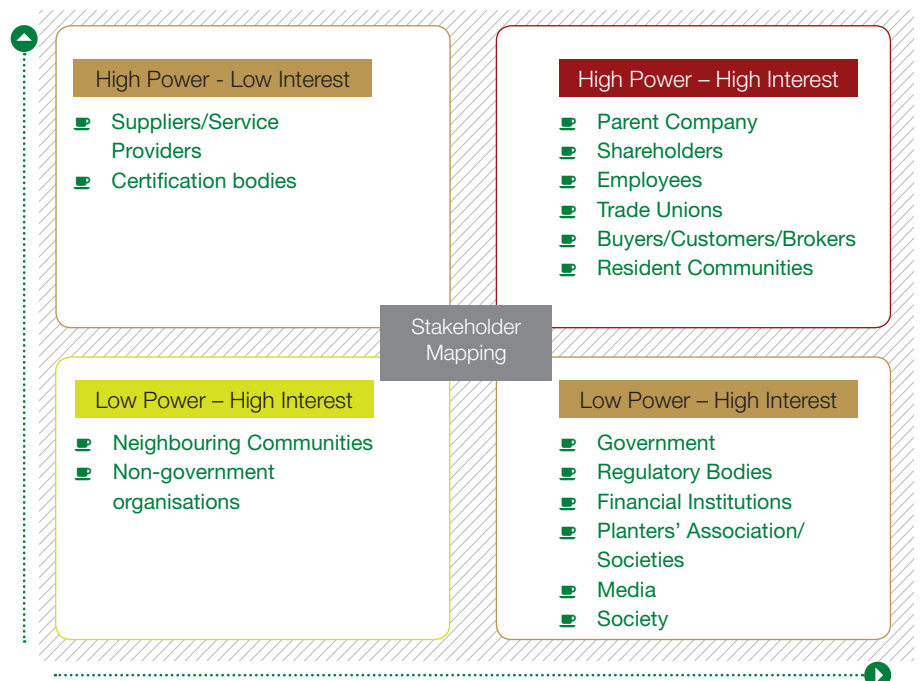
 GRI: Disclosures: 102-40



Stakeholder Mapping

 GRI: Disclosures: 102-42

Following GRI reporting principles, key stakeholders are identified and prioritised systematically, relying on a standard stakeholder mapping tool. Accordingly, stakeholders are mapped on a two-tier basis—level of power that stakeholders exert and their level interest on the organisation. As per the findings set out in the stakeholder map, we give top priority and closely engage with those stakeholders identified under the ‘high power-high interest’ category.



Stakeholder Engagement

Approach to Stakeholder Engagement

 GRI: Disclosures: 102-43, 44

Building strong bonds and solid relationships with our stakeholders warrant our strategic focus, underlining our long-term sustainability in an evolving industry. Guided by best practices, we follow a structured approach to stakeholder engagement. We ensure that we are consistent, pragmatic, and systematic in the way we communicate and reach out to our stakeholders, meeting their expectations and addressing their material concerns and issues. The feedback we gain from our engagement is valued and forms the basis of developing a coherent and a more relevant strategy for sustainable value creation.


Key Stakeholder Engagement	
Parent Company/Shareholders	Priority of Engagement – High Engagement Strategy: Closely engage and manage
Method of Engagement <ul style="list-style-type: none"> Annual general meeting Interim financial statements Annual report Board meetings Corporate disclosures Press releases 	Frequency of Engagement <ul style="list-style-type: none"> Weekly Monthly Quarterly Annually
Key Issues/Concerns <ul style="list-style-type: none"> Profit and growth Sound returns Climate change and crop production Sustainability aspects Responsible corporate management 	Strategic Response <ul style="list-style-type: none"> Follow through a pragmatic strategy and closely monitor performance indicators. Invest in sustainable agriculture and manufacturing practices to ensure quality of teas. Disciplined financial management and good governance as per guidelines. Uphold social and environmental responsibility.
Employees and Trade Unions	Priority of Engagement – High Engagement Strategy: Closely engage and manage
Method of Engagement <ul style="list-style-type: none"> Collective agreements and bargaining Regular dialogue with the management 'Home for every plantation worker' programme Health and safety committees HR cluster meetings and initiatives Certification programmes 	Frequency of Engagement <ul style="list-style-type: none"> Daily Weekly Monthly Quarterly Annually
Key Issues/Concerns <ul style="list-style-type: none"> Remuneration Profit and growth Climate change and crop production Responsible corporate management Estate infrastructure and environment Occupational health and safety Quality of work-life Career stability and advancement 	Strategic Response <ul style="list-style-type: none"> Uphold best labour practices and nurture a progressive workplace culture. Regular dialogue with trade unions at the company and the industry level Industry aligned compensation and benefits. Comprehensive health and safety programme with staff represented committees. Extend training opportunities to all staff grades. Rewards and recognition determined on performance

Key Stakeholder Engagement	
Buyers, Brokers and Customers	Priority of Engagement – High Engagement Strategy: Closely engage and manage
Method of Engagement <ul style="list-style-type: none"> Regular meetings International trade fairs and road shows Annual report Trade association meetings 	Frequency of Engagement <ul style="list-style-type: none"> Weekly Quarterly Monthly Annually
Key Issues/Concerns <ul style="list-style-type: none"> Product quality and food safety Compliance with local and international standards and regulations Green and ethical products Conforming to the by-laws of Ceylon Tea Traders Association Price Climate change and crop production 	Strategic Response <ul style="list-style-type: none"> Good agricultural and manufacturing practices to maintain quality standards. Adopt and maintain internationally accepted certification guidelines and standards. Organised buyer familiarisation tours to estates and tea factories. Invest in research and development for value addition and product innovation.
Resident Communities	Priority of Engagement – High Engagement Strategy: Closely engage and manage
Method of Engagement <ul style="list-style-type: none"> Community meetings Estate audits Estate events and festivals Training and awareness building programmes Sports and recreational activities 'Home for every plantation worker' programme Certification programmes 	Frequency of Engagement <ul style="list-style-type: none"> Daily Weekly Monthly Annually
Key Issues/Concerns <ul style="list-style-type: none"> Housing and estate infrastructure Water and sanitation facilities Health and nutrition Capacity building and education Employment opportunities 	Strategic Response <ul style="list-style-type: none"> Home for every Plantation Worker - comprehensive community development and wellbeing programme in place.
Suppliers	Priority of Engagement – Medium Engagement Strategy: Keep satisfied and meet their needs
Method of Engagement <ul style="list-style-type: none"> Visits to ensure standards of raw material and compliance levels Regular dialogue and interactions 	Frequency of Engagement <ul style="list-style-type: none"> Weekly Monthly Annually
Key Issues/Concerns <ul style="list-style-type: none"> Price and profitability Credit period Sustainability of the company Availability of raw materials Climate change and crop production 	Strategic Response <ul style="list-style-type: none"> Maintain good supplier relationships with regular dialogue and fair pricing. Advocate best practices in social and environmental responsibility. Closely monitor supplier businesses to ensure compliance to laws and regulations.

Stakeholder Engagement

Key Stakeholder Engagement	
Certification bodies	Priority – Medium Engagement Strategy: Keep satisfied and meet their needs
Method of Engagement <ul style="list-style-type: none"> Estate and factory audits Training Meetings 	Frequency of Engagement <ul style="list-style-type: none"> Bi-annual Annual
Key Issues/Concerns <ul style="list-style-type: none"> Sustainability aspects Responsible corporate management Compliance with certification standards Reliability and reputation 	Strategic Response <ul style="list-style-type: none"> Uphold sustainable agriculture and manufacturing practices. Comply with certification requirements and standards. Cooperate with certification audits. Ensure timely reporting on compliance.
Government, Industry, Regulatory Bodies, Media and Society	Priority – Low Engagement Strategy: Keep informed
Method of Engagement <ul style="list-style-type: none"> Meetings Published accounts Annual report Press Releases 	Frequency of Engagement <ul style="list-style-type: none"> As and when required
Issues/Concerns <ul style="list-style-type: none"> Reliability and reputation Responsible corporate management Meeting repayment schedule Climate change and crop management 	Strategic Response <ul style="list-style-type: none"> Uphold sustainable operations and disciplined financial management Timely disclosures of corporate information Lobby for progressive plantation sector policies
Financial Institutions	Priority – Low Engagement Strategy: Keep informed
Method of Engagement <ul style="list-style-type: none"> Regular meetings dialogue and interactions Published accounts Annual report 	Frequency of Engagement <ul style="list-style-type: none"> As and when required
Issues/Concerns <ul style="list-style-type: none"> Responsible corporate management Sustainability aspects Regulatory and legal compliance Plantation sector policies 	Strategic Response <ul style="list-style-type: none"> Uphold sustainable operations and disciplined financial management Timely disclosures of corporate information Timely loan and interest payments

Materiality Analysis

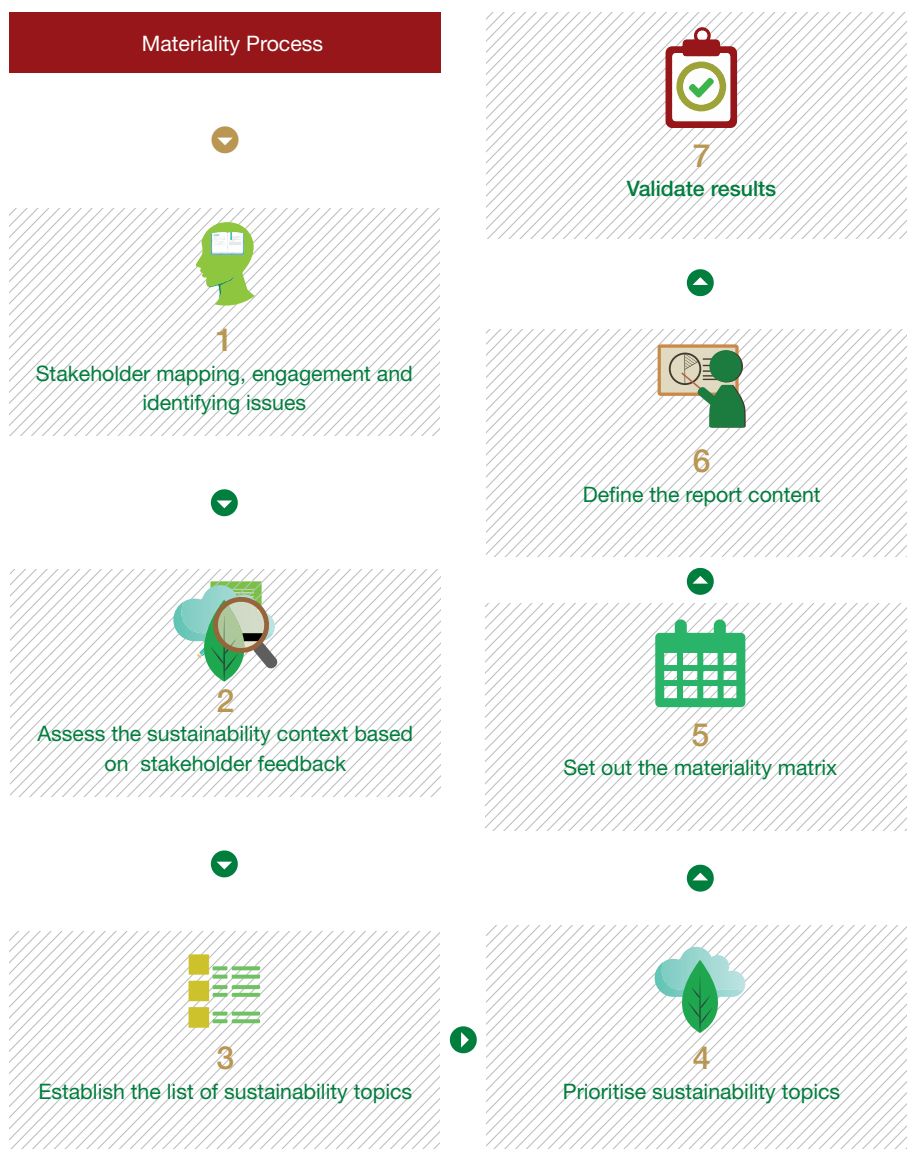
 GRI: 102-46, 47,49

At TTE, we continue to give precedence to create a robust business and follow through best practices in reporting that align with stakeholder expectations as well as our corporate goals. The report content is defined on the principle of 'materiality' where we seek to prioritise and report on issues that have a substantial impact on our value creation in relation to the economy, environment and society. As in the preceding year, we were guided by the GRI Standards and we sought to fulfil the reporting principles covering 'stakeholder inclusiveness', 'sustainability context', 'materiality' and 'completeness'. We worked towards creating a quality report, taking due care to maintain accuracy, balance, clarity, comparability, reliability and timeliness.

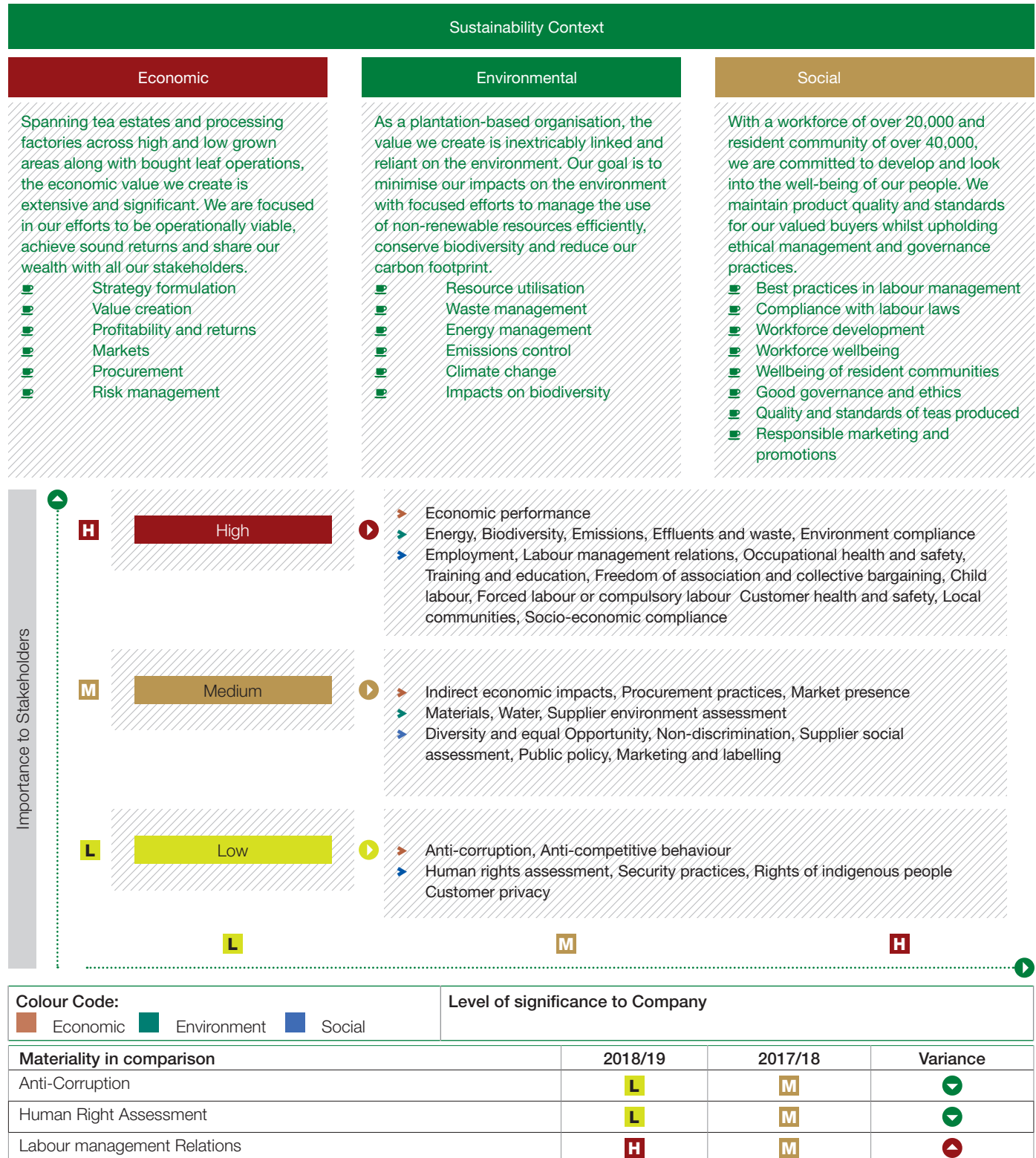
Building on our materiality analysis carried out in the preceding years, our corporate planning team together with the estate management sought to review and further refine the materiality analysis process and the assessments. Their expertise in strategic planning, finance and plantation management enabled them to be effective in identifying and prioritising materiality topics. Key stakeholder engagement findings, estate and certification audits and market intelligence further supported our deliberations. The entire process and results ascertained were validated by the senior management.

At the onset, the team deliberated and established the sustainability context along with a list of topics covering strategy, operational and financial viability, labour management, community relations, product responsibility, environmental management

and statutory and regulatory codes and frameworks. This list was then prioritised on the GRI materiality principle and established a materiality matrix on a two-dimensional basis—high to low in significance in terms of economic, environmental and social impacts of the organisation and the significance on our external stakeholder. The report focuses on 26 material topics deemed as high to medium in significance. Topics considered low in significance are not reported.



Materiality Analysis



Material Topics, Boundary and Reporting Focus

 GRI: Disclosures: 103-1

GRI Standard		Related Capital	Material Topic	Stakeholder Boundary	Materiality Basis	Reporting Priority	Refer Page
GRI: 200 Economic	201	Financial & Human	Economic performance	Parent company, shareholders, employees, resident communities, suppliers and society	Operating as a regional plantation company with extensive value creation, our economic contribution with indirect benefits permeating across society is substantial and significant.	H	71, 72, 94, 149
	202	Human	Market Presence			M	72, 149
	203	Financial & Social	Indirect economic impact			M	99, 132
	204	Relationship & Manufactured	Procurement practices	Suppliers	We have a wide-ranging supply chain, supporting our value creation process. Therefore, we give strategic priority to ensure that we maintain goodwill with our suppliers and follow best practices in procurement.	M	122
GRI 300: Environment	301	Natural	Materials	Environment surrounding estates, factories and corporate office Society	As a plantation based entity, we are linked and rely on natural capital. Our operational impacts on the environment and in turn, the impacts from the environment are substantial. Hence, environmental responsibility assumes greater significance to ensure operational viability and sustenance in the long-term.	M	168
	302	Natural	Energy			H	171
	303	Natural	Water			M	179
	304	Natural	Biodiversity			H	180
	305	Natural	Emissions			H	175
	306	Natural	Effluents and waste			H	169, 171, 179
	307	Natural	Environment compliance			H	184
	308	Natural	Supplier environment assessment			M	123

Materiality Analysis

GRI Standard		Related Capital	Material Topic	Stakeholder Boundary	Materiality Basis	Reporting Priority	Refer Page
GRI 400: Social	401	Human	Employment	Employees at the estates factories and corporate office	As a plantation company, we have a large workforce. Upholding labour laws and best practices in managing employees warrant our strategic focus. We are committed to extend a fair and progressive workplace with equal opportunity, employee development and wellbeing, whilst driving for higher productivity and securing business viability in the long-term.	H	147, 149
	402	Human	Labour management relations			H	162
	403	Human	Occupational health & safety			H	151
	404	Human & Intellectual	Training & education			H	154, 161
	405	Human	Diversity & equal opportunity			M	144, 149
	406	Human	Non-discrimination			M	144
	407	Human	Freedom of association & collective bargaining			H	162
	408	Human	Child labour			H	147
	409	Human	Forced or compulsory labour			H	148
	413	Social & Manufactured	Local communities	Resident communities living within the estates	Over 40,000 people reside in our high grown estates. Most of our labour requirements are sourced from the resident communities. Our bought-leaf suppliers are from the neighbouring communities. Engaging communities and ensuring their wellbeing underline our operational viability and sustainability.	H	132, 138

GRI Standard		Related Capital	Material Topic	Stakeholder Boundary	Materiality Basis	Reporting Priority	Refer Page
	414	Relationship	Supplier social assessment	Suppliers	As a well-respected organisation, we advocate best practices to ensure that our suppliers follow best practices and that they are socially and environmentally responsible.	M	123
	415	Social	Public policy	Government, non-government agencies media and society	As a front-runner regional plantation company, we take up a significant policy advocacy role to bring in best practices, formulate progressive policies for the betterment of the industry.	M	137
	416	Relationship & Intellectual	Customer health and safety	Buyers, brokers and customers	Maintaining quality and standards in producing tea is critical to ensure customer health and safety, thereby, sustain buyer confidence and attract premium pricing.	H	115
	417	Relationship & Intellectual	Marketing and labelling	Buyers, brokers and customers	As a trusted tea plantation company, we maintain product responsibility in our product marketing and communications.	M	115, 117
	419	Social	Socio-economic compliance	Society	We are a well-respected regional plantation company and social responsibility and good governance are essential for operational viability and sustainability.	H	139

Cultured

**in a continuous quest for
excellence no matter the situation**

Galle Region

With an area of 384.78 hectares and a factory capacity of 1 million kilograms, Moragalla estate in Galle produces low grown orthodox black tea, targeting the Middle Eastern markets. With a share of 4.8 percent of the total tea production, the estate employs 207 people whilst working closely with 180 bought-leaf suppliers.



Management Discussion & Analysis

Business Review

► Overview

Changing course from the upside trends that prevailed in the recent past, the world economy saw a slower growth pace across all major economies in the year 2018. With greater down-side risks in the geopolitical and global economic front, our key markets were sluggish in the year. On the domestic front, Sri Lanka saw growing tension within the socio-political arena and imbalances in the macroeconomic environment along with climate change risks. The country's GDP growth remained mediocre at 3.2 percent, lower than the previous year.

Reversing the optimism enjoyed in the preceding year, the tea industry faced a difficult year. Weather was unfavourable affecting crop production. Quality issues on Ceylon tea brands led to lower average prices at the Colombo Tea Auctions. The wage increase since January 2019—after a rigorous negotiation process—reflected on the cost side. However, the lifting of the ban on the chemical weedicide, Glyphosate, with benefits for crop production, quality and productivity, was welcomed by the industry, across the board.

Notwithstanding the adversities that tainted the operating backdrop, we followed through a focus strategy and achieved a creditable performance. Upholding our value proposition of producing finest quality teas, we continued to strive for higher productivity; invest in sustainable agricultural and manufacturing practices; develop the team and our resident communities; and further our initiatives to conserve and protect our environment. In terms of cost, we remained focused in optimising our production costs and disciplined in managing our treasury operations.

Although modest compared to the preceding year, our top-line for the financial year 2018/19 was commendable—given the operating challenges—and we were able to sustain profitability levels and returns. Our financial position was stable with positive cash flows.

Upholding our value proposition of producing finest quality teas, we continued to strive for higher productivity; invest in sustainable agricultural and manufacturing practices; develop the team and our resident communities; and further our initiatives to conserve and protect our environment. In terms of cost, we remained focused in optimising our production costs and disciplined in managing our treasury operations.

Management Discussion & Analysis




Business Review





Risks and Opportunities

 GRI: Disclosures: 102-15

Operating amidst complexities prevalent in today's industry backdrop, we are exposed and vulnerable to a myriad of risks and challenges—be it from socio-political and economic standpoint, labour unrest, trade-union actions, ad-hoc regulatory directives to climate change. As a top-tier plantation company, our management approach is pragmatic and focused, seeking to steer through the risks and take on the challenges including the opportunities present within our operating backdrop for growth and sustainability.

Discussed below are principal risks and opportunities that matter most in our strategy building process.

Principal Risks and Opportunities		
Risks		Opportunities
<ul style="list-style-type: none"> Recessionary global economic trends along with geopolitical uncertainties, particularly in key markets, may weaken demand and pricing for quality teas, curtailing earnings, profitability and returns. Uncertainties within the domestic macroeconomic environment led by political tension, tighter monetary policy, inflationary pressures and higher tax regime may increase our finance expenses and corporate tax expenditure, thus, exerting pressure on profitability and returns. 	 <p>Economic</p>	<ul style="list-style-type: none"> Upbeat global economic trends, mostly in key markets, will boost demand for quality teas and pave way for remunerative pricing, thereby, increasing our earnings, profitability and returns. Depreciating exchange rate will strengthen our earning capacity and boost our bottom-line profits. Expertise and discipline in financial management will enable smart decision-making on treasury activities in response to volatile macroeconomic trends.
<ul style="list-style-type: none"> Rapid urbanization and changes in lifestyles, attitudes and perceptions may lead to out-migration of labour from tea estates, particularly, the younger workforce, thereby, adversely impacting the industry's sustenance in the long term. Changing lifestyles, attitudes and perceptions may affect consumer preferences and substitute products may have a better appeal, in turn, dampening the demand for teas, thereby, impacting earning capacity. Increasing food and safety standards including higher maximum residue levels imposed by key markets will dampen demand for teas that do not meet the standards and increase cost of production in meeting the required food regulatory standards. 	 <p>Demographic and Social</p>	<ul style="list-style-type: none"> With progressive policies including capacity building initiatives to empower the workforce and productivity-based remuneration and benefits may attract and retain the youth within tea estates and thus, pave the way for plantation industry development. Changing lifestyles, attitudes and perceptions will lead to new market opportunities for value-added teas. Greater demand and the willingness to pay higher prices for green, ethical and food safety management certified quality teas yield remunerative prices. Strong brand recognition for high quality teas aligned to certification standards and green and ethical business practices will strengthen market positioning and open up new market opportunities.
<ul style="list-style-type: none"> Irrational trade union activity demanding for higher wages will adversely impact competitiveness and cost of production, thereby, profitability and returns. Negative work attitudes accentuated by political influences will lead to lower labour productivity with grave implications on production volumes, quality, costs and competitiveness. 	 <p>Labour</p>	<ul style="list-style-type: none"> Growing consensus amongst all stakeholders on the rationality of moving into a productivity-based revenue-share paradigm will boost labour productivity, securing the long-term viability of the industry.

Principal Risks and Opportunities		
Risks		Opportunities
<ul style="list-style-type: none"> Dependence on a single crop will make the business more vulnerable to price fluctuations and thereby, affect earnings and returns. Mono-crop dependence will expose field operations to pests and diseases, in turn, impacting production and earnings. 		<ul style="list-style-type: none"> Expertise in plantation management will support the efforts and open up opportunities for crop diversification and new ventures.
<ul style="list-style-type: none"> Ageing tea fields with soil erosion and long gestation to grow and reap a harvest from new tea plants will lower land productivity and crop volumes. 		<ul style="list-style-type: none"> Proactive measures taken to conserve soil and investments into research and development into producing more resilient cultivar and to increase land productivity will pave way for higher productivity and crop production.
<ul style="list-style-type: none"> Impacts from climate change resulting in extremities in weather conditions will affect crop production and leaf quality. Climate change also affects the availability and quality of water. 		<ul style="list-style-type: none"> Upholding environmental responsibility in terms of energy and water management and conserving biodiversity will curtail the carbon footprint and help abate climate change and its ill-effects on crop production. Investments into research and development will lead to innovate climate resistant cultivar and to modernise field operations to manage climate change impacts.
<ul style="list-style-type: none"> Short-sighted regulations on the use of chemical weedicides, pesticides and fertiliser will lead to weed growth, pests and diseases, impacting field operations and leading to higher cost of production. Curtailing fertiliser subsidies will impact crop production levels and cost of production. 		<ul style="list-style-type: none"> Consistent research and development initiatives will ensure responsible practices in using chemical weedicide, pesticide and fertilisers. Proactive government policies on continuing with fertiliser subsidies will support the industry to increase crop production and lower cost of production.

Strategy, Resource Allocation and Trade-Offs

STRATEGY

Responding to complexities of a waning industry, our corporate strategy focuses on how to increase the total value of our organisation equitably and sustainably from a long-term standpoint. As aligned to our integrated thinking, our aim is to achieve top-line and bottom-line growth, blending in social and environmental aspects closest to our operations; generating wealth for our shareholders through our core business activities, whilst investing in our employees and the communities we are part of, and reducing our environmental footprint.

In this regard, we give top priority to differentiate our product on quality and standards. Our expertise along with sustainable agricultural and manufacturing practices which we uphold across our estates and factories in keeping with renowned certification and food safety guidelines, underscore the quality of our teas and the competitive edge we enjoy on the Colombo Auctions to fetch premium pricing. Our strategy focuses on developing and diversifying both markets and products—on one hand, strengthening the relationships we have built overtime with buyers within our key markets whilst seeking for new market opportunities; and on the other, developing and adding value to the existing product, mainly through research and development, and looking into the feasibilities and venturing into new products to reduce the downside risks of a monocrop business model. Aside our growth strategy, we look to bring in operational efficiency for effective cost management and discipline, seeking to secure a stronger bottom-line. Good governance, effective risk management and social and environmental responsibility are integral to our corporate strategy.

Management Discussion & Analysis

Business Review

Accordingly, we set out below our ten strategic imperatives along with short, medium to long-term strategies and key actions carried out in the year under review.

Overall Business Strategy and Actions 2018/19	
1. Strategic Imperative: Quality Teas	
Short-term Strategy: Produce quality teas in line with sustainable, ethical and best food safety business practices and in conformance with international certification bodies.	Medium to Long-term Strategy: Invest in sustainable field practices and in automated solutions to improve factory processes.
Strategic Actions 2018/19 <ul style="list-style-type: none"> Invested further in mechanising field operations and introduced greater automation to factory processes. ISO 22000:2015 food safety management audits were completed in 12 factories. Great Western estate obtained certification under ISO 14001:2015 Environmental Management System as the first plantation company in the country. Holyrood estate initiated the process to obtain certification under ISO 50001:2015 Energy Management System. Audits on product quality and standards in line with the Rainforest Alliance Sustainable Agriculture Network and Ethical Tea Partnership certification guidelines were carried out in 14 estates. Commissioned and obtained an assurance on maximum residue levels of the weedicide, MCPA in teas produced covering all estates. <p>Refer: Manufactured Capital, Page 96 Intellectual Capital, Page 101</p>	
2. Strategic Imperative: Labour Productivity	
Short-term Strategy: Mechanise harvesting, intensify management control at the estate level, closely monitor productivity and incentivise on performance.	Medium to Long-term Strategy: Closely engage the workforce, trade unions and other relevant stakeholders to educate and support the transition to a revenue-share business model where productivity is linked to remuneration and benefits.
Strategic Actions 2018/19 <ul style="list-style-type: none"> Increased shear and machine harvesting to take up 15 percent of field operations across estates. Use of ergonomic plucking baskets by all employees to improve plucker productivity across estates. Increased the use of electronic green leaf weighing scales by 10 percent across estates to ensure greater accuracy and transparency in measuring leaf quantities. Carried out training for 9,930 man-hours and closely monitored the key-value driver programme across all estates on improving the work-life and increasing labour productivity. Evaluated performance of all employees across and paid emoluments base on their performance <p>Refer: Business Review, Page 51 Human Capital, Page 140</p>	
3. Strategic Imperative: Land Productivity	
Short-term Strategy: Continue with timely soil management practices including weeding and fertiliser applications to prevent soil degradation.	Medium to Long-term Strategy: Continue with replanting and rationalise the land use by planting fuelwood in uneconomical land.
Strategic Actions 2018/19 <ul style="list-style-type: none"> Continued to take precautionary measures in terms of soil management and conservation at estates. Planted an area of 12.53 hectares of tea under the replanting programme. Planted an area of 12.25 hectares of other crops including cinnamon and Agawood planting. <p>Refer:</p> <p>Refer: Business Review, Page 51 Natural Capital, Page 164</p>	

Overall Business Strategy and Actions 2018/19	
4. Strategic Imperative: Value Addition	
Short-term Strategy: Focus on value added teas and secure synergies with sister organisation, Mabroc Teas (Pvt) Ltd to market new products.	Medium to Long-term Strategy: Further invest in research and development to increase the value-added product range and draw up long-term marketing plans with Mabroc Teas (Pvt) Ltd.
Strategic Actions 2018/19 <ul style="list-style-type: none"> Further invested in research and development to produce better quality cultivar and to add value to product range. Produced a selection of specialty teas in four of our estates. Positive feedback and confirmed orders for specialty teas received from key markets including China <p>Refer: Intellectual Capital, Page 101 Social and Relationship Capital, Buyer, Broker and Customer, Pages 111 & 129</p>	
5. Strategic Imperative: New Revenue Streams	
Short-term Strategy: Study feasibilities and secure new market opportunities for crop diversification and to provide plantation management consultancy services.	Medium to Long-term Strategy: Invest in non-core crop operations including cinnamon, coconut and agar wood and venture into hospitality and leisure business themed on tea tourism. Bring timber and fuelwood planted into commercial use.
Strategic Actions 2018/19 <ul style="list-style-type: none"> Planted an area of 7.25 hectares of cinnamon, 5 hectares of agar wood as part of the crop diversification programme. Expensed Rs. 7.9 Million are on fuel wood and timber Harvesting trees as per approved forestry plan Rs. 23.27 Million <p>Refer: Refer: Natural Capital, Page 164</p>	
6. Strategic Imperative: Cost Controls and Management	
Short-term Strategy: Control production costs through productivity-based incentives, adoption of energy efficient technologies and maintain a lean overhead cost structure.	Medium to Long-term Strategy: Ongoing
Strategic Actions 2018/19 <ul style="list-style-type: none"> Participated in wage negotiations with the trade unions and relevant stakeholders to come to a consensus on a realistic minimum wage. Advocated and educated the workforce of the necessity to transition into a productivity-based wage model. Invested in roof-top solar energy projects in 2 factories to reduce energy costs and the dependence on non-renewable fossil fuels. Installed variable speed drives in electrical equipment in 7 factories as an electricity saving measure. Cost management of overheads and monitor field and factory productivity drivers <p>Refer: Financial Capital, Page 188 Natural Capital, Page 164</p>	
7. Strategic Imperative: Climate Change and Environmental Management	
Short-term Strategy: Maintain environmental-friendly business practices, focus on reducing greenhouse gas emissions and protect biodiversity and water sources.	Medium to Long-term Strategy: Take forward the tree planting programme, switch to renewable energy sources and work towards carbon neutrality.

Management Discussion & Analysis

Business Review

Overall Business Strategy and Actions 2018/19	
Strategic Actions 2018/19 <ul style="list-style-type: none"> Initiated roof-top solar at 2 factories in line with the national renewable energy policy. Installed variable speed drives in electrical equipment in 7 factories as an electricity saving measure. Initiated forestry management programme and planted 5377 native fruits and other plant species to enhance biodiversity across estates. Recycled 2441 kilograms of non-biodegradable waste and 21 kilograms of e-waste. <p>Refer: Natural Capital, Page 164</p>	
8. Strategic Imperative: Workforce Development	
Short-term Strategy: Create a performance-oriented workplace, invest in learning and development and employee wellbeing.	Medium to Long-term Strategy: Build an empowered workforce enhancing their quality of life and change the mindset to be a stakeholder rather than a worker.
Strategic Actions 2018/19 <ul style="list-style-type: none"> Extended 12,319 hours of training to staff in all grades across estates. Extended 4,300 hours of training to the manual grade staff under the key value driver programme to boost productivity. Extended 3818 hours of training on occupational health and safety aspects across estates. Organised best plucker competition across estates and recognised and rewarded the winners. Organised staff awards ceremony at the estate levels to recognise and reward high achievers. Allocated 1,119.27 hectares of land for block plucking under a non-wage crop model in 16 estates. <p>Refer: Human Capital, Page 140 Business Review, Page 51</p>	
9. Strategic Imperative: Community Development	
Short-term Strategy: Consolidate 'Home for Every Plantation Worker' programme to ensure the wellbeing of resident communities.	Medium to Long-term Strategy: Maintain a dialogue and build long-term and reciprocal ties with resident and neighbouring communities.
Strategic Actions 2018/19 <ul style="list-style-type: none"> Carried out community development initiatives including providing infrastructure facilities, capacity building and welfare under the 'Home for Every Plantation Worker' programmes. Community initiatives in preventive healthcare, antenatal and post-natal care, nutrition, early childhood development and vocational training for youth reached out to 12,574 beneficiaries. Invested Rs 286,480 to upgrade field rest-room facilities in estates. <p>Refer: Social and Relationship Capital, Communities, Pages 111 & 129 Manufactured Capital, Page 96</p>	
10. Strategic Imperative: Governance and Risk Management	
Short-term Strategy: Ensure effective risk management, internal controls and uphold current best practices in governance.	Medium to Long-term Strategy: Ongoing
Strategic Actions 2018/19 <ul style="list-style-type: none"> Necessary measures were adopted to comply with the latest Corporate Governance Code 2017 issued by the Institute of Chartered Accountants of Sri Lanka. Intensified internal controls and risk management across estate operations and at the corporate office. Trained 5 officers on compliance with relevant codes and regulations. <p>Refer: Corporate Governance, Page 199 Risk management, Page 190</p>	

Key Indicators	Unit of Measurement	Target	% of Target	Actuals	
		2018/19	2018/19	2018/19	2017/18
Operational Indicators					
RPC tea price ranking	Ranking number	First	100%	First	Second
High grown yield	Kilogram/hectare	1,728	79%	1,371	1,463
Low grown yield	Kilogram/hectare	1,489	78%	1,164	1,154
Tea production	Million/kilogram	7.46	78%	5.83	6.05
Worker productivity	Kilogram/worker	2.75	90%	2.48	2.65
Tea replanting	Hectare	16.4	76%	12.53	4
Capital expenditure	Rs million	216	78%	168	164
Social Indicators					
Employees trained	Number	15,000	68%	10,156	14,336
Training hours	Number	15000	67%	10,011	13,209
Training investment	Rs million	2.5	168%	4.2	2.98
Training programmes on health and safety	Number	150	22%	33	96
Employees trained on health and safety	Number	7,000	60%	4,224	5,005
Training hours on health and safety	Number	5,000	77%	3,818	6,759
Expenditure on social development	Rs million	105	71%	90.8	126.95
Environmental Indicators					
Expenditure on environment management	Rs million	4.5	90.67	40.3	43.3

Resource Allocation and Trade-Off

We are prudent, conscientious and structured in the way we allocate our resources to achieve our strategic imperatives. We seek to strike the right balance between capital allocation and the returns we can achieve, so that we can create and share significant value with our shareholders as well as with all other stakeholders.

As part of our annual corporate planning and budgeting process, we review and allocate our scarce resources to meet our strategic action plans and the deliverables drawn for the year. We give due consideration to the trade-offs of resources in our decision-making process whilst we have a stringent monitoring mechanism to ensure that our decisions are appropriate and pragmatic in the context of our market

conditions and our priorities. All decisions in this regard are deliberated and concurred at the Board level.

We set out below the resource allocation for our strategic imperatives in monetised terms and the rationale and trade-offs considered in the decision-making process.

Resource Allocation - 2018/19			
	Budget Rs Million	% of Total Budget	% Actual Budget Utilisation
Field operations	1,887.9	46.44	83.87
Factory operations	551.4	13.56	88.90
Certifications and standards	14.6	0.36	68.95
Research and Development	10	0.25	167.70
Training initiatives	4	0.1	105
Community development and welfare	138	3.4	95.83
Corporate services	152.4	3.75	105.96

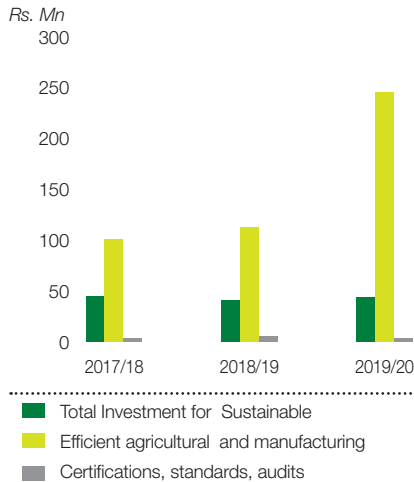
Management Discussion & Analysis

Business Review

Resource Allocation and Trade-offs

1. Strategic Imperative: Quality Teas

Investment in Quality Teas



Trade-Offs

Investing in bringing greater efficiency to field and factory processes along with annual audits and maintaining certifications and standards from internationally recognised certification bodies underline the quality of our teas, in keeping with our brand reputation. Although a cost with negative implications on financial capital in the near-term, investments made to enhance quality and standards boost our competitiveness to fetch premium prices, thus, strengthening our profitability and shareholder returns in the medium to long-term.

Investing in certifications also guides us to be responsible in social and environmental aspects, thereby, adding value to natural, social and relationship capitals.

Relevant Stakeholders

Shareholders
Buyers, brokers and customers
Communities
Society

Impact on Capitals - Short-term

Financial capital



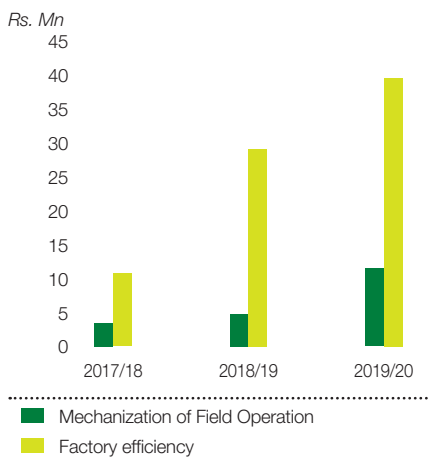
Impact on Capitals - Medium to Long-term

Financial capital
Intellectual capital
Natural capital
Social and Relationship capital
Manufactured capital



2. Strategic Imperative: Labour Productivity

Investment on labour productivity



Trade-Offs

Mechanisation of field operations, bringing in efficiency to factory processes and carrying out key value driver programme will boost labour productivity. These investments will add on to overhead costs and will impact profitability in the short-term. However, higher labour productivity will reflect well on production volumes to reach a stronger top-line growth and bring down production costs to ease the pressures on the bottom-line in the medium to long term.

Relevant Stakeholders

Shareholders
Employees

Impact on Capitals - Short-term

Financial capital



Impact on Capitals - Medium to Long-term

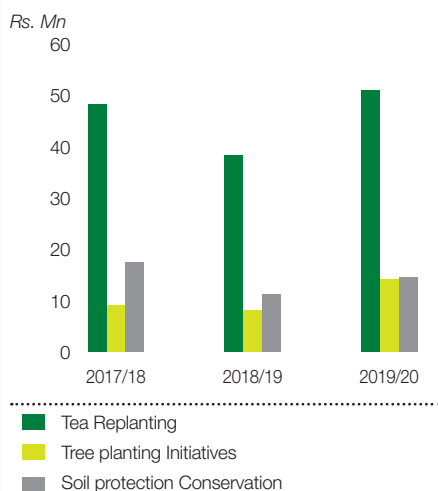
Financial capital
Human capital



Resource Allocation and Trade-offs

3. Strategic Imperative: Land Productivity

Investment on Land Productivity



Trade-Offs

Investing resources in field development including for the tea replanting programme, tree planting initiatives and soil protection and conservation measures will boost land productivity and thereby, field operations. These investments in the short-term will increase the costs and affect the bottom-line profitability. However, improvements in land productivity will support crop production for a stronger top-line in the medium to long-term. These investments will also add to biodiversity.

Relevant Stakeholders

Shareholders
Society

Impact on Capitals - Short-term

Financial capital



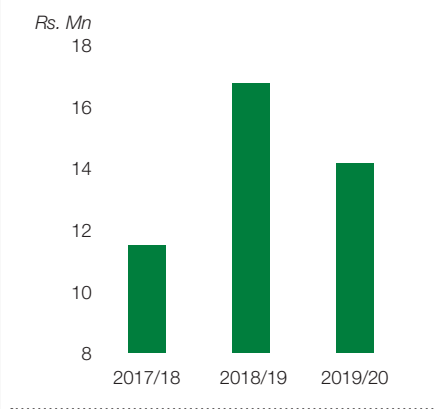
Impact on Capitals - Medium to Long-term

Financial capital
Natural capital



4. Strategic Imperative: Value Addition

Investment on Research and Development



Trade-Offs

Investing in research and development is critical to add value to our product range and make specialty teas. This increases overhead costs and affect bottom-line results in the short-term. However, these investments boost competitiveness and pave way to attract premium pricing on the Colombo Auctions, thereby, strengthening bottom-line results and returns in the medium to long-term.

Relevant Stakeholders

Shareholders
Buyers, brokers and customers

Impact on Capitals - Short-term

Financial capital



Impact on Capitals - Medium to Long-term

Financial capital
Social and relationship capital
Intellectual capital



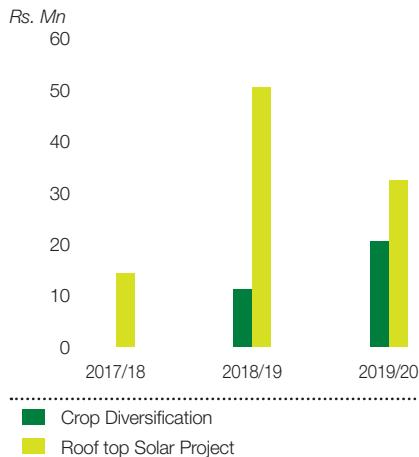
Management Discussion & Analysis

Business Review

Resource Allocation and Trade-offs

5. Strategic Imperative: New Revenue Streams

Investment on new revenue streams



Trade-Offs

Investing in crop diversification and venturing into new businesses like roof-top solar projects will reduce our dependence and vulnerability to a single crop business model. These investments will impact costs and bottom-line results in the short-term. Yet, these initiatives will pave way for stronger profitability and returns in the medium to long term.

Relevant Stakeholders

Shareholders
Society

Impact on Capitals - Short-term

Financial capital



Impact on Capitals - Medium to Long-term

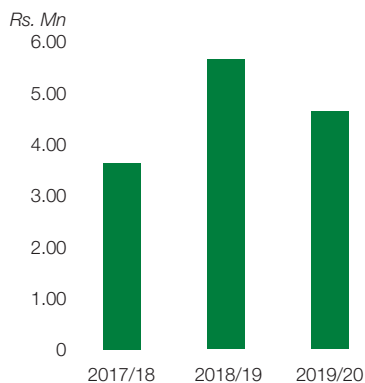
Financial capital



Natural capital

6. Strategic Imperative: Cost Controls and Management

Investment on Energy Saving



Trade-Offs

Investing in cost control methods, particularly, solar power initiatives to bring down electricity costs will enhance profitability and returns in the medium to long term. The value of our natural capital will also increase with solar power projects whilst training initiatives will enhance human capital.

Relevant Stakeholders

Shareholders
Employees
Society

Impact on Capitals - Short-term

Financial capital



Impact on Capitals - Medium to Long-term

Financial capital



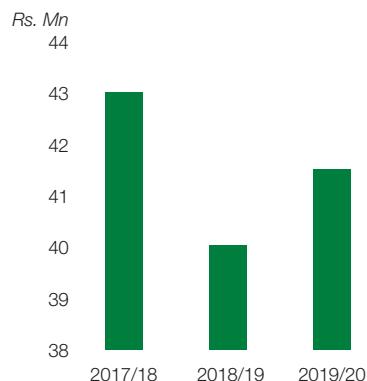
Human Capital

Natural capital

Resource Allocation and Trade-offs

7. Strategic Imperative: Climate Change and Environmental Management

Investment on Environmental Management



Trade-Offs

Investing in responsible environmental management practices will increase costs and impact bottom-line results in the short-term. However, our environmental initiatives will boost corporate reputation and image, in turn, attracting buyers and boosting profitability in the medium to long-term. Environmental investments will enhance the value of natural capital.

Relevant Stakeholders
Shareholders
Society

Impact on Capitals - Short-term

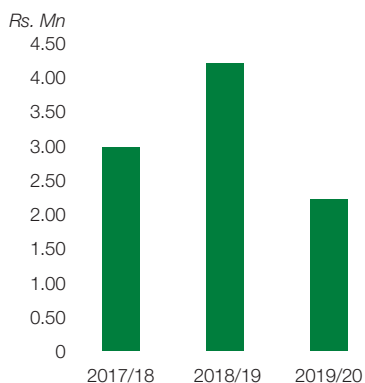
Financial capital

Impact on Capitals - Medium to Long-term

Financial capital
Natural capital

8. Strategic Imperative: Workforce Development

Investment on Training Cost



Trade-Offs

Investing in training initiatives is a cost that will impact short-term profitability and returns. However, training and developing the workforce will empower the people to work smartly and efficiently, in turn, reflecting on the company image and bottom-line results in the long-term.

Relevant Stakeholders
Shareholders
Employees
Buyers, brokers and customers

Impact on Capitals - Short-term

Financial capital

Impact on Capitals - Medium to Long-term

Financial capital
Human capital
Social and Relationship capital

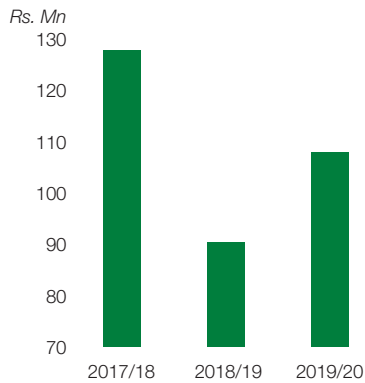
Management Discussion & Analysis

Business Review

Resource Allocation and Trade-offs

9. Strategic Imperative: Community Development

Investment on Community Development



Trade-Offs

Investing in community infrastructure and welfare initiatives will augment costs and impact profitability in the short-term. Yet, community development initiatives will muster the goodwill of the resident communities to support value creation and enhance the corporate value and strength of the organisation's brand image.

Relevant Stakeholders

Shareholders
Communities
Buyers, brokers and customers
Employees
Society

Impact on Capitals - Short-term

Financial capital



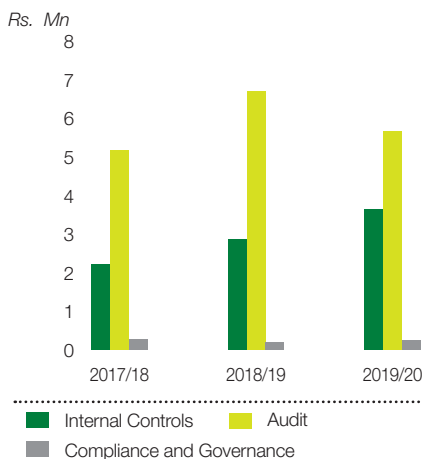
Impact on Capitals - Medium to Long-term

Financial capital
Human Capital
Social and relationship capital



10. Strategic Imperative: Governance and Risk Management

Investment on Governance & Risk Management



Trade-Offs

Strengthening risk management, internal controls, compliance with regulatory directives, codes and governance structures will enhance our corporate repute, brand and positioning, thereby, increasing shareholder wealth and returns in the medium to long-term.

Relevant Stakeholders

Shareholders
Employees
Suppliers
Buyers, brokers and customers
Communities
Society

Impact on Capitals - Short-term

Financial capital



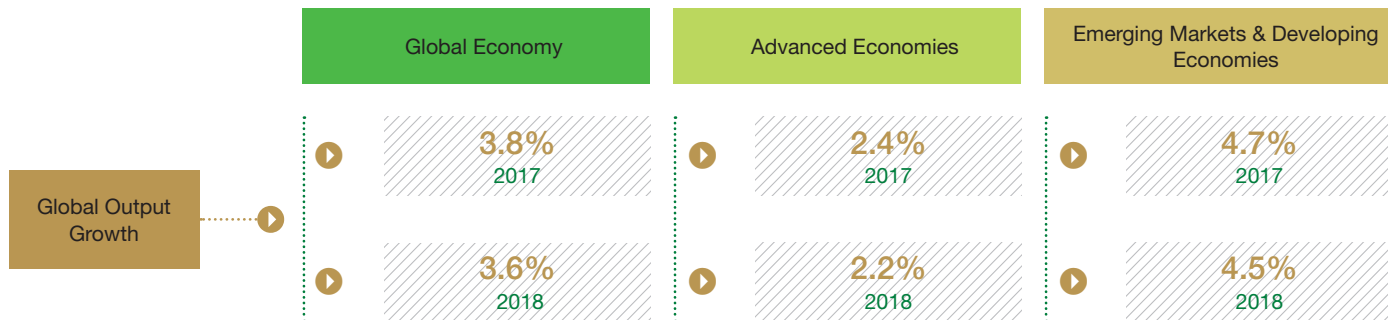
Impact on Capitals - Medium to Long-term

Financial capital
Social and relationship capital



Economic Review

Global Economy

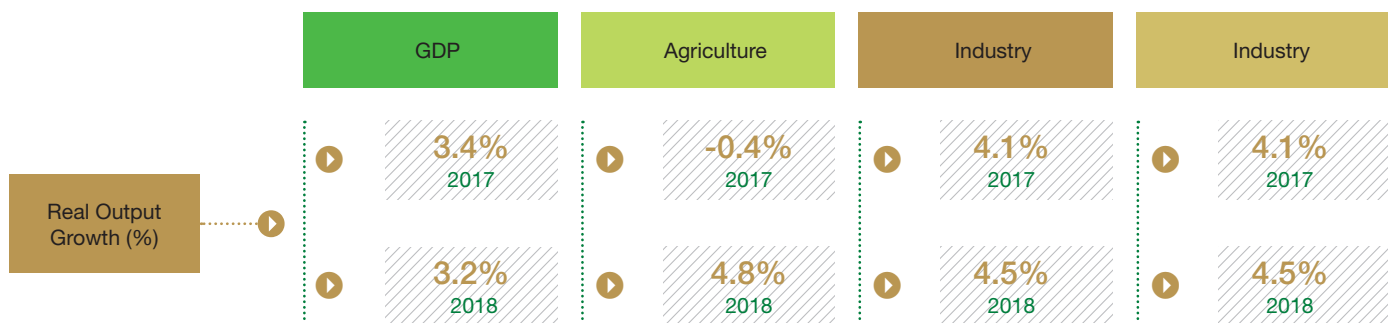


Reversing the broad-based optimism witnessed in 2017, the world economy trended downwards in 2018, mainly from the second half of the year, with weak growth results in all major economies. We saw trade tension intensify and tariff hikes

between the United States of America and China; lower business confidence; tightening of financial conditions with serious implications for emerging markets; and policy uncertainty in many economies. As per the International Monetary Fund,

global growth in 2018 reached 3.6 percent, below 3.8 percent recorded in 2017. Leading global growth, emerging markets and developing economies grew at 4.5 percent whilst advanced nations grew at 2.2 percent.

Sri Lankan Economy



The Sri Lankan economy was challenged in the year 2018. The downturn trends in the global economy, geopolitical uncertainties combined with the volatility within the domestic socio-political landscape marred the country's growth aspirations. The economy grew at a modest pace, below potential, amidst a low inflation environment. Real GDP growth remained subdued at 3.2 percent, lower than 3.4 percent in the previous year. This growth was largely supported by services activities that expanded by 4.7% was mainly due to

the growth in the financial services sub sector.

Sectoral Output

Economic growth in 2018 was led by agriculture and service sectors. Following the growth in the financial services sub sector, service sector registered a strong growth of 4.7 percent. With less extreme weather conditions, agriculture sector rebounded, posting a growth of 4.8 percent. Paddy led the agriculture sector with a bumper harvest whilst tea, rubber,

fisheries and sugar production recorded a decline. Unfavourable weather conditions in tea growing areas, particularly during the second quarter of 2018, wage related trade union action together with downward trends at the Colombo Tea Auctions, depressed the sector performance. Total tea production decreased by 1.0 percent. Industry sector moderated significantly to 0.9 percent, following the contraction in the construction sub-sector.

Management Discussion & Analysis

Economic Review

Macroeconomic Developments

Inflation NCPI (Y-O-Y)	Lending Rate (AWPR)	Budget Deficit (% of GDP)	Exchange Rate (Rs/US\$)	Balance of Payment (US\$ Mn)
7.3% 2017	11.55% 2017	-5.5% 2017	152.85 2017	2,068 Surplus
0.4% 2018	12.09% 2018	-5.3% 2018	182.75 2018	-1,103 Deficit 2018

Inflation

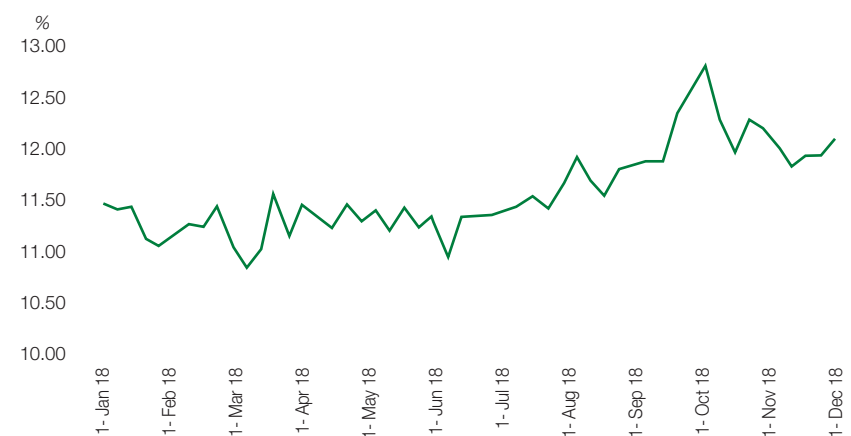
Inflation in the year 2018 was contained despite the sharp depreciation of the rupee and upward price movements in petroleum products and other administered prices. Favourable weather conditions that prevailed in the year cushioned the supply-side and price levels of the food category were broadly maintained at lower levels. Year-on-year headline inflation as measured by the National Consumer Price Index (NCPI) was as low as 0.4 percent as at the year-end from 7.3 percent in 2017; whilst year-on-year headline inflation based on Colombo Consumer Price Index declined to 2.8 percent.

Interest Rates and Credit Growth

With lower inflationary pressures and inflation outlook combined with below average economic performance, monetary policy moved away from a tightening cycle to a neutral stance during most part of 2018. Policy rates were reduced twice during the financial year. Statutory Reserve Ratio was also reduced in response to the depleted liquidity in the domestic money market towards the latter part of the year. Yet, with persistent liquidity issues, lending rates of commercial banks remained high with Average Weighted Prime Lending Rate (AWPLR) increasing by 53 basis points to

12.09% by end of 2018 from 11.55% at the end of the previous year. Despite higher interest rates, private sector credit grew to 15.9 percent at the year-end compared to 14.7 percent at the previous year-end.

Interest Rate Movement in 2018



Source: Central Bank of Sri Lanka

Fiscal Position

Fiscal operations continued to be positive with a surplus in the primary account and a lower budget deficit. On the revenue side, tax collections, particularly, import duties, fell short of expectations. Revenue, therefore, fell as percentage of GDP. Total expenditure and net lending as a percentage of GDP registered a decline mainly due to lower public investment. The budget deficit in the year declined to 5.3 percent of GDP compared to 5.5 percent of GDP in 2017. This year, the deficit was mainly financed through domestic borrowings accounting for 57.5 percent of total financing. Foreign sources also remained significant.

External Sector

The Central Bank of Sri Lanka followed through a market-based exchange rate policy with limited intervention in the year 2018. The first quarter saw a stable exchange rate. In the subsequent quarters in the year, the rupee came under significant pressure. On the external front, the United States of America continued to the tighten monetary policy, leading up to a stronger US dollar. As was the case across emerging markets, we saw greater outflows from the domestic government securities market, in turn, resulting in tightening liquidity levels in the foreign currency market. This together with higher import expenditure over and above export earnings, debt repayments and negative investor sentiments spurred in a divisive and volatile political climate in the latter part of the year, further weakened the rupee. The rupee depreciated by a substantial 19.3 percent against the US dollar as at the year-end to Rs.182.75 from Rs. 152.85 as at the year-end 2017.

Despite slower trends in the global economy, export earnings, led by industrial exports, continued to grow during 2018. However, higher import expenditure overtook export earnings, thus, expanding the trade deficit. Subsequently, in the second half of the year, policy measures were brought in to curtail the non-essential import expenditure inter-alia, increasing tariffs, higher margin requirements, loan to value ratio and suspension of concessions offered to state sector employees for vehicle imports.

Tourism earnings and the inflows to the financial account were strong in the year. However, lower worker remittances, higher debt repayments and outflows from the

capital market did not reflect positively on the balance of payment position which went into a deficit of US dollars 1,103. The gross official reserves declined to 3.7 months of imports from 4.6 months in 2017.

Economic Outlook

Refer: Future Outlook, Page 186

The growing downside risks are expected to moderate global growth in 2019 to 3.3 percent; 2020 growth, however, is projected to be more stable at 3.6 percent. In the domestic setup, economic outlook is bleak in the short to medium term. The Easter Sunday attacks linked to extremist terror groups combined with brewing political upheaval and macroeconomic uncertainties does not pave a conducive platform for the nation to realise her growth expectations. We place our hope in the long term—we expect to see results taking shape from the ongoing development projects including Port City and the Megapolis projects; pragmatic policies and greater investment to bring in digitalisation and automation to agriculture and industry; skills development; and a more balanced and stable socio-political and economic environment.

Note: The information and data for the global and Sri Lankan economic review were sourced from the Annual Report 2018, Central Bank of Sri Lanka; World Economic Outlook January 2019 and April 2019, International Monetary Fund.

“The budget deficit in the year declined to 5.3 percent of GDP compared to 5.5 percent of GDP in 2017. This year, the deficit was mainly financed through domestic borrowings accounting for 57.5 percent of total financing. Foreign sources also remained significant.”

Management Discussion & Analysis

Tea Industry

Global Tea Outlook

Tea Production

As per available statistics, most of the major tea producing countries recorded a modest improvement in tea production in the year 2018 when compared to the preceding year. North India recorded an increase of 6.0 million kilograms in production whilst South India recorded a decrease. Yet again, a significant improvement was shown from Malawi. Bangladesh also showed an improvement. Kenya recorded an increase of 53.10 million kilograms. However, Sri Lanka registered a decrease of 3.9 million kilograms as against 307.7 million kilograms achieved in the previous year.

Global Black Tea Producers (2016, 2017 & 2018) Mn. Kg

	2016	2017	2018
Sri Lanka	292.5	307.7	303.8
Bangladesh	79.4	78.9	82.1
Kenya	473.0	439.9	493.0
North India	1,054.5	1,087.1	1,093.1
South India	212.9	234.7	218.5
Malawi	43.1	45.6	50.6

World Auction Averages (US\$)

Auction Centre	2017	2018
Colombo	4.11	3.59
Kolkata	2.46	2.45
Cochin	1.81	1.81
Guwahatti	2.16	2.13
Chittagong	2.48	3.14
Mombasa	2.81	2.43
Limbe	1.83	1.84
Kenya	2.97	2.59

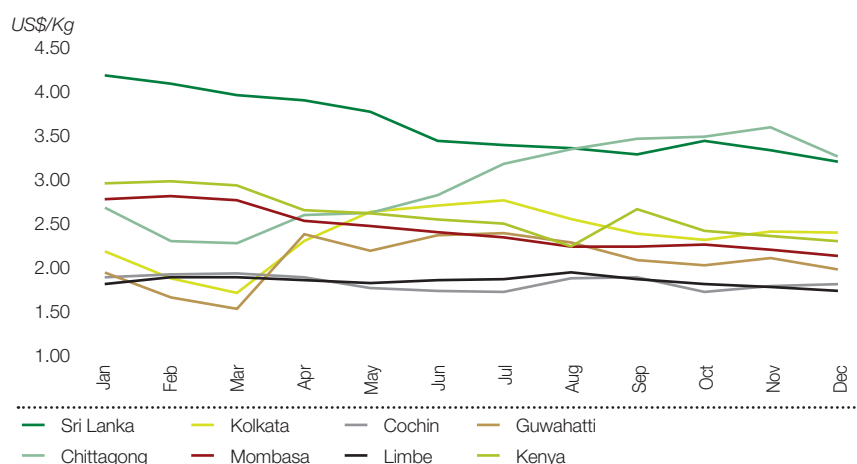
Source: Forbes & Walker (International Tea Committee - 2018)

Global Auction Performance

Colombo auction continued to sustain its rank at the top as against the other competitors until August of 2018 whilst Chittagong auction overtook thereafter with higher prices. The Colombo auction prices were higher in the early part of the year, starting from US\$ 4.00 and subsequently, trended downwards, recording a cumulative drop of US\$ 3.59 in 2018 as against US\$ 4.11 in 2017.

Kolkata, and Guwahati saw stable price levels whilst Chittagong auctions trended upwards from April onwards, increasing up to US\$ 3+. African auction centers remained below US\$ 3.00 throughout the year. Kenyan tea prices also showed a stable trend but on a cumulative basis, the trend was negative compared to 2017. Limbe, Cochin auctions remained below US\$ 2.00.

World Tea Auction Prices - 2018 (US\$)



National Tea Industry

After reaching a milestone year in Sri Lankan tea industry in 2017, Ceylon tea headed to another challenging year. Notwithstanding the Japanese reaction over high chemical detection in Ceylon tea, labour issues and unfavourable weather, the industry managed to supply quality teas during the seasons. It is noteworthy that the Colombo auction also performed well, offering considerable volumes during the year.

The first quarter production registered as 74.3 million kilograms, an increase of 7.5 million kilograms vis-à-vis 66.8 million kilograms in the corresponding quarter of 2017. Positive crop improvement was seen during the second quarter. The production, however, was still lower by 6.1 million kilograms. Production during the third quarter was lower by 11.5 million kilograms whilst the fourth quarter reported a commendable increase by 6.3 million kilograms.

National Tea Production Quarterly - 2016, 2017 & 2018 (Kg)

	2016	2017	2018
1st Quarter	70,418,592	66,876,780	74,334,093
2nd Quarter	83,835,676	89,901,554	83,820,093
3rd Quarter	64,722,085	76,307,322	64,875,859
4th Quarter	73,597,233	74,634,149	80,914,189
Cumulative	292,573,586	307,719,805	303,944,234

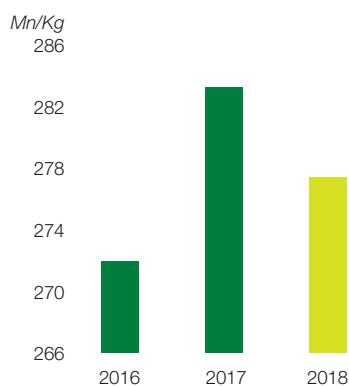
In terms of elevation performance, low grown posted a significant decrease of 5.4 million kilograms in production. Sri Lanka's total tea output reached 303.8 million kilograms in 2018, a decrease of 3.9 million kilograms compared to 307.8 million kilograms in the preceding year.

National Tea Production - Elevation & Type, TTE Market Share (Mn. Kg)

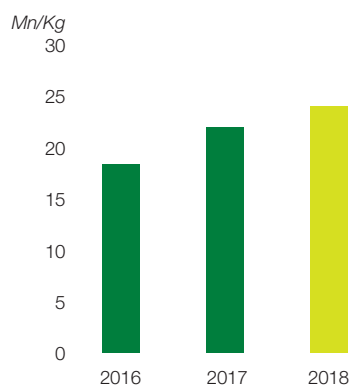
	2016	2017	2018
High Grown	63.8	63.7	63.6
Medium Grown	42.8	44.1	45.7
Low Grown	183.5	197.3	191.9
Green Tea	2.4	2.7	2.6
Industry Production	292.5	307.8	303.8
TTE Production	5.8	5.8	5.7
% of Market Share	2.0%	1.9%	1.9%

National Tea Production - Category Wise

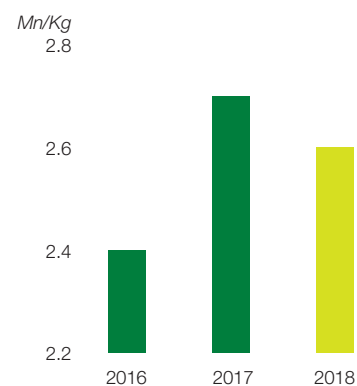
Orthodox



CTC



Green Tea



Source: Forbes & Walker (International Tea Committee - 2018)

Management Discussion & Analysis

Tea Industry

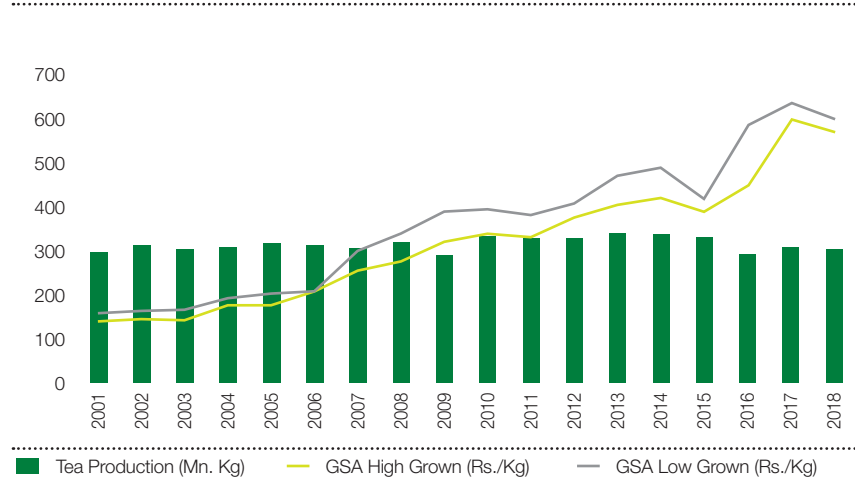
Production category wise, CTC recorded the highest ever production of 24 million kilograms in 2018, exceeding the record level of 23 million kilograms in 2012. Orthodox production showed a decline of 5.9 million kilograms against 2017. Green tea production also posted a marginal decline. Glyphosate ban, the chemical weedicide, had serious implications on tea producers and a possible reason for negative production results in the year 2018.

Colombo Tea Auction Prices

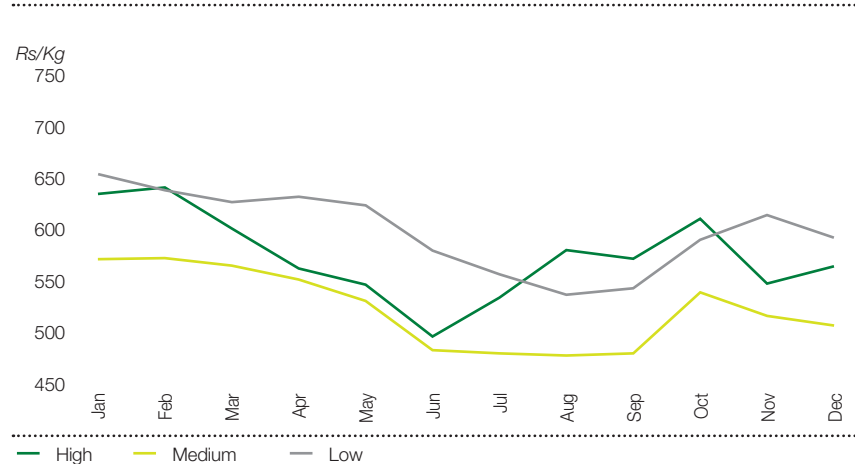
Colombo Tea Auction prices in 2018 trended downwards compared to the last year. Overall average of Rs. 581.91 declined by Rs.36.23 over the average of Rs. 618.14 in the previous year. Total high grown average of Rs. 571.51 was lower by Rs. 29.42 when compared to Rs. 600.93 in 2017. Total medium grown elevation prices averaged at Rs.521.86, recording a loss of Rs.41.68 over Rs.563.54 in the previous year. Total low grown elevation average of Rs.600.79 was recorded against Rs.637.40 in 2017, representing a decrease of Rs. 36.61.

The Japanese restricted buying patterns due to chemical detections in Orthodox high grown tea together with Japanese buyer rejects due to MCPA detection pressured Colombo tea auctions. Mid-year labour issues resulted in low production, possibly in turn, leading to lower average price levels throughout the second quarter of the year. Economic sanctions imposed by the United States of America over Iran also impacted the low country prices. The Sri Lankan rupee showed a significant devaluation against the US dollar during the last quarter which attracted the Sri Lankan tea importers. Even though the auction registered reasonable price levels, comparatively it was still below the corresponding price levels of 2017.

National Tea Production and GSA



Monthly Elevation Tea Prices 2018



Source: Forbes & Walker (International Tea Committee - 2018)

Tea Exports

GRI: Disclosures: 102-6

Overall exports of Ceylon tea posted a marginal decline. Some of the Middle Eastern countries and Russia posted a negative growth due to continued political uncertainties. However, Iraq stood as the main Ceylon Tea importer. The production of Ceylon Tea was lower due to the government ban on Glyphosate. The industry had to reckon with high weeding cost and labour issues in up country regions. Japanese black tea importers however recorded a decrease due to high MCPA detection in Ceylon teas. This is due to the Glyphosate ban where the tea planters and companies had to use alternative methods to control weeding.

Ceylon tea exports registered a decline to Syria and Libya in 2017 but showed a significant improvement in 2018. China exports also showed a positive improvement. Low grown leafier teas price averages noted high due to the increasing demand mostly from Iraq importers of orthodox black tea. Turkey emerged second largest importer of Ceylon Tea after making history last year. Russia remained the third largest importer.

Ceylon Tea exports in 2018 reached 282 million kilograms, posting a drop of 6.6 million kilograms compared to 289 million kilograms in 2017. Tea export value decreased by Rs.1.6 billion to Rs. 231.7 billion in 2018 compared to 233.3 billion in 2017.

Tea Exports - Top Ten Countries 2016/2017/2018

Quantities (Kgs)				Variance
	2016	2017	2018	2017-2018
Iraq	32,557,218	35,032,772	38,435,935	3,403,163
Turkey	27,068,974	37,815,700	35,634,255	-2,181,445
Russia	34,432,739	33,379,977	30,580,653	-2,799,324
Iran	33,928,612	27,418,910	23,914,222	-3,504,688
Libya	12,645,055	11,609,461	13,686,442	2,076,981
U. A. E.	18,381,410	15,785,266	11,077,796	-4,707,470
Azerbaijan	10,556,896	12,271,107	10,550,856	-1,720,251
Syria	12,107,279	7,399,616	10,180,344	2,780,728
China	7,603,870	9,903,199	10,020,245	117,046
Japan	7,763,607	7,924,043	7,416,310	-507,733

Source: Forbes & Walker (International Tea Committee - 2018)

Product Performance

Bulk tea exports recorded a marginal decrease totaling to 122.4 million kilograms in 2018 as against 125.6 million kilograms over the previous year. Packed teas and tea bags also recorded a decrease. Instant tea, however, saw a marginal increase. Green tea exports trended downwards throughout the year totaling to 4.6 million kilograms, short of 0.4 million kilograms over the preceding year. This is due to a 5.00 percent growth in green tea production in China from 2,496 million kilograms in 2017 to 2,616 million kilograms in 2018.

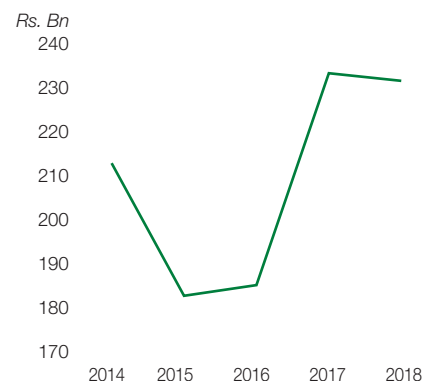
Tea Product Performance

Product Category (Mn. Kg) (Quantities)			
	2016	2017	2018
Tea In Bulk	125.1	125.6	122.4
Tea In Packets	134.3	134.5	131.3
Tea In Bags	23.0	21.7	21.6
Instant Tea	2.0	2.1	2.5
Green Tea	4.2	5.0	4.6
Total	288.7	289.0	282.3

Tea Exports Earnings

Tea exports earnings in 2018 moderated after recording the highest ever revenue of Rs. 233.3 billion in 2017. Japanese market uncertainty over Ceylon tea, mid-year unrewarding weather conditions and US sanctions over Iran adversely impacted on tea exports. South East Asia and some major Middle Eastern export destinations showed a positive interest towards the latter part of the year, leading towards better stability with earnings above Rs. 200 billion.

Tea Exports Earnings



Source: Forbes & Walker (International Tea Committee - 2018)


Also, during the middle of the year low production and auction offerings, also depreciation of the rupee which started during September created a good demand in the latter part of the year which helped to boost the export earnings. The Rupee depreciated by 19.33% against the Dollar for 2018 to 183.00 from 153.35 at the start of the year.

Management Discussion & Analysis

Economic Value Creation

► Overview

As a leading Regional Plantation Company, the value we create is extensive and significant, with broad-based socio-economic benefits, both direct and indirect. Backed by our parent, Hayleys PLC, we have developed our expertise for over three decades in producing quality tea, adopted best business practices and nurtured a strong brand—fortifying our value creation process and meeting our stakeholder expectations. This section will discuss on our role within an emerging economy and how we generate and distribute value from a triple-bottom line standpoint.

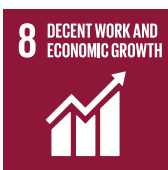
 GRI: Disclosures: 103-2, 3

Management Approach

Our management approach to value creation is holistic, where we seek to balance economic aspects of our business with environmental and social responsibility. In this process, we closely engage our stakeholders to fine-tune our approach, to meet their wide and varied set of requirements and expectations.

Focusing on both short-term and long-term goals, our approach delivers a focus strategy to drive for operational viability along with good governance, risk management and ethical business practices. Our certification programmes underscore our operational and management systems, processes and products, thereby, ensuring quality and standards in the value we create.

The tea sector this year too remained a strong pillar of the national economy—making a significant contribution to the overall economic and social development in the country; despite many challenges.



We produce a range of orthodox black and green tea in 16 estates, spanning high and low grown elevations. With a factory capacity of 9.9 Mn Kg in both elevations

and a workforce of over 6,650, we produced 5.4 million kilograms of tea at the estate level in the reporting year whilst bought-leaf generated 0.7 million kilograms. Total tea production of 6.0 million kilograms contributed to 1.97 percent of the national tea production. Our teas sustained its positioning for quality and standards at the Colombo Tea Auctions and fetched healthy prices, despite the downward trends. The average prices recorded were above the elevation averages.

The economic value we created in the year on a consolidated basis inclusive of hydropower operations, touched Rs.40.3 million. Given difficult market conditions, the value stood at 23.2 percent below the level achieved in the previous year. Out of the value created, we distributed over 84.5 percent amongst our key stakeholders whilst retaining Rs. 426.6 million within the business, corresponding to 15.5 percent.

Statement of Value Added

GRI: Disclosures: 201-1

	2018/19 Rs. 000'	2017/18 Rs. 000'	2016/17 Rs. 000'	2015/16 Rs. 000'	2014/15 Rs. 000'
Total Revenue	4,025,913	4,061,310	3,334,494	3,434,579	4,761,101
Purchase of goods and services	(1,395,665)	(1,160,402)	(1,065,016)	(991,105)	(1,601,525)
Net Revenue	2,630,248	2,900,908	2,269,478	2,443,474	3,159,576
Other Income	131,115	74,407	31,403	70,645	56,744
Total Value Added	2,761,363	2,975,315	2,300,881	2,514,119	3,216,320
Distributed as follows					
To Government (Income Tax and Other Taxes)	40,392	70,393	50,700	38,531	47,838
To employees (Salaries and other staff costs)	2,068,518	2,162,828	1,831,359	2,112,484	2,646,172
To lenders of Capital (Interest on Loan Outstanding and Minority Interest)	23,925	21,021	43,470	66,342	101,074
To Shareholders (Dividends)	201,875	118,750	23,750	-	71,250
Retained for re-investment and future growth	426,653	602,323	351,602	296,762	349,986
Total Value Distributed	2,761,363	2,975,315	2,300,881	2,514,119	3,216,320

Rs. 2,761.3 Mn
Value Created



Rs. 2,334.7Mn
Value Distributed



Rs. 426.6 Mn
Value Retained



Management Discussion & Analysis

Economic Value Creation

Value Distribution

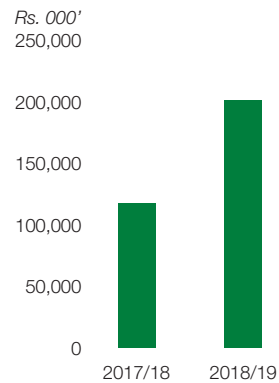
GRI: Disclosures: 201-2, 202-2

Shareholder

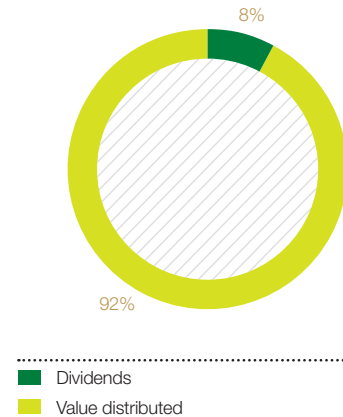
Responsible to our valued shareholders, we continued to deliver a strategy built on best practices to ensure steady returns, notwithstanding the operating challenges. We recorded profits both at the Company and at the consolidated level. The Board does not propose to extend a final dividend in the year. The interim dividends for the year totaled to Rs. 201.9million. Return on equity stood at 14.64 percent whilst earnings per share at Rs. 17.05

Refer: Financial Capital, Page 88
Relationship Capital – Investor, Page 124

Dividends Paid



Dividends Paid Against Value Distribution



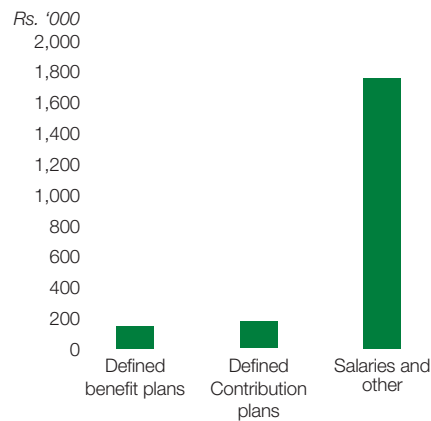
Employees

As a Regional Plantation Company, we have given permanent employment to over 6,650 people, mainly living within our own estates and in the neighbouring communities. Nearly 98.8 percent fall under the manual and staff grade category. However, 75 members of our executives and senior management are from the local communities. This year, we created 378 new jobs.

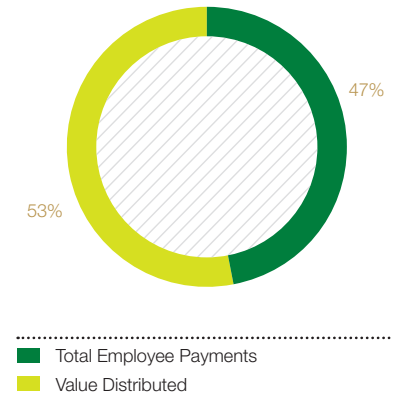
Our compensation including entry level wages is aligned to industry norms and relevant labour laws. Our wages are determined through a collective process with the participation of the trade unions and other relevant stakeholders; and incentives are linked to productivity and performance. Our compensation, incentives, benefits and all statutory payments in the reporting year reached Rs. 2.06Billion.

Refer: Human Capital, Page 140

Employee Payments



Employee Payments Against Value Distribution

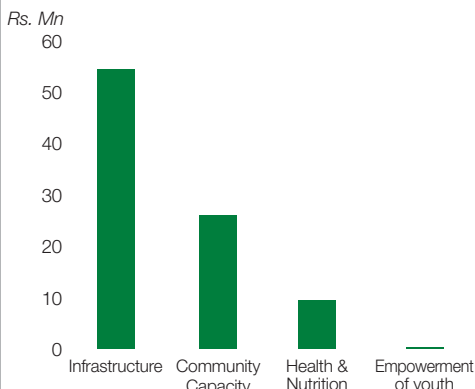


Resident Communities

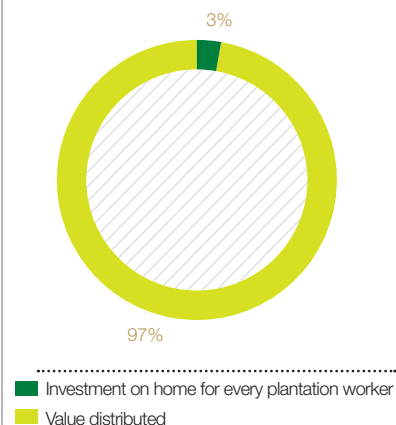
Over 42,000 people live within our estates with nearly 75 percent in the high grown region in the Central hills and 25 percent in the South. Majority of our resident communities are employed by us. Apart from employment, we are responsible and caring for our communities, providing their basic amenities and ensuring their wellbeing through our dedicated social responsibility programme — 'Home for Every Plantation Worker'. In the reporting year, we invested a sum Rs. 90.9million under this programme including estate roads, housing, recreation facilities, water and sanitation, health and safety, capacity building and youth initiatives.

Refer: Social Capital, Page 129

Investment on Home for Every Plantation Worker



Investment on home for every plantation worker Against Value Distribution

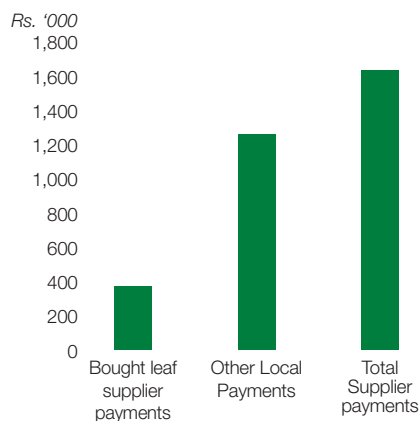


Supplier

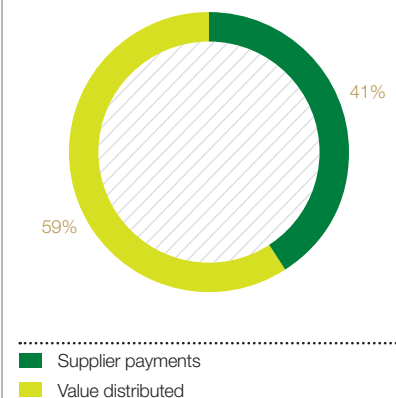
With extensive operations, we have a large supplier base. Our low grown operations engage and provide a livelihood to almost 1,662 bought leaf suppliers within the tea smallholder sector. In the year, our supplier payments stood at Rs. 1.63Billion, with 100 percent for local suppliers including 22.7 percent for bought leaf suppliers.

Refer: Relationship Capital – Supplier, Page 119

Supplier Payments



Supplier payments Against Value Distribution



Management Discussion & Analysis

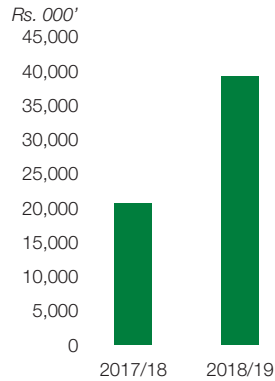
Economic Value Creation

Government Institutions

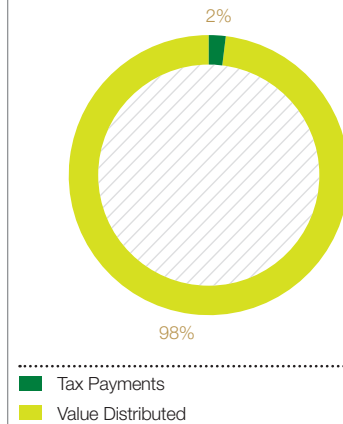
Meeting our tax obligations responsibly, we paid a sum of Rs.39.1million as corporate tax to the Department of Inland Revenue in the year under review. Our Value Added and Nation Building taxes amounted to Rs.5.4million. We also paid Rs.32.9million as lease rentals and interest to the Government.

▶ Refer: Financial Capital, Page 88

Tax Payments



Tax Payments Against Value Distribution

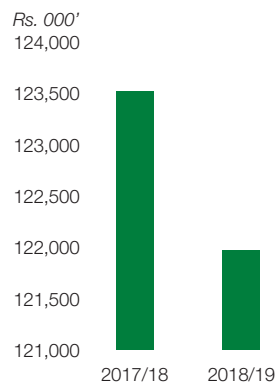


Financial Institutions

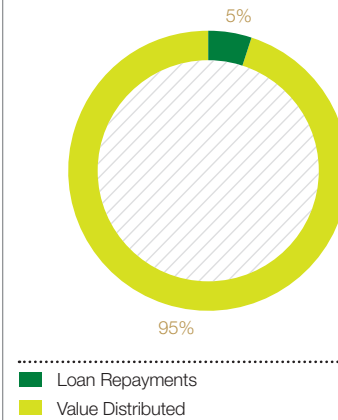
We have always maintained strong ties and met our financial obligation to our bankers and financial institutions as per contractual terms. We paid Rs.121.9 million to financial institutions as loan repayments including capital and interest. We also maintained a substantial deposit base of Rs.994.0million within the financial sector.

▶ Refer: Financial Capital, Page 88

Payments to Lenders of Capitals



Loan Repayments Against Value Distribution

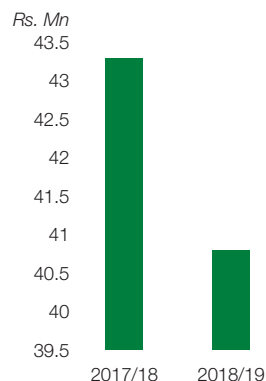


Environmental Management

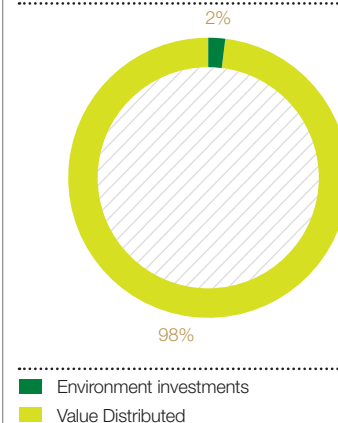
As a plantation company, climate change impacts our crop production and leaf quality, in turn, affecting our financial viability both in the near and in the long-term. As part of our environmental responsibility initiatives, we invest well on controlling carbon emissions and addressing the impacts of climate change on our business operations. In the year, we spent Rs.40.8 million for environmental management including Rs. 3.04 million on initiatives to control carbon emissions. We also invested on our second roof top solar power project.

▶ Refer: Natural Capital, Page 164 and Operations Review, Page 75

Environment Investments



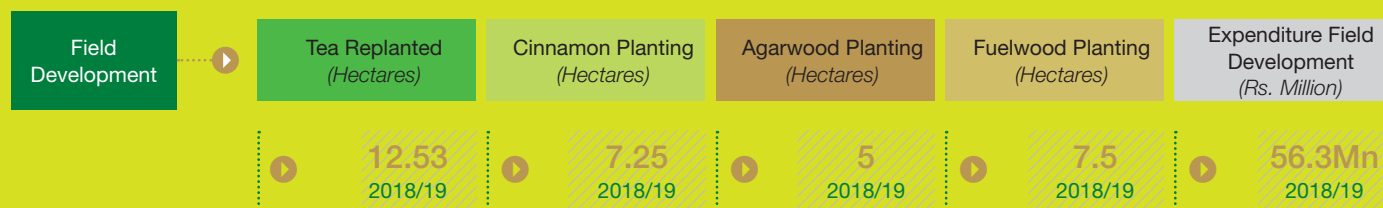
Environment investments Against Value Distribution



Management Discussion & Analysis

Operations Review

Agricultural and Field Development



GRI: Disclosures: 103-2, 3

Management Approach

Within a waning tea industry backdrop, challenged on many counts, adopting and maintaining sustainable practices is critical for the industry's future sustenance. Therefore, we are focused in our efforts and duly invest in developing our agricultural and field operations across all estates. Our certification bodies including the Rainforest Alliance and Ethical Tea Partnership give us clear guidelines on adopting and monitoring sustainable practices. We also work closely and collaborate with the Tea Research Institute, the International Plant Nutrition Institute and the faculties of agriculture at the national university level to further our efforts in this regard.

In our management approach, we give precedence to nursery management with two nurseries in the high grown and Three in the low grown estates. Our nurseries are well-equipped to carry out research on cultivar that are adaptable to withstand pest, disease and adverse impacts from climate change. Top strategic priority is given to harvesting a quality leaf which is essentially the core of our operations. We are conscientious and have the expertise to maintain the highest standards in harvesting, focusing on manpower planning and productivity management.

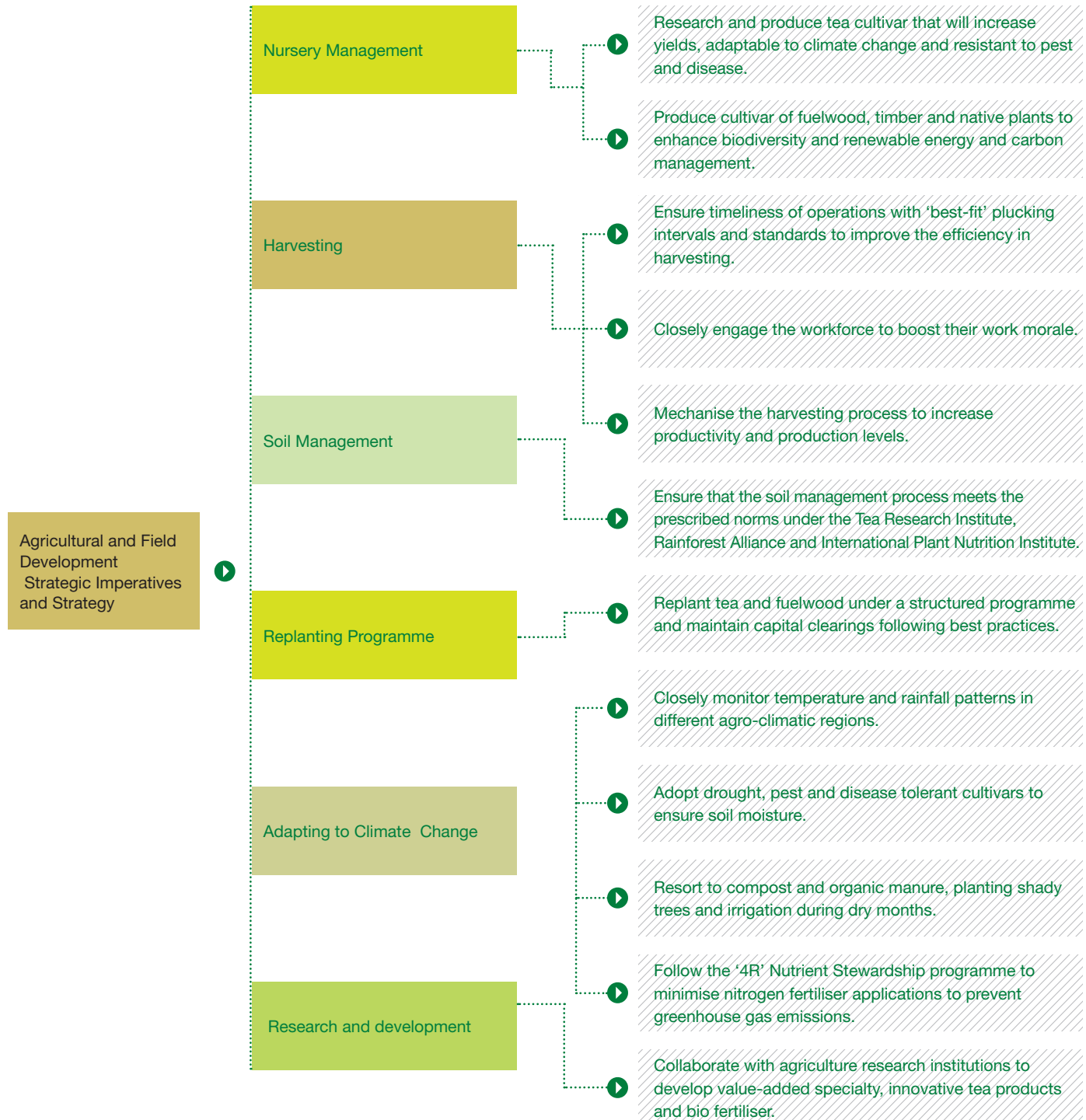
We follow through best soil management practices as per the recommended guidelines set under the '4R Nutrient Stewardship' advocated by the International Plant Nutrition Institute. Our tea replanting programme also aims at increasing the vetiver planting cover to optimise and secure our potential yields. This programme also includes replanting of fuelwood to support our initiatives to adopt renewable energy and to enhance our biodiversity assets. Managing the impacts from climate change is given due strategic status, with proactive measures to mitigate impacts on our tea cropping patterns, production levels and the quality of the leaf. Our focus is to add value and produce specialty and innovative teas mainly targeting new market segments.



Management Discussion & Analysis

Operations Review

The salient strategy along with the imperatives of our field operations is set out below:



Operational Performance


Tea Production


‘With inclement weather patterns, our crop production was below potential levels, falling by 5.0 percent to reach 5.8 million kilograms’

Inclement weather conditions that prevailed in the year 2018/19 adversely reflected on crop production. The ban on the weedicide, Glyphosate, that prevailed up until the end of 2018 also affected the crop performance. Yet, our focused efforts to drive for higher productivity and sustainable field development work supported us to keep our production levels in check. Our overall production volumes, including estate and bought leaf, declined by just 4 percent from 6.1 million kilograms in the previous year to 5.8 million kilograms.

Estate Leaf Production

Unfavourable weather patterns curtailed our estate production in both elevations in the reporting year. Crop production volumes were below the budgeted levels. Except the third quarter, production levels recorded a decline as against the corresponding quarters of the preceding year. The total estate crop production reached 5.1 million kilograms, representing a year-on-year drop of 5.3 percent. The share of estate crops fell by a percentage point to 87 percent of the total tea production.

 High grown production: With 12 estates in the Talawakelle and Nanu Oya regions spanning 3,268.66 hectares of tea, high grown teas took up the highest share of 85 percent of the estate production and 74 percent share of the total tea production. High grown tea production volumes moderated by 5.4 percent in the year to 4.31 million kilograms whilst tea yields dropped by 6 percent over the previous year to 1,371 kilograms per hectare.

 Low grown production: With four estates in Deniyaya and Galle, spanning 730.64 hectares of tea, the share of low grown teas was low at 15 percent of estate leaf production and 13 percent of the total production. This reporting year, low grown crop production reached 760,163 kilograms, a year-on-year fall of 5.0 percent. Yields dropped marginally, less than one percent over the previous year to 1,164 kilograms per hectare.

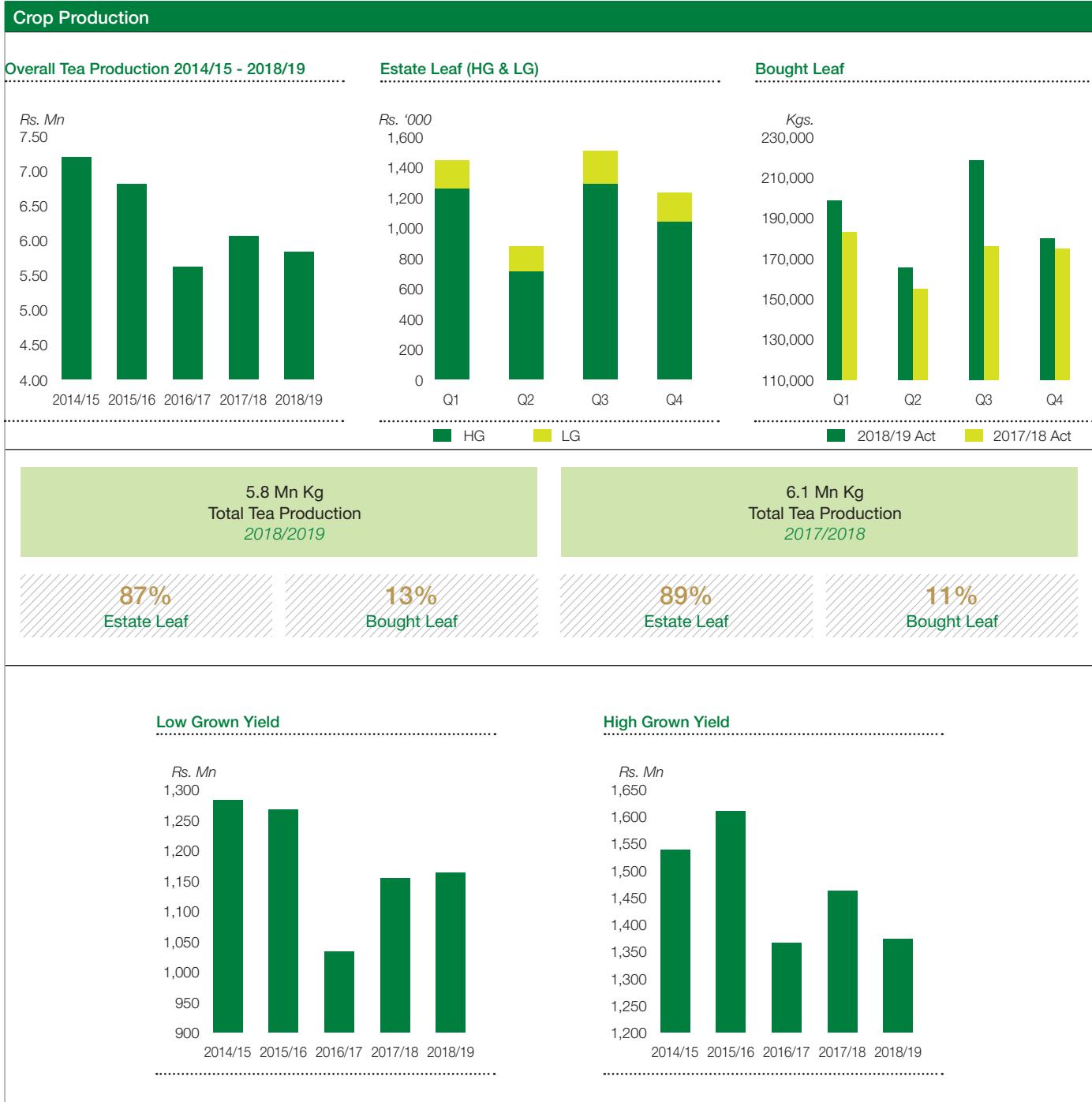
Bought Leaf Production

With a comprehensive programme to support our suppliers in the low grown region, bought leaf operations were relatively positive compared to the year before. Although short of the budgeted level, quarterly performance improved over the corresponding quarters of the previous year. Bought-leaf production recorded an increase of 11 percent year-on-year to 763,012 kilograms. The share within the total production moved by two percentage points to 13 percent.



Management Discussion & Analysis

Operations Review



Note: 2014/15 – 15 months

Revenue Share Model – Industry's Way Forward

Linking productivity to our business model, we advocate our workers to be empowered, be our partners and take on an entrepreneurial spirit in their work attitudes. Under this initiated non-wage model, we propose to allocate a block of land with tea bushes to a selected group of workers to undertake harvesting operations. All other agricultural operations including managing good agronomy practices, training, certifications and logistics will come under the purview of the Company. Their earnings will be determined by a structured formula that is linked to the prices at the Colombo Tea Auctions. However, the workers will be entitled to their statutory benefits where there will be joint contributions on the income earned to Employees' Provident Fund and Trust Fund.

A win-win model, this will enable to move away from a daily wage, thereby, supporting the company to manage costs and secure viability from a long-term perspective; whilst the workers can earn more based on their level of productivity. Already, we have initiated pilot projects in the year under review in two of our estates.

Key Indicators

- Estates: Radella, Calsay, Clarendon, Somerset, Palmerston, Great Western, Logie, Bearwell, Mattekelle, Holyrood, Wattegodde, Kiruwanaganga, Deniyaya, Indola, Moragalla
- Land extent given: 1,110.03 Hect.
- Percentage of total operations: 29 percent



Notwithstanding the market challenges, we were able to reinforce our positioning for premium quality teas—with necessary quality testing—to attract sound prices, above the elevation averages. Our estate marks continued to enjoy top price rankings on the Auctions.

- High grown prices: Performing above the elevation averages, our high grown price trended upwards across all four quarters in the year under view. We saw best prices from second to fourth quarters. Our price average for the year stood at Rs. 662.88 per kilogram. This was above the average of Rs. 632.94 per kilogram recorded in the preceding year.
- Low grown prices: Our low grown estates marks exceeded the elevation average. The price average was 5 percent below the outstanding average of Rs. 702.11 per kilogram recorded in the previous year. The best prices were recorded in the first and third quarters of the year.

Tea Prices

'Reinforcing our commitment to quality and standards, we fetched healthy prices in a downward trending market'.

In contrast to the upbeat trends that prevailed in the preceding year, the market was distressed and performed below potential in the year under review. With the Glyphosate ban that prevailed up until the end of 2018, tea companies and smallholders used an alternative weedicide, MCPA. The industry as a whole had to reckon with maximum residue levels of MCPA leading to strong reactions from the discerning Japanese market, followed by some buyers in the European Union. This together with economic difficulties faced by our key markets in the Middle East, Russia and Turkey and the sanctions placed on Iran reflected adversely on the Auction performance with lower average prices as against the bullish prices in the previous year.

Management Discussion & Analysis

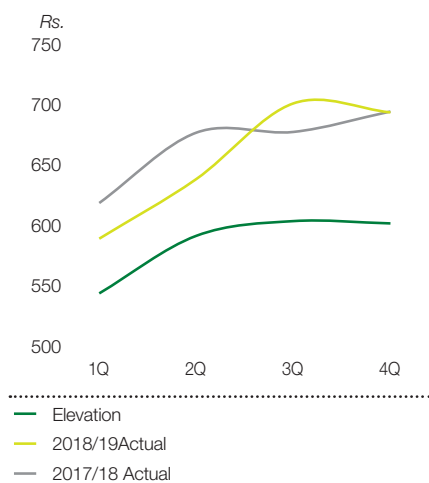
Operations Review

Tea Prices Snapshot

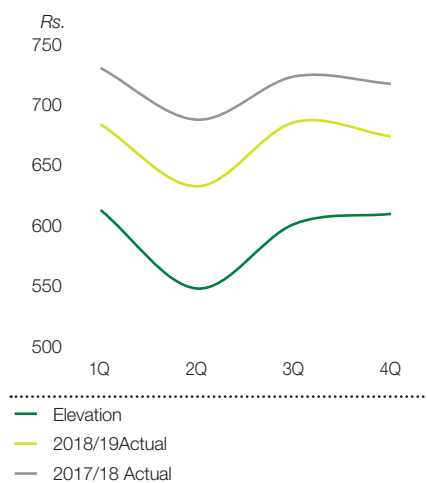
Price ranking Colombo Tea Auction 2018/19

1. Rank No. 1 – High Grown category
2. Rank No. 1 – Low Grown category for 14th consecutive year
3. 04 Estates - Mattakelle, Wattagodde, Somerset, Great Western are among first 10 rankings in the Western High Grown
4. Great Western Estate – Retained the All time record price for the BOP at Rs. 1,850 per kilo
5. Mattakelle Estate – All time record prices for the D1 grade sold at Rs. 1,100 per kilo and for the BOPF grade sold at Rs. 1,000 per kilo
6. Wattagodde Estate – All time record price for the BOPSP grade sold at Rs. 830 per kilo
7. Kiruwanaganga Estate – Rank No. 1 in Low Grown RPC rankings, All time record price for the BOPFSP grade sold at Rs. 1,550 per kilo
8. Deniyaya Estate – Rank No. 2 in Low Grown RPC rankings, All time record price for the OP at Rs. 1,100 per kilo

High Grown Price Trends 2018/2019



Low Grown Price Trends 2018/2019



Gross Sales Average (GSA)

Following the bearish market trends at the Colombo Tea Auctions, Our overall GSA was Rs. 664.59 per kilogram compared to Rs. 664.43 per kilogram posted in the preceding year.

Cost of Production

'A lower yield contributed to an increase in COP - Rs. 586.48 per kilogram'.

With the industry at a critical juncture, we remained focused and disciplined in managing and optimising our cost of production at the estate-level. In the reporting year, in January 2019, the industry entered into a new wage agreement, with a formula that does not factor in productivity. With the new agreement, basic wage rate increased by 40 percent, which was affected from January, has inflated wage cost by Rs. 45 million and the gratuity provision by Rs. 59 million. Further, the Other Comprehensive Income (OCI) was surged by Rs. 96 million due to the fair value change of Gratuity liability. The wage bill corresponded to almost 70 percent of production costs which increased by 6.0 percent to Rs. 586.48 per kilogram. High grown cost recorded an increase of 8.0 percent to Rs. 573.08 per kilogram. Low grown cost together with bought leaf operations also increased by 2.0 percent to 624.29 per kilogram.

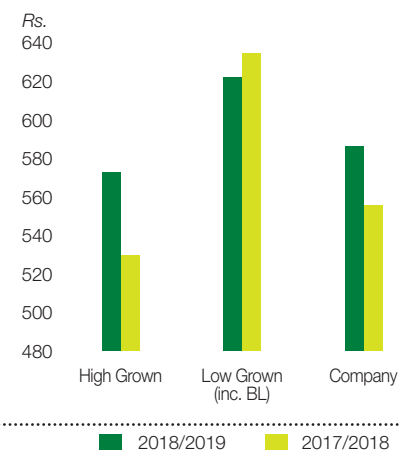
Estate Profitability

With lower production volumes, our earnings at the estate level moderated compared to the preceding year. Although the market was more bearish, our estate marks sustained healthy prices, in turn, cushioning the top-line from a significant slump. With higher cost of production and modest top-line earnings, estate profits declined by 24 percent to Rs. 156 million over the previous year. 12 of our estates contributed positively to estate profitability. Bearwell estate topped the ranks followed by Wattegodde and Great Western estates.

- **High grown profits:** Taking up 95 percent of the total, high grown estate profits reached Rs. 473.2 million, representing a decline of 19 percent over the previous year. Seven estates falling into the Talawakelle cluster accounted for 67 percent share of the high grown profits whilst Nanu Oya contributed to the balance 30 percent.
- **Low grown profits:** Taking up 5 percent of the total estate profits fell by 64 percent compared to the previous year to Rs. 26.3 million.

“Navigating through adversities in our operating backdrop, we delivered a discerning strategy to produce a quality tea, leading our estates to achieve healthy profits.”

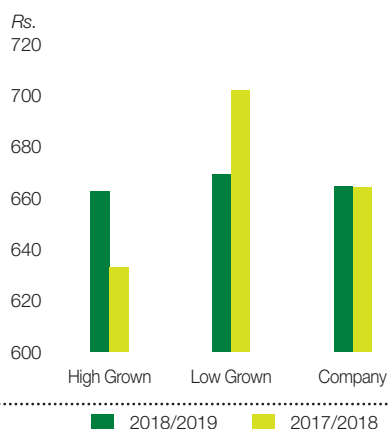
Cost of Production (Rs/Per Kg)



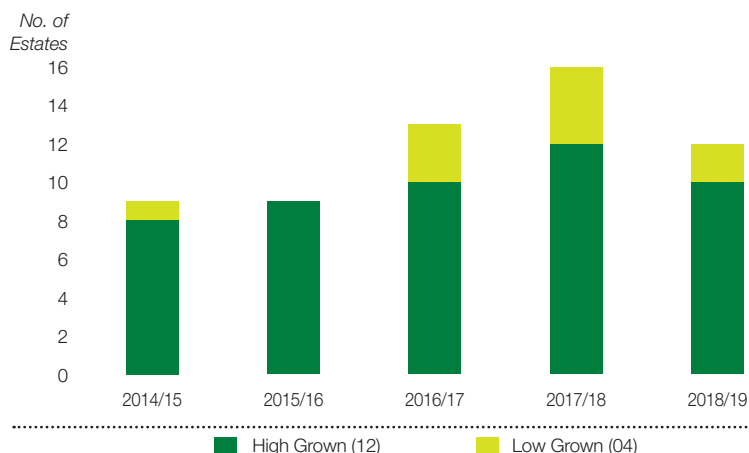
Number of Estates Making Profits

Category	Total Estates	2018/19	2017/18	2016/17	2015/16 (12 Months)	2014/15 (15 Months)
High Grown	12	10/12	12/12	10/12	09/12	08/12
Low Grown	04	02/04	04/04	03/04	-	01/04

GSA 2017/18 - 2018/19



No. of Estates Making Profits



Management Discussion & Analysis

Operations Review

 GRI: Disclosures: 102-2, 7

High grown estates Talawakelle and
Nanu Oya Snapshot



12
Estates

3,268.66 Ha
Tea Extent

7.3 Mn Kg
Factory Capacity

Orthodox Black and Green Tea
Factory Type

4.3 Mn Kg
Tea Production

5,042
Registered Workers

36,112 People
Resident Communities

Rainforest Alliance, Ethical Tea Partnership, UTZ, ISO 22000,
ISO 14001, ISO 9001
Certifications

Low grown estates Deniyaya and
Galle Snapshot



04
Estates

730.64 Ha
Tea Extent

2.5 Mn Kg
Factory Capacity

Orthodox Black Tea
Factory Type

1.5 Mn Kg
Tea Production

1,147
Registered Workers

5,201 People
Resident Communities

Rainforest Alliance, Ethical Tea Partnership, ISO 22000 **Certifications**

Domestic Tea Operation

Completing three years, we have expanded our domestic tea operations and successfully penetrated the market with a versatile product offer. Our team is focused and dedicated in adopting best practices and delivering quality products in keeping with the dynamic consumer preferences. Our success within the domestic front was recognised by the National Chamber of Commerce at the National Business Excellence Awards 2018.



National Business Excellence Award - 2018 - National Chamber of Commerce
Excellence in local market reach - Silver Award

Product List

▶ **ABBOTSFORD SPECIAL - Dessford Estate**

Gourmet - special rich in flavour and antioxidants, produced exclusively from buds harvested from tea bushes planted by British planter, M. Ferguson in 1871 on Abbotsford estate, through a unique manufacturing process and is packed in a metal canister.

▶ **BLACK TEA - BOPF Pack**

A unique blend of selected BOPF from high grown estates packed in alu-foil. In 250 g and 500 g packs

▶ **BOP - Single Origin Tea (Loose Tea)**

Six different origins - Bearwell, Dessford, Great Western, Holyrood, Mattakelle and Somerset

▶ **BOPF - Single Origin Tea (Loose Tea)**

Six different origins - Bearwell, Dessford, Great Western, Holyrood, Mattakelle and Somerset

▶ **TEA BAGS - Single Origin Tea**

Six different origins - Bearwell, Dessford, Great Western, Holyrood, Mattakelle and Somerset

▶ **TEA BOOK (Gift Pack)**

Selection between two tea bag packs and two loose tea packs from six origins - gift book.

▶ **SIX IN ONE (Gift Pack)**

Combination of all six origins, shrink wrap as one presentable pack. BOP Loose Tea, BOPF Loose Tea and Tea Bags - BOPF

▶ **GREEN TEA - Radella Estate**

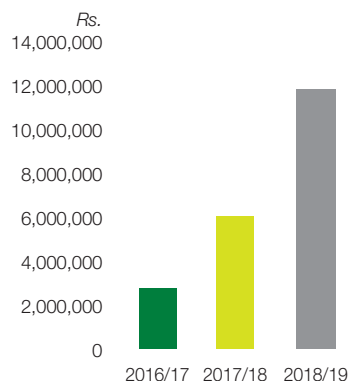
Finest green tea from Radella with truly splendid aura and packed in alu foil and metal canister as loose tea.



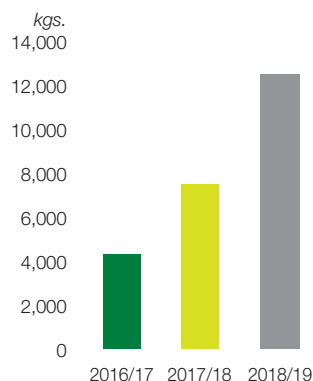
Management Discussion & Analysis

Operations Review

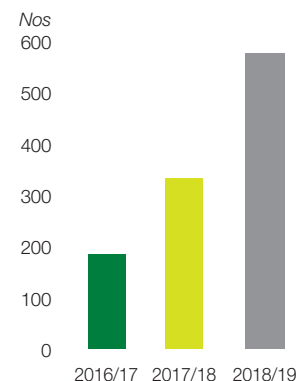
Domestic Sales - Revenue Growth



Domestic Sales - Quantity Growth



Domestic Sales - Customer Growth



Domestic Performance

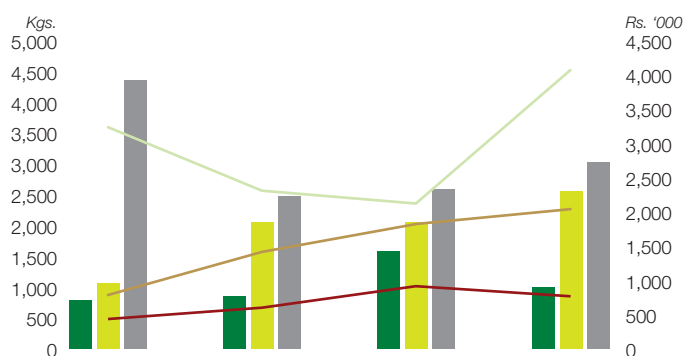
Continuing to improve the quality and standards of our product range and building customer trust, our customer base grew from 330 to 576, an increase of 74.5 percent. This boosted our sales volume by 60.4 percent year-on-year to 12,542 kilograms. Our revenue reached Rs. 11.9 million, an increase of 97 percent.

By the end of the first quarter in the reporting year, our sales quantity touched 4,380 kilograms, the highest ever quantity recorded, with a revenue of Rs. 3.31 million. In the second and third quarters, our domestic tea operation declined, with sales recording 5,097 kilograms and revenue at Rs. 4.55 million. However, operations picked-up in the fourth quarter, with sales touching 3,065 kilograms and earning a revenue of Rs. 4.06 million. Therefore, we exceeded our target of Rs. 10 million for the year.

Stepping up operations, we managed to export 158,400 tea bags and 42 kilograms of loose tea to Canada. This generated a noteworthy revenue of Rs. 1.22 million.

In the year ahead, we plan to launch a new look to our product range with better and creative packaging. We also expect to launch a new product to further strengthen our offer. We have already drawn up our action plans in this regard.

Domestic Sales - Quantities & Revenue Quarterly 2016/17, 2017/18 & 2018/19



	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Quantity Sold Kgs 2016/17	806	866	1,618	1,019
Quantity Sold Kgs 2017/18	1,075	2,089	2,071	2,585
Quantity Sold Kgs 2018/19	4,380	2,488	2,609	3,065
Revenue (Rs.) 2016/17	478,456.50	594,681.25	976,919.25	782,119.50
Revenue (Rs.) 2017/18	771,252.00	1,389,144.25	1,828,277.25	2,059,291.50
Revenue (Rs.) 2018/19	3,309,964.50	2,381,298.25	2,165,256.50	4,063,008.50

Rubber

we have strategically reduced our rubber holdings. In the reporting year, our rubber exposure stood at 145.19. hectares. Production levels increased by 14 percent to 57,159 kilograms whilst prices averaged at Rs. 239.08 per kilogram as against Rs. 289.71 per kilogram in the preceding year. Our losses within the rubber sector stood at Rs. 18.4 million, an increase from the loss of Rs. 3.6 million recorded in the preceding year.

Crop Diversification

Reducing our dependence on a monocrop business model, we continued in the year to look for and invest in alternative crop businesses. Our exposure to cinnamon covered 7.25 hectares of land in Moragalla Estate and Agar wood covered another 5 hectares of land in Kiruwanaganga Estate.

Hydropower Sector

▶ Refer: Natural Capital, Page 164

With three mini-hydro plants in Radella, Palmerstone and Somerset, our two subsidiaries recorded a strong performance in the year under review. With a capacity of 2.2 Mega-Watts on a cumulative basis, the plants operated at 117 percent budgeted capacity as against 90 percent in the previous year. The favourable weather conditions that prevailed for 6 months of the year supported the hydropower generation. Total electricity generated and supplied to the national grid improved by 31 percent to 8.8 Kilo-watt hours as compared to 6.7 kilo-watt hours in the previous year. Total revenue from the hydropower companies touched Rs. 68.2 million, representing a 2.9 percent increase over the preceding year. Hydropower operations contributed to 1.6 percent of the consolidated revenue.



Management Discussion & Analysis





Management Discussion & Analysis

Financial Capital

► Overview

Sound financial capital management assumes much significance to ensure business viability and sustainability in a complex and challenging operating backdrop. This is more so as a plantation company faced with a myriad of risks and challenges widespread across the industry today. This section will focus on our approach to build and manage our financial resources to optimise value creation in the short-term and progressively move forward with greater consolidation and well-planned expansions to meet our long-term goals. This also elaborates on our financial performance for the financial year-ended 31st March 2019.

“Upholding excellence in financial management, we continued to perform with steadfastness despite the challenges in the year and sustained sound returns, solvency and liquidity.”





 GRI: Disclosures: 103-2, 3

Management Approach

Essentially underlining our value creation process, financial capital management is given top strategic priority. Our focus is to utilise our financial resources efficiently and ensure that we meet our corporate goals in creating optimum value overtime. In this regard, we follow a two-pronged financial management approach. On one hand, we look into the day-day management of general finance functions, including managing payables and receivables, book keeping, among others. On the other, we give precedence to the strategic planning process—collaborating with other teams across estates and the corporate office. We give direction to formulate our corporate strategy and action plans; allocate necessary budgets; support operational teams in plan implementation; and closely monitor the output, outcomes and impacts at an overall company level. We duly report on the company performance to the senior management and to the Board of Directors for their deliberations and necessary action.

Our management approach is pragmatic and principled. We follow through best practices and standards in accounting, auditing and management as prescribed by the Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 and the Sri Lanka Accounting Standards set by the Institute of Chartered Accountants of Sri Lanka. We comply with relevant laws, rules and regulations as specified by the statutory and regulatory bodies including the Companies Act No 07 of 2007, Continuous Listing Rules under the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka. We also have in place a well-structured risk management mechanism along with internal controls to ensure that our financial management decision making is perceptive and steady, underpinning our resilience to navigate through complexities of our operating environment.

Upholding our corporate adage, 'doing business within our means', we deliver a sustainable top-line strategy—driving to achieve short-term commercial gains whilst keeping to best practices with necessary investments to secure sustainable growth from a long-term perspective. Hand in hand with our top-line strategy, we give due precedence to cost optimisation. We have the necessary checks and balances to curtail unwarranted spending and minimise our wastage and leakages. We are disciplined in our treasury and cash flow management to maintain adequate liquidity, cost of funds and healthy gearing levels. We are also focused in managing our assets over liabilities to maintain a stable and robust financial position.

Management Discussion & Analysis

Financial Capital

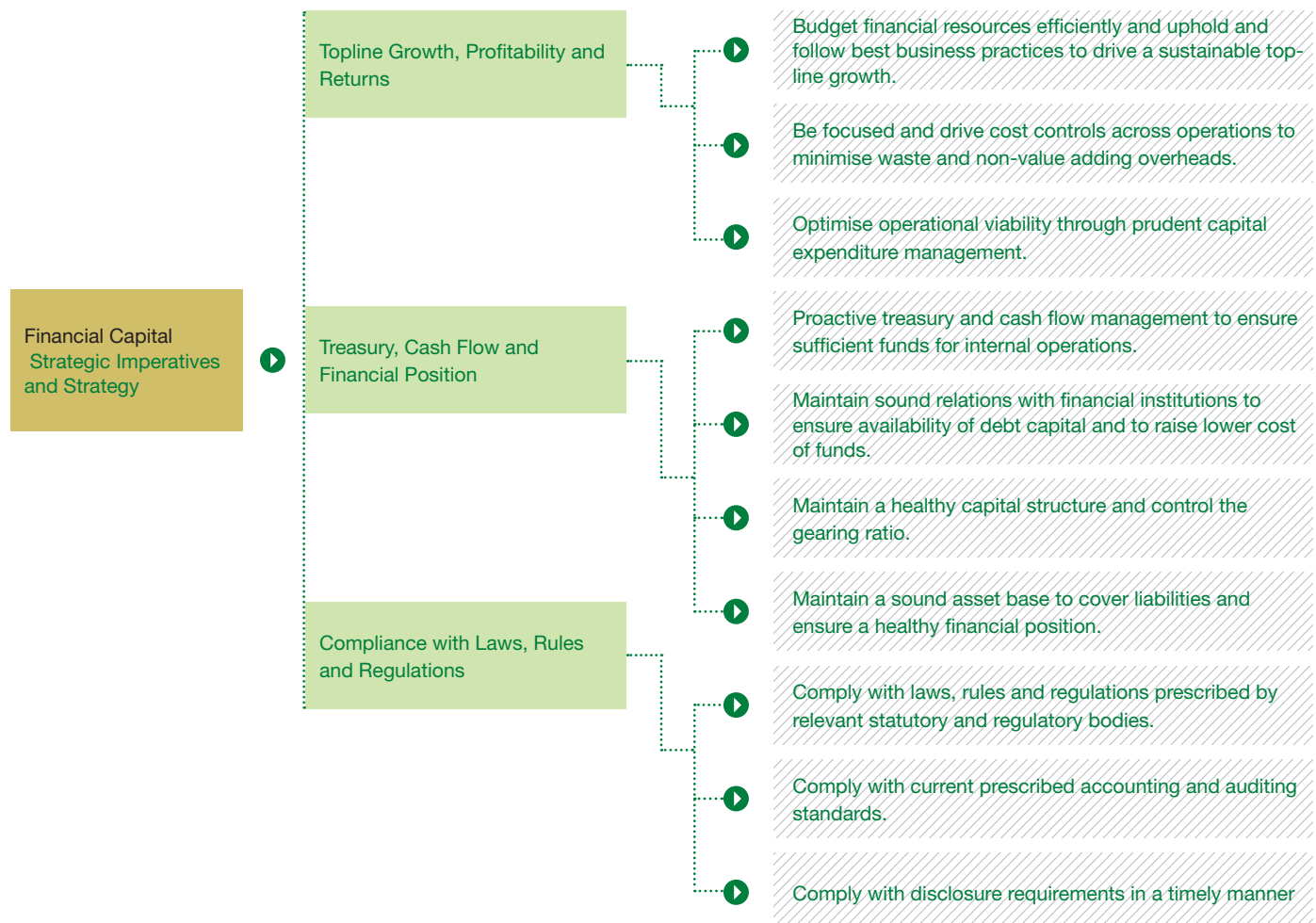
GRI: Disclosures: 102-15

+ Opportunities

- Strong brand, corporate repute and standing
- Parent company strength and support
- Hands-on operational management
- Financial discipline and cost controls
- Good governance, internal controls and risk management practices
- Transparent and sound investor relations
- Long standing relationships and credibility with financial institutions
- Best and current practices on accounting and financial management
- Stakeholder acceptance of the need to adopt a more sustainable business model on revenue share in the medium term

- Risks

- Unionised workforce and indifference to work impacting labour productivity
- Rising cost of production pressuring the operational viability and margins
- Trade union demands for irrational wage increases that are not linked to productivity
- Out migration of labour from the plantations leading to labour shortage to carryout corporate plans
- Economic and geo-political uncertainties in key tea export markets impeding on market prospects
- Domestic socio-political and macroeconomic uncertainties and policy changes impacting the industry and business



Financial Performance Review

Key Performance Indicators

Committed to our corporate values of transparency, accountability and professionalism, we continued to deliver a focus strategy in the year under review. We performed creditably with sound financial results amidst the headwinds in our operating landscape.

Group - Key Performance Indicators – 2014/15-2018/19

Aspect	Measure	2018/19	2017/18	2016/17	2015/16	2014/15*
Revenue Growth	Turnover (Rs. Mn)	4,025.9	4,061.3	3,334.5	3,434.6	4,761.1
Profitability	Gross profit ratio (%)	14.8%	18.6%	13.1%	9.2%	10.6%
	Net profit ratio (%)	10.3%	13.5%	7.2%	4.3%	5.6%
Working capital Management	Current ratio (Times)	2.46	2.20	1.7	1.23	1.15
Liquidity	Cash flow from operations (Rs. Mn)	629.4	815.8	485.2	393.4	532.3
Asset Utilisation	Fixed Assets Turnover (Times)	1.21	1.22	1.01	1.03	1.43
Investments	Capital expenditure (as a % of total assets)	5.06%	5.07%	4.03%	3.6%	6.5%
Capital Structure	Debt/Equity (%)	9.01%	13.5%	18.4%	29.7%	37.3%
	Interest Cover (Times)	9.26	12.0	4.9	3.81	3.68

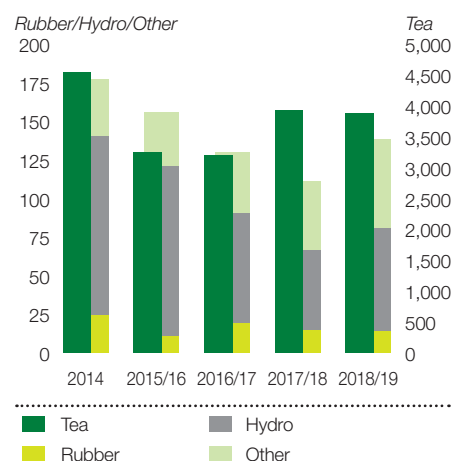
Note: *fifteen months

Turnover

Turnover for the year ended 31st march 2019 recorded a marginal decline compared to the previous financial year. In the year 2018/19, the Company turnover stood at Rs.3.96 billion vis-à-vis Rs. 4.09 billion in 2017/18, a decrease of 3.2 percent. Revenue from tea decreased by Rs.62.4 million compared to 2017/18, recording a 1.6 percent drop.

Rubber segment continued to make losses in reporting year. Turnover dropped by Rs.1.1 million, recording a 7.6 percent decline year-on-year. Amidst the declining trend in other two segments, mini hydro power and other revenue segments show a steady growth of 30.5 percent and 26.4 percent respectively. Mini hydro companies approached the tier-two in its agreement with the Ceylon Electricity Board and during this phase, the power companies are receiving lower rates for their contribution to the National Grid. However, due to favorable weather conditions that prevailed with high rain fall in the first two quarters of the year, hydro companies were able to increase their revenue by Rs.15.9 million compared to the previous year. Other revenue increased by Rs.12.1 million over the previous financial year.

Segmental Revenue Analysis



Management Discussion & Analysis

Financial Capital

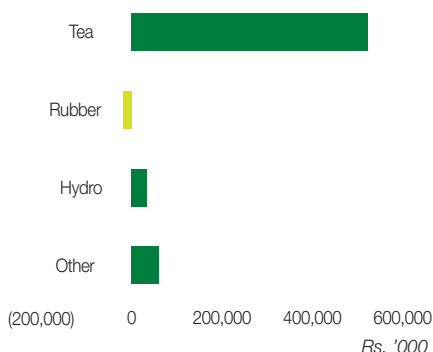
Operating Cost

Cost of Sales (COS) for the year was Rs. 3.39 billion compared to Rs.3.27 billion in the previous financial year. During the year, Workers Collective Agreement was signed and the impact of the wage increase is reflected under the COS result. Workers basic wage increased to Rs.700 per day from Rs.500 under the previous agreement. COS increased by Rs.125.6 million year-on-year recording a 3.8 percent increase. Administrative expenses escalated by Rs. 29.8 million, an increase of 18.6 percent.

Profitability

With lower revenue combined with the increase in COS, gross profit dropped to Rs. 562.9 million compared to Rs. 739.9 million in 2017/18. This corresponded to a 23.9 percent decrease amounting to Rs.177 million. Gross profit margin dropped to 14.2 percent from 18.5 percent in the previous year. Gross profit from tea stood at Rs. 522.8 million as compared to Rs.707.9 million recorded in 2017/18. In the case of rubber, gross loss continued to increase, reaching to Rs.17.6 million as against the loss of Rs. 13.8 million recorded in 2017/18. Due to the higher generation of electricity with favorable rain fall, mini hydro power company's gross profit increased to Rs.31.3 million from Rs.14.7 million in the previous financial year.

Segment Gross Profit/(Loss)

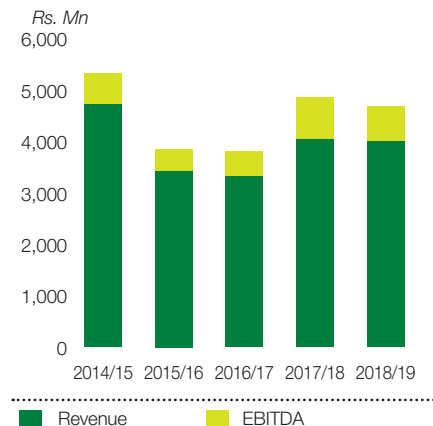


Earnings

Refer: Note 11 of the Financial Statements for the computation of basic earnings per share

Earnings before interest and taxes recorded for the year was Rs. 440.3 million, representing a decline of 39.9 percent as against Rs. 616.1 million recorded in the previous year. Even though the Company managed to maintain a healthy level of earnings compared to other Regional Tea Plantation companies, the drop for the year stood at Rs.175.8 million. Earnings before interest, tax, depreciation and amortization (EBITDA) drop was Rs.121.3 million compared to the previous year. EBITDA for the year stood at Rs. 700.3 million, a decline from Rs. 821.6 million. EBITDA margin stood at 17.4 percent as against 20.2 percent recorded in the previous financial year.

EBITDA to sales ratio

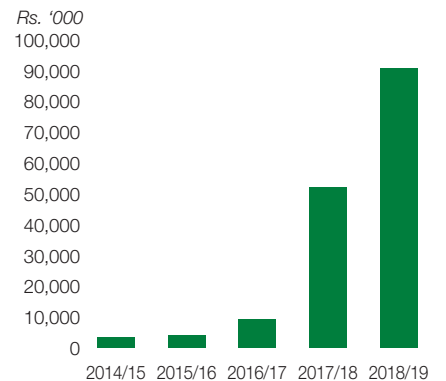


Earnings per share (EPS) was healthy at Rs. 17.05, representing a drop from Rs.23.09 in the year 2017/18. Amidst the drop in earnings, the Company managed to record second ever highest earnings during the reporting financial year.

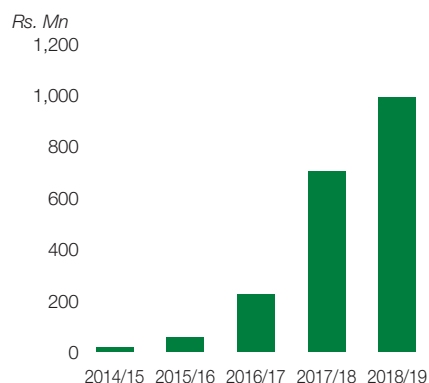
Net Finance Income

TTE is one of the few plantation companies to enjoy healthy cash flow surpluses over the years. Its short-term investments stood at Rs. 976.5 million as at 31st March 2019, recording a significant increase of Rs. 274.1 million. During the year 2018/19, cash surpluses increased by 39.0 percent. Similarly, finance income stood at Rs.90.1 million, recording a 74.1 percent increase compared to 2017/18. Finance expenses on short and long-term facilities dropped by Rs. 3.2 million to Rs. 15.2 million. TTE's average lending rate for the long-term facilities was 5.65 percent and 13.5 percent for short-term lending facilities. Interest paid to the Government on finance lease has shown an increase of 7.0 percent and stood at Rs. 31.5 million at the end of year 2018/19. Number of years remaining for the Government lease is 26 years and 3 months. Monthly Average Prime Lending Rate at the beginning of the year was 11.27 percent and has moved up to 12.23 percent at the end of the year 2018/19. Net finance income recorded for the year 2018/19 is Rs.44.0 million, an increase of Rs.39.7 million over the previous year. Interest cover diluted to 9.26 times from 12 times recorded in the year 2017/18.

Finance Income



Short Term Investments



Taxation

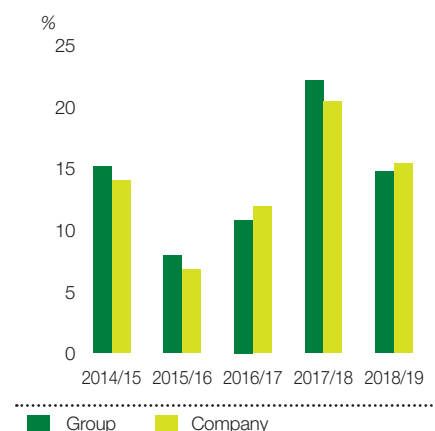
Refer: Note 10.3 of the Financial Statements for the reconciliation of accounting profit with tax expenses and Note 10.4 for the summarised computation of deferred tax

Income tax comprises both current and deferred tax. Tax expenditure for the year was Rs. 68.0 million which is 2.7 percent higher than the previous financial year. Current tax is calculated at 14 percent and tax charge for the year was Rs.8.4 million, vis-à-vis Rs.39 million in the previous financial year. The Company was able to set off all brought forward tax losses against the tax liability and the tax effect on tax loss brought forward and utilized was Rs. 61.7 million. Deferred tax charge for the year was Rs. 59.6 million which is a Rs. 32.3 million increase. Utilization of entire brought forward tax losses against the current tax liability was the main reason for the increased deferred tax charge.

Return on Equity

TTE has recorded its second highest profitability in the reporting financial year. Group net profit recorded for the year was Rs.412.7 million whilst the Company's net profit was Rs. 398.2 million. The Company's net profits dropped by Rs.152.6 million compared to the previous financial year. Return on equity (ROE) stood at 14.64 percent in the reporting year and the ratio was 20.33 percent in the previous financial year. During the year under review, TTE paid ordinary dividends of Rs. 8.50 per share amounting to Rs. 201.9 million. This is the highest ever dividend paid by the Company from its inception in 1992. The Company has paid out 50.7 percent of its earnings as divided and retention ratio was 49.3 percent for the year. Dividend yield is 17.45 percent during the year under review as against 9.17 percent in year 2017/18.

Return on Equity



Return on Equity	Net Profit Margin	Asset Turnover	Financial Leverage
▼	▼	▼	▼
14.64% 2018/19	10.1% 2018/19	1.34% 2018/19	9.7% 2018/19
22.15% 2017/18	13.7% 2017/18	1.34% 2017/18	13.9% 2017/18

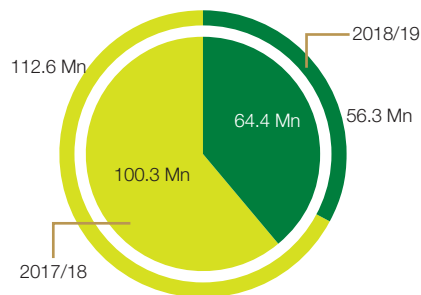
Management Discussion & Analysis

Financial Capital

Capital Expenditure

Capital expenditure investment for the year was Rs. 168.9 million, out of which Rs. 112.1 million was spent on property, plant and equipment (PPE) and Rs.56.3 million spent on field development. Investment on PPE increased by 11.7 percent amounting to Rs.11.8 million over the previous financial year and investment in field developments dropped by Rs.8.0 million which is 12.47 percent less than the previous year. TTE has allocated 1.4 percent from its revenue for field development and 2.8 percent for the purchase of PPE. As a result of continuous investment in field development, Rs.104.7 million worth of immature plantations were transferred to mature plantations in the year under review. Since privatisation, TTE has invested Rs.2.43 billion on its field development which is commendable in a waning tea plantation industry.

Capital Expenditure



■ Field development
■ Non Field Development

Working Capital Management

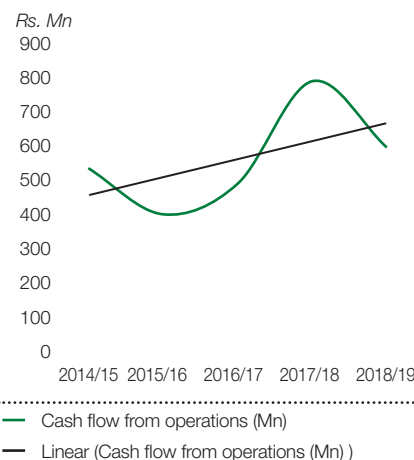
Working capital management is assessed based on working capital optimisation, cash flow forecasting and liquidity management. Working capital requirement has been reduced from 69 percent compared to the previous year and stood at Rs.33. 1 million. However, the current ratio improved to 2.44 times from 2.27 times in year 2017/18. Maintenance of inventories and receivables

has been managed efficiently throughout the year and management of payables were negotiated well to curtail the excessive working capital requirement.

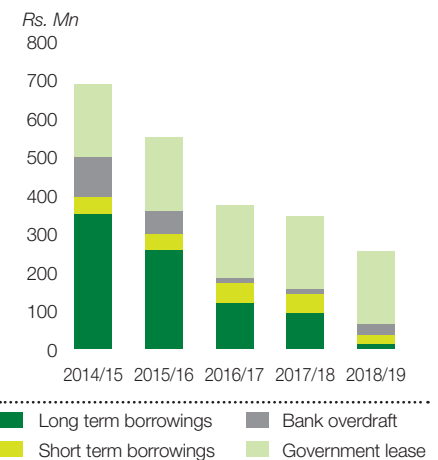
Cash Flow and Borrowings

TTE generated cash surpluses from its operations continuously for more than two decades from the inception and in the year under review, the surplus reached Rs.594.8 million. Net cash surplus from operations accounted for 15 percent of the Company's revenue as against 19.8 percent in the previous year. During the year, free cash flows stood at Rs.625.8 million as against Rs. 629.6 million in 2017/18. Net cash outflow from investment activities remained at 3.3 percent from the Company's revenue, a marginal drop from 3.6 percent recorded last year. Net cash out flow from investing activities stood at Rs. 131.8 million, recording a decline of Rs.15.4 million compared to Rs. 147.2 million recorded in the previous year. Net cash out flows from financing activities stood at Rs. 198.2 million and recorded an increase of Rs.20.7 million from Rs.177.6 million for the year 2017/18. Net cash surplus stood at Rs.264.9 million and cash and cash equivalents at the year-end was Rs. 966.6 million, a 37.7 percent increase.

Cash flow from operations



Composition of Borrowings

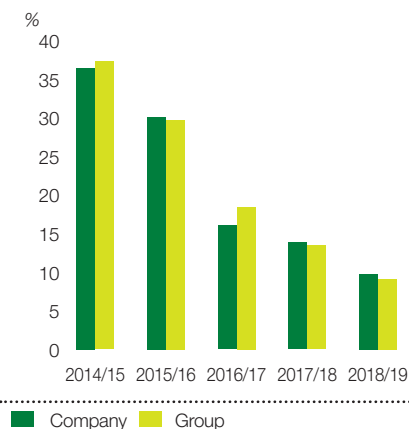
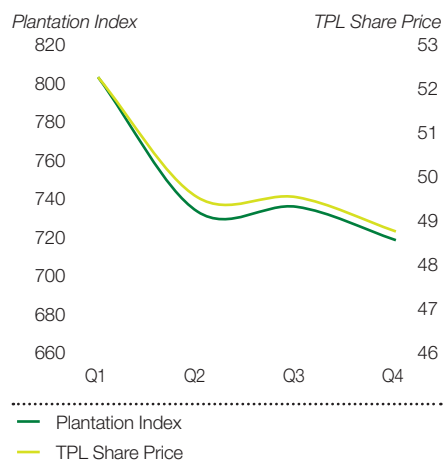
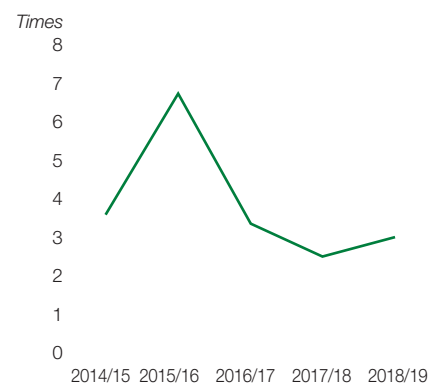
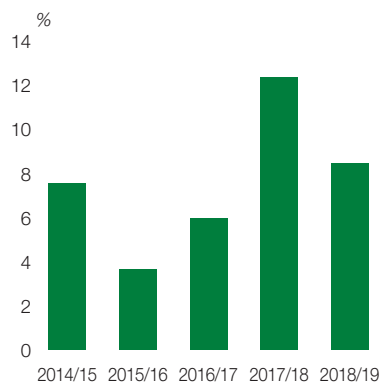
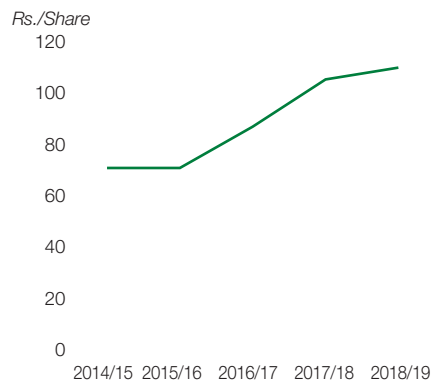
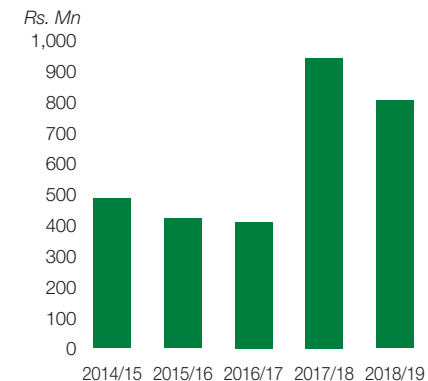


Capital Structure

GRI: Disclosures: 201-4

Refer: Annual Report of the Board of Directors regarding special rights attached to the Golden Share, page 213

Financial gearing improved year-on-year and stood at 9.77 percent of debt to equity at the end of the year. Our equity consists of Rs. 23.75 million ordinary shares in issue including one Golden Share held by the Government of Sri Lanka with special rights. Total debts remained at Rs. 254.0 million at the end of the year, compared to Rs. 364 million at the end of the previous financial year. TTE has one of the lowest debt to equity combination amongst all Regional Plantation Companies. Total equity stood at Rs. 2.59 billion which is an increase from Rs. 2.48 billion. The group debt to equity remained at 9.01 percent which is a 33.3 percent improvement from the previous financial year. During the year under review, TTE has not been received any direct financial assistance or grant from the Government of Sri Lanka.

Debt to Equity Ratio**Share Performance****Price Earning Ratio****Return on Assets****Net Assets per Share****Market Value Added****Performance of Share**

TTE is listed on the Main Board of the Colombo Stock Exchange under ticker symbol “TPL”. Share price as of 31st March 2019 was Rs.48.70, a decline of Rs.5.8 from the previous year. The highest share price was recorded on 16th May 2018 as Rs. 59.90 and lowest was Rs.42.50 on 26th November 2018. Price earning (PE) ratio was 2.86 times at the end of 2018/19. During the year under review, both earnings per share and the share price dropped comparatively to the previous year.

Market value added (MVA) is a measure of value creation—the difference between the current market value of the firm and capital invested by investors. Compared to the previous year, MVA decreased to Rs.806.6 million in 2018/19 from Rs. 944.4 million, corresponding to 14.6 percent decline. Net assets per share stood at Rs. 109.46, an improvement from Rs.104.70 in 2017/18.

Management Discussion & Analysis

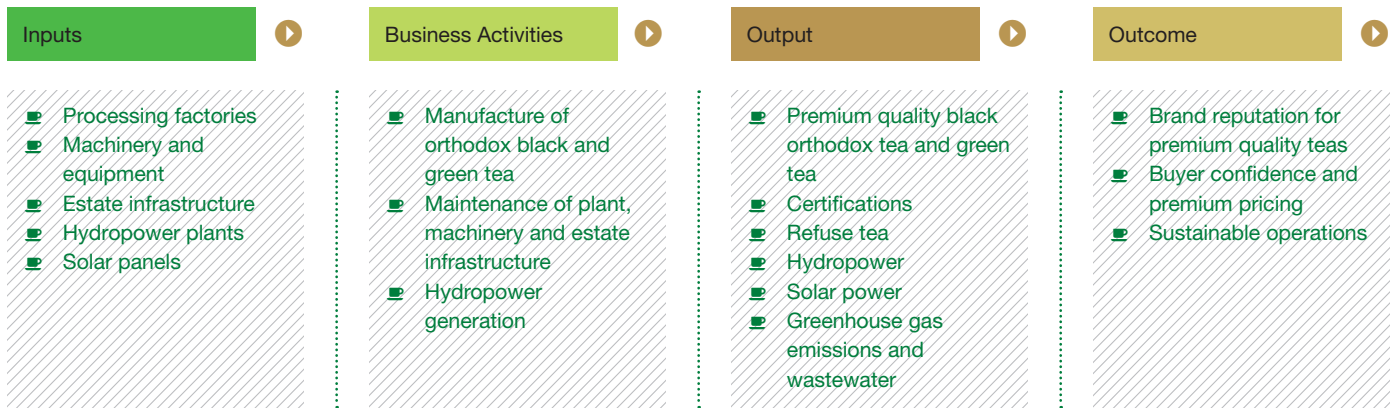
Manufactured Capital

► Overview

In a waning industry backdrop, afflicted with uncertainties in the marketplace, lower productivity and climate change, it is crucial that we allocate necessary resources to build and manage our manufactured capital, leading up to sustainable value creation. Encompassing fixed assets, this capital is a critical value enabler, fortifying our tea manufacturing process, adding value, controlling production costs and securing the quality of the teas we produce. This section focuses on our capital expenditure (capex) and discusses in detail the best practices we have adopted in procuring our machinery and equipment; maintaining our factories; and developing our estate infrastructure.

“A critical enabler to value creation, we remained progressive in our capex investments, upgrading our factories with modern machinery and equipment and developing estate infrastructure.”





 GRI: Disclosures: 103-2, 3

 GRI: Disclosures: 102-15

Management Approach

Our manufactured capital includes all fixed assets across the organisation including field and factory machinery and equipment used in our core operations, computer hardware, communication devices and other equipment. It also covers estate infrastructure including community-based infrastructure.

Our approach to managing our extensive manufactured capital base—covering 16 of our estates along with 15 factories—is well-structured and planned. Our investment decisions on fixed assets are carried out systematically as per a comprehensive capex plan which is formulated during our annual corporate planning session. Aligned to our corporate policies, this plan takes into account our strategic priorities from a broader company perspective as well as at the estate level. Due diligence is exercised in making capex decisions—based on operational requirements, field and factory gaps in innovation and modernisation, cost-benefits and available budgets. We rely on the findings of our surveys, feasibility studies and audits carried out periodically in this regard. All procurement of fixed assets including awarding contracts for infrastructure development, follows best practices. We are also conscientious and make necessary investments to maintain

Opportunities

- A structured annual capex plan is drawn up in line with corporate policies and strategy.
- Strategic training opportunities given to enhance technical know-how and lessen skills gap.
- Support and guidance from reputed certification bodies to adopt best practices in manufacturing operations.
- Management commitment to integrate environmental and social responsibility to capex decision-making.

Risks

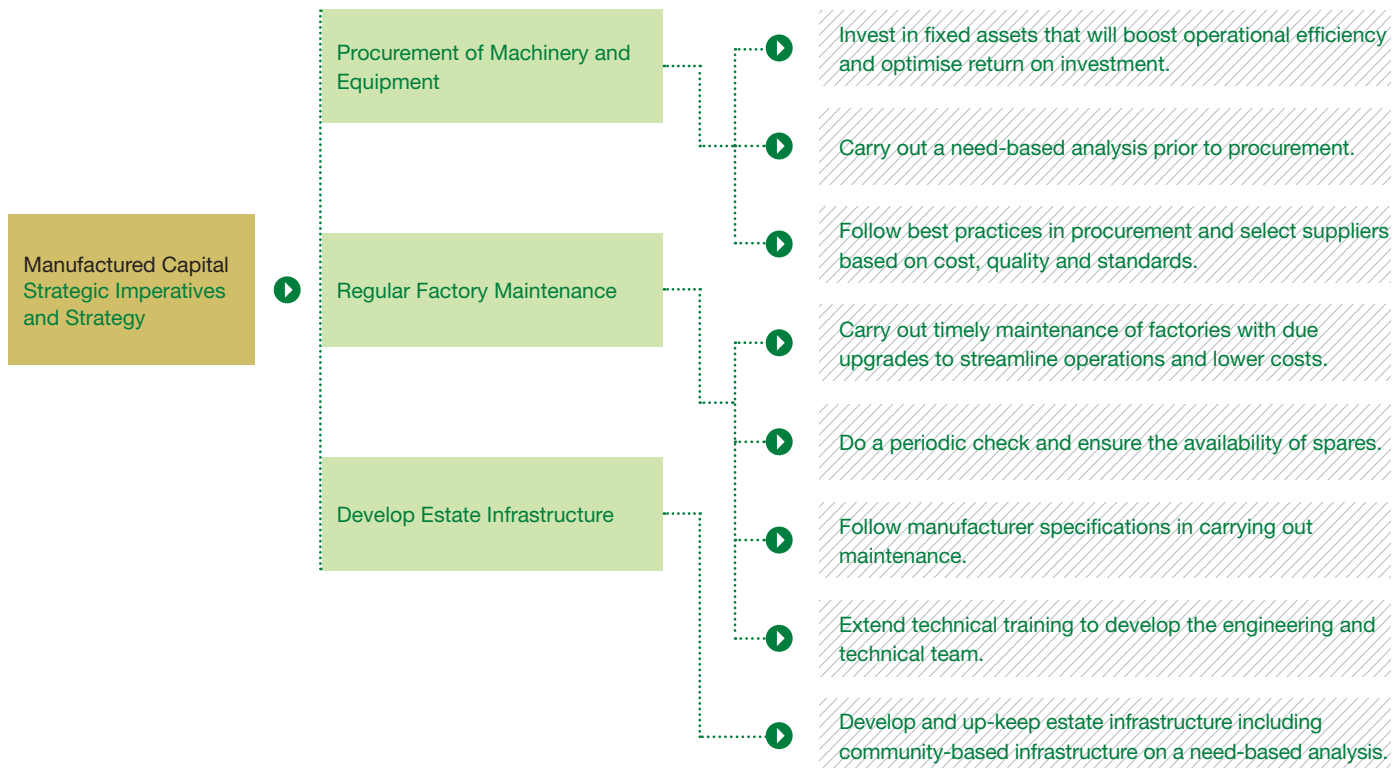
- Uncertainties within the macroeconomic and political environment limit capacity utilisation of physical assets and compromise the potential return on investment.
- Volatile industry backdrop may not be conducive for capex planning and meeting cash flow expectations in new investments.
- Lack of technical skills may delay and hinder innovation and modernisation of tea manufacturing processes.
- Capex investments may impact the environment in terms of resource depletion, emissions, waste and loss of biodiversity.

our factories and manage our spares as per accepted standards, particularly, guided by the ISO certification.

Apart from an economic perspective, our approach also gives due consideration to social and environmental sustainability aspects. We are concerned and take necessary steps to minimise negative impacts from our capex decisions in terms of resource depletion, solid waste generation including e-waste, wastewater disposal, carbon emissions and loss of biodiversity. In this context, we give precedence to procure energy efficient and renewable resources based fixed assets, wherever possible; whilst demanding and influencing our suppliers in the network to adopt social and environmental responsibility in their respective businesses. Our allegiance to internationally acclaimed certification programmes including Rainforest Alliance, Ethical Tea Partnership and ISO standards complement and guide us in this regard.

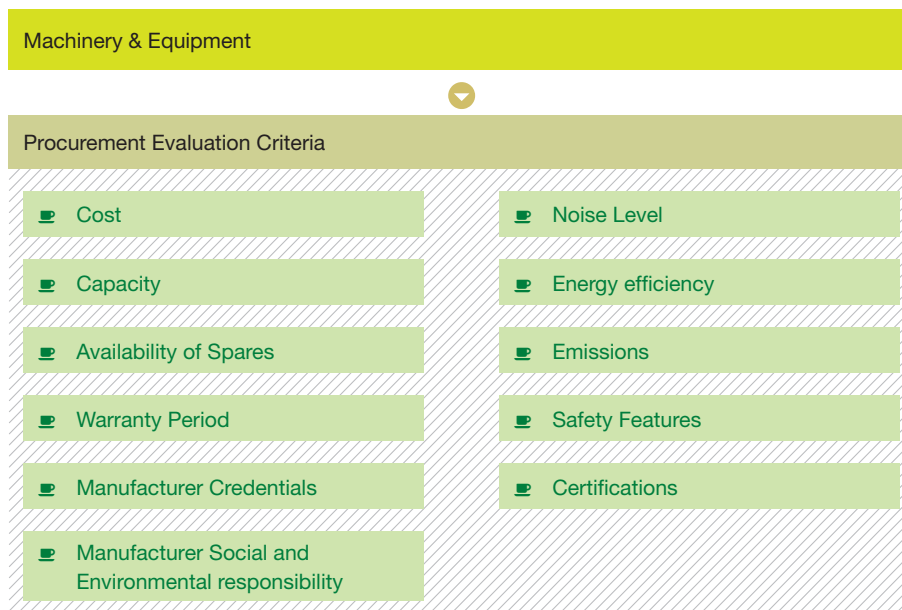
Management Discussion & Analysis

Manufactured Capital



Procurement of Machinery and Equipment

Refer: Relationship Capital – Supplier, Page 119



We give due consideration to quality and standards when procuring our machinery and equipment. All procurement is systematically carried out as per standard procedures and guidelines. In the case of minor procurement, we call for three quotations from the general list of suppliers. For bulk and large-scale procurement, we go through a public tender process as per the set guidelines.

We consider both quality and cost in our procurement evaluations. We look into our suppliers' credentials, the nature of their businesses and quality and standards they maintain in their operations; this includes their social and environmental responsibility and compliance with relevant rules and laws. We give special preference to those suppliers who have obtained certifications

from recognised bodies on their products and processes.

We invested a sum of Rs 44.4 million on new machinery and equipment in the year under review, mainly for factory and field operations—corresponding to 92 percent share. The balance 8 percent was invested on computer and communication equipment for both the corporate office and the estates.

Maintenance of Factories

 **GRI: Disclosures: 203-1**

We follow a systematic time schedule in factory maintenance, with periodic servicing of machinery and equipment as per the guidelines set by the manufacturers' specifications. Our team of engineers and technical staff is competent to manage our maintenance work as per best practices, particularly, following through the procedures set under ISO 22000 on food safety management standards.

In the reporting year, our average capacity utilisation in our factories stood at 72 percent as compared to 81 percent capacity achieved in the preceding year.

Fostering

Renewable Energy Capex



Reinforcing our commitment to renewable energy sources and supporting the national initiative under the Ministry of Power and Renewable Energy, we invested in our second solar power project at the Moragalla Estate in the low grown region, under the net metering system. The capacity of the solar panels installed is 114 kwp. This together with our first solar power project at the Bearwell Estate initiated in the preceding year; will take the total capacity to 222 kwp. The second project is scheduled to be commissioned in June 2019. Our capex investment in this regard amounted to Rs 15.45 Mn.

Total solar electricity generated is expected to increase by 105 percent from 115 megawatts hour recorded this year from our first project. The emissions saved stands at 65 tCo2e



Rs. 54.9 Million
Estate Infrastructure
Development Investment



Estate factory infrastructure development entails construction and revamping of factory buildings and processing areas along with Community-based estate infrastructure—roads, housing, water, sanitation, education, healthcare, recreation facilities etc. Infrastructure development work is undertaken by reputed building contractors, selected through a formal tender process. Community infrastructure

work is carried out in collaboration with the plantation sector-based governmental and non-governmental organisations.

In the reporting year, we invested Rs. 54.9 million on estate infrastructure. Community-based infrastructure led by housing, water and sanitation took up the largest share.



Work Houses



Water and Sanitation Facility



Constructed Road

Management Discussion & Analysis

Manufactured Capital

Capital Expenditure

Our capital expenditure on Property, Plant & Equipments in the financial year 2018/19 reached Rs. 112.1 million, corresponding to a 11.7 percent increase against Rs. 100.3 million incurred in the preceding year, 2017/18.

Cost Component	2018/19 Rs. Mn	2017/18 Rs. Mn
Machinery & Equipment		
Machinery & equipment Factories	29.4	24.9
Equipment – Field Operations	12.5	15.2
IT Hardware & Software	3.7	2.9
Other	66.5	57.3
Total Machinery & Equipment	112.1	100.3
Estate Infrastructure Development		
Housing Construction	26.9	55.3
Water & Sanitation	5.2	6.4
Road Construction rehabilitation & maintenance	14.5	3.6
Other Infrastructure	8.3	35.3
Total Estate Infrastructure Development	54.9	100.6

Management Discussion & Analysis

Intellectual Capital

► Overview

Operating in a fast-paced and complex business environment, we have to be focused, smart and work towards sustaining our positioning as a top-tier regional plantation company. Our unique value proposition is defined and determined on premium quality and standards we maintain in producing our teas. Intellectual capital—entailing intangible assets—stands as our critical drivers in building and reinforcing our value proposition which gives us a point of differentiation in a highly competitive industry. This section will highlight our management approach, strategy and actions we follow through to nurture and leverage on the strengths of our intangible assets to enhance our value creation process.

“Building up on intangible assets remained critical to uphold our value proposition, underscoring the competitive edge we sustained in a dynamic industry backdrop.”



Management Discussion & Analysis

Intellectual Capital



 GRI: Disclosures: 103-2, 3

 GRI: Disclosures: 102-15

Management Approach

Intellectual capital is deemed to be a fundamental determinant of our value proposition and the competitive advantage we enjoy in the industry. Having identified the significance within the value creation process, we give strategic precedence and stand steadfast in our efforts to strengthen and effectively manage our intellectual capital base. Our approach is well-thought-out and focused on five strategic priorities. Under each prioritised area, we have identified and developed our strategy along with structured plans and necessary budgets to add value and secure our intangible resources whilst mitigating risks and challenges.

Accordingly, our strategy focuses on consolidating our corporate brand renowned for finest quality teas; adopting ethical and sustainable business practices in line with guidelines set by our certification programmes; training employees, sharing knowledge and advocating a performance oriented work culture; bringing in process improvements,

+ Opportunities

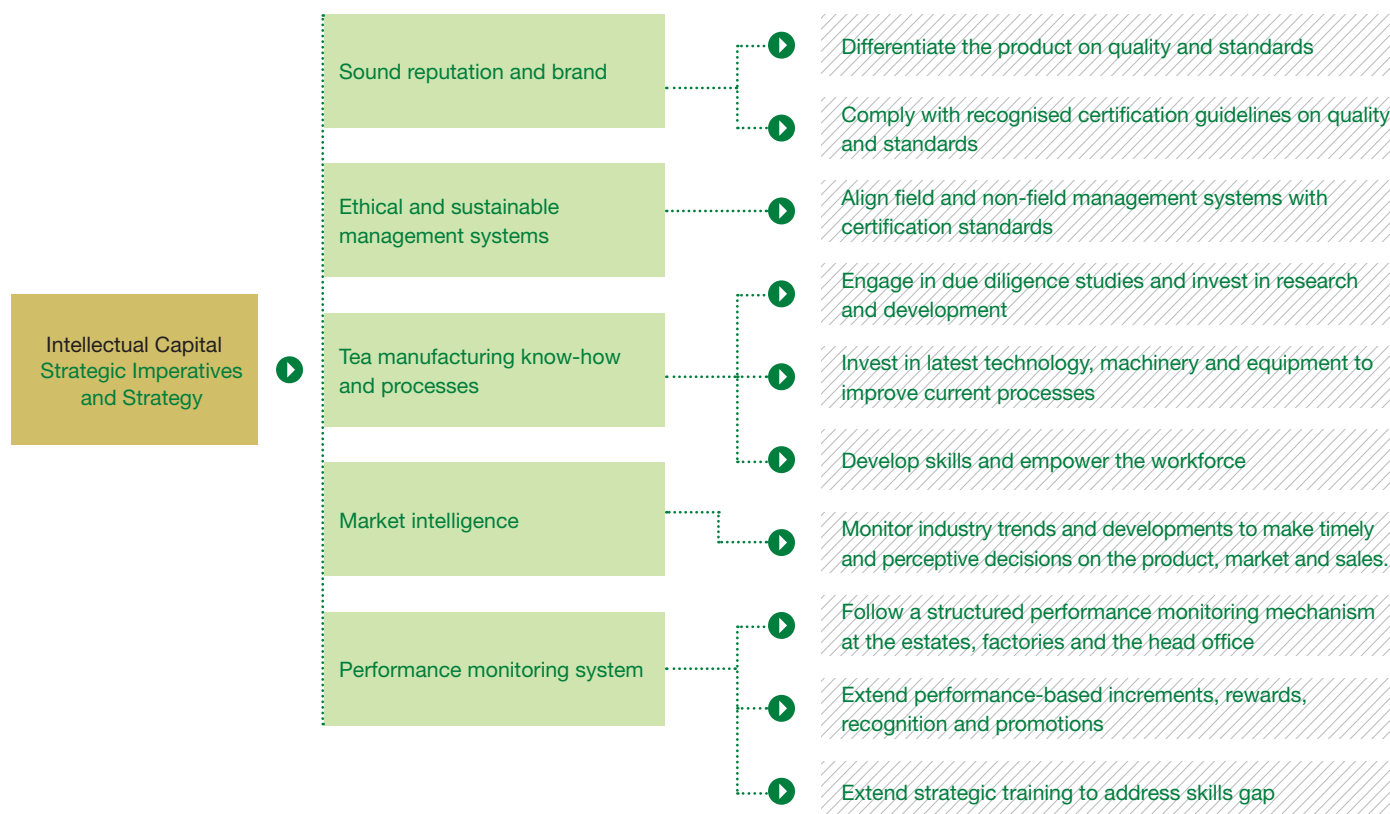
- Senior management commitment to uphold best agriculture and manufacturing practices.
- Competent operational team to implement effective management systems and follow through guidelines set by certification bodies.
- Availability and access to market information, buyer profiles and preferences for strategic decision making.
- Growing consensus amongst stakeholders of the necessity to move on to a performance-based plantation culture.
- Latest technology and data analytics team in place to implement the performance monitoring mechanism.



investing in research and development for product innovation and relying on market intelligence for pragmatic decision making at the strategic planning level as well as at the operational level. We have also taken necessary measures to closely monitor the performance of our strategy and plans based on pre-agreed set of key performance indicators.

- Risks

- Impacts of changing demographics, perceptions and expectations of stakeholders on the brand positioning.
- Impacts of down-turn economic conditions on demand for quality teas.
- Plantation industry issues may discourage adopting best practices and continuing with certification programmes.
- General reluctance across the industry to tie up performance results to remuneration and rewards.
- Growing concerns and higher food safety standards adopted in key markets.



Sound Reputation and Brand

Refer: Relationship Capital – Buyer, Broker and Customer, Page 111

Key Performance Indicators	Repeat Buyers (Number)	Gross Sales Average Ranking	Top Price Ranking (Number)
	155 2017/18	2 2017/18	146 2017/18
	155 Target 2018/19	1 Target 2018/19	146 Target 2018/19
	212 2018/19	1 2018/19	171 2018/19

Over a span of three decades, we have remained committed and upheld sustainable agricultural and manufacturing practices to reach out to operational excellence. This has paved the way to position our brand for quality and standards, secure market confidence and attract premium prices, even ahead of the

national averages in most instances. The awards and the recognition we receive at the national, international and industry levels stand as a testimony to our good corporate reputation—at the top amongst the regional plantation companies. This reporting year, we clinched several coveted awards for

business excellence, corporate stewardship and reporting initiatives.

Standing above all, by being the first ever plantation company in the history, we crowned as the overall winner (Gold) in the National Business Excellence Awards 2018 held by National Chamber of Commerce.

Management Discussion & Analysis

Intellectual Capital

Awards and Recognitions



National Business Excellence Awards 2018

Overall Winner - Gold
National Chamber of Commerce



CA 54th Annual Report Awards 2018

Plantation Sector, Gold Award
The Institute of Chartered Accountants of Sri Lanka



CMA Excellence at Integrated Reporting Awards 2018

Best Integrated Report - Plantation Sector
and Certificate of Merit under overall
category
Institute of Certified Management
Accountants of Sri Lanka



Best Presented Annual Report Awards and SAARC Anniversary Awards

Corporate Governance Disclosures 2017
Agricultural Sector - Second Runner up
South Asian Federation of Accountants

Asia Sustainability Reporting Awards-2018

Asia's Best Integrated Report (Winner)
CSRWorks







Ethical and Sustainable Management Systems

▶ Refer: Relationship Capital – Buyer, Broker and Customer, Page 111

Principled and responsible, we recognise and work towards long-term value creation. The management systems we have in place are well-structured to meet and complement our strategy, policies and goals. The systems encompass

sustainability considerations, effective communication and knowledge sharing. We follow best management practices and our systems and processes are duly audited and certified by internationally acclaimed certification bodies. The periodic audits

carried out independently by the certification bodies enable the management—both at the estates and the corporate office—to strengthen and keep the systems current and robust.

<p>Rainforest Alliance Sustainable Agriculture Network</p>  <p>Scope</p> <ul style="list-style-type: none"> Ecosystem conservation Wildlife protection Climate change Fair labour practice Human Rights Food, farming and communities <p>Estates/factories certified: Mattakelle, Bearwell, Holyrood, Great Western, Wattegoda, Palmerston, Dessford, Somerset, Clarendon, Calsay, Logie, Radella, Kiruwanaganga, Deniyaya and Wangioya Factory</p> <p>Certification coverage (% of operations): 88%</p> <p>Certification validity period: 3 Years – 21st June 2021</p> <p>Certification audits (number of estates): 14</p>	<p>Ethical Tea Partnership</p>  <p>Scope</p> <ul style="list-style-type: none"> Social and environmental standards Wellbeing of tea workers and communities Climate and environment Tea smallholders <p>Estates/factories certified: Mattakelle, Bearwell, Holyrood, Great Western, Wattegoda, Palmerston, Dessford, Somerset, Clarendon, Calsay, Logie, Radella, Kiruwanaganga, Deniyaya and Wangioya Factory</p> <p>Certification coverage (% of operations): 88%</p> <p>Certification validity period: 3 Years – 21st June 2021</p> <p>Certification audits (number of estates): Covered by RA Audit</p>
<p>UTZ Sustainable Tea</p>  <p>Scope</p> <ul style="list-style-type: none"> Farm practices farm management Social and living conditions Environment <p>Estates/factories certified: Radella & Wattegoda</p> <p>Certification coverage (% of operations): 13%</p> <p>Certification validity period: Waiting for RA & UTZ amalgamation process for recertification</p> <p>Certification audits (number of estates): 2</p>	<p>ISO 22000: 2005 Food Safety Management Systems</p>  <p>Scope</p> <ul style="list-style-type: none"> Food safety Food quality assurance Food hygiene <p>Estates/factories certified: Somerset, Wattegodde, Radella, Dessford, Great Western, Holyrood, Mattakelle, Bearwell, Kiruwanaganga, Deniyaya, Moragalla & Wangioya factory</p> <p>Certification coverage (% of operations): 80%</p> <p>Certification validity period: 3 Years from certification audits of each estate</p> <p>Certification audits (number of factories): 12</p>

Management Discussion & Analysis

Intellectual Capital

ISO 9001:2015 Quality Management System	ISO 14001: 2015 Environmental Management System
 <p>Scope</p> <ul style="list-style-type: none"> Quality processes Management practices Process improvements Risks and opportunities and process integration <p>Estates/factories certified: Great Western</p> <p>Certification coverage (% of operations): 7%</p> <p>Certification validity period: 3 Years – 28th February 2021</p> <p>Certification audits (number of estates): 1</p>	 <p>Scope</p> <ul style="list-style-type: none"> Environmental protection on product lifecycle Sustainable use of water, energy and other resources Reduction of waste water, solid waste and emissions <p>Estates/factories certified: Great Western</p> <p>Certification coverage (% of operations): 7%</p> <p>Certification validity period: 3 Years – 28th February 2021</p> <p>Certification audits (number of estates): 1</p>

Tea Manufacturing Know-How and Process



Over the years, we are renowned in the plantation industry for our expertise in producing the finest quality teas as engrained in our value proposition. We have the know-how in the field and factories and the necessary processes across the estates to produce black and green teas in both high and low grown elevations. We give strategic precedence with necessary resources allocated to enhance our

knowledge in producing and adding value to our teas and to be current and modern in our work processes as set out below.

Knowledge Sharing and Learning

Refer: Human Capital, Training and Education, Page 154

As discussed in detail under the 'Human Capital' section, we continue to prioritise

and seek to nurture a learning work culture across the estates and factories. Our aim is to share knowledge, foster and retain our expertise within the organisation. We invest well to carry out comprehensive training across all staff categories. The internal training programmes including on-the-job training initiatives must have the support of our senior employees to teach, coach and mentor the younger generation employees, thereby, transferring their tacit knowledge on the tea industry, field and factory processes and the market.

Maximum Residue Level (MRL) Assurance




In response to the recent stringent standards set on MRL under health and safety regulations by Japan and European Union, we initiated MRL assurance testing on our teas. We approached the testing from a two-pronged standpoint.

1. Assurance testing on agro chemicals we use in crop production
2. Assurance testing on samples of teas produced in our factories

We commissioned M/s. Shriram Institute for Industrial Research, India to carry out an independent MRL testing of teas produced in all our factories and All agro chemicals will be tested from M/s. Bureau Veritas Lanka (Pvt) Ltd before approve to use.

The testing duly confirmed that the agro-chemicals that we used and the teas processed are within the recommended MRL standards. This underlined our competitive edge we enjoyed in the year at the Colombo Tea Auctions where we fetched premium pricing, surpassing the national averages.

MRLs Assurance System

	Risk	Precautions	Corrective Action
	Use of approved agro chemicals also may cause to contaminate green leaf with banned or low MRL's chemicals	<ul style="list-style-type: none"> Self-assurance from agro chemical suppliers Testing one sample from every consignment of agro chemical before accept. Follow the TRI & Tea Board guidelines Implemented and practice Non-negotiable Company policy for agro chemical usage Follow the pre-harvesting intervals system for chemical applying according to TRI and RA requirement 	
	Possibility to contaminate with grease and oil which use for machinery maintenance	<ul style="list-style-type: none"> Testing dryer mouth samples randomly in every month Obtain product conformity report annually from third party according to ISO requirement Implemented and maintain Food safety management system according ISO 22000:2005, GMP and HACCP requirement. Use food graded approved grease and oil 	<ul style="list-style-type: none"> If detected any contamination, we are conducting traceability audit and root cause analysis for identify the cause of problem and take corrective and preventive measures for avoid re-occurrence the problem.
	Possibility to Contamination with foreign agent (Grease, oil, chemical etc.)	<ul style="list-style-type: none"> Implemented and maintain Food safety management system according ISO 22000:2005, GMP and HACCP requirement. 	

Management Discussion & Analysis

Intellectual Capital

Process Improvements

With well-recognised systems in place, as discussed above, tea processing at TTE is well-structured and carried out with due diligence and care to ensure that the quality is maintained throughout the value chain. We carefully sustain best practices to ensure good plucking standards and balance the ideal-mix of chemical and physical properties in producing teas. We lay emphasis on maintaining minimum pesticides and residues. Our factory

processes are duly certified for food safety under ISO 22000 Food Safety Management System. We meet the requirements under Good Manufacturing Practice (GMP) and Hazard Analysis and Critical Control Point (HACCP). We follow the guidelines set by the Ceylon Tea Traders Association.

We continued in the year to invest in improving our processes with latest tea manufacturing technology and techniques including;

- Automated Drier Mouth Weighing Scale System – Deniyaya Estate
- Hi-tech Colour Sorter – Kiruwanaganga Estate
- VFD – Somerset Estate
- Hygro Meters – Deniyaya and Somerset

And also, as a process supporting tool – we have developed a new Web base “Online Invoicing and Marketing Ledger.

Research and Development Initiatives



Tea Nurseries



Digital Hygrometer



Colour sorter



Specialty Tea

Research and Development

We invest well and work closely with the Tea Research Institute and the national universities to further our research and development initiatives including developing special and better-quality cultivar at the tea nurseries; blending specialty teas for product diversification; alternative energy sources and energy conservation techniques.



Digital Drier Mouth Weighing Machine

Moving towards greater automation and digitalisation in factory operations, our engineering team together with our IT specialists researched through and developed a digital drier mouth weighing machine. With this machine, the collection of fired tea from the drier mouth is automated as a continuous process; and the collected tea is weighed and the data is uploaded for compilation to a cloud based online application. This data is also accessible to the management remotely.

As a pilot project, we successfully installed and commissioned this machine at the tea factory in the Deniyaya estate. This has enabled us to reduce the labour component, bring in greater efficiency and accuracy to the tea collection and weighing process. We expect and have firm plans to install this machine in our other factories in the coming years.



Automated drier mouth weighing scale system

Market Intelligence

Market Intelligence Focus Areas



In a highly volatile external environment, market intelligence is critical to be agile, responsive and smart in strategic planning and in day-to-day decision making. It enables us to identify and mitigate risks and capture the opportunities present in our operating backdrop.

We rely on desk and online research to gather information on the global and domestic socio-economic and political scenario. The Weekly Tea Auctions along with our interactions with buyers and brokers at trade fairs and road shows give us invaluable information on our key markets, buyer preferences, substitutes and competitor behaviour. Our engagement with industry and trade associations also supports our quest to enhance market intelligence.

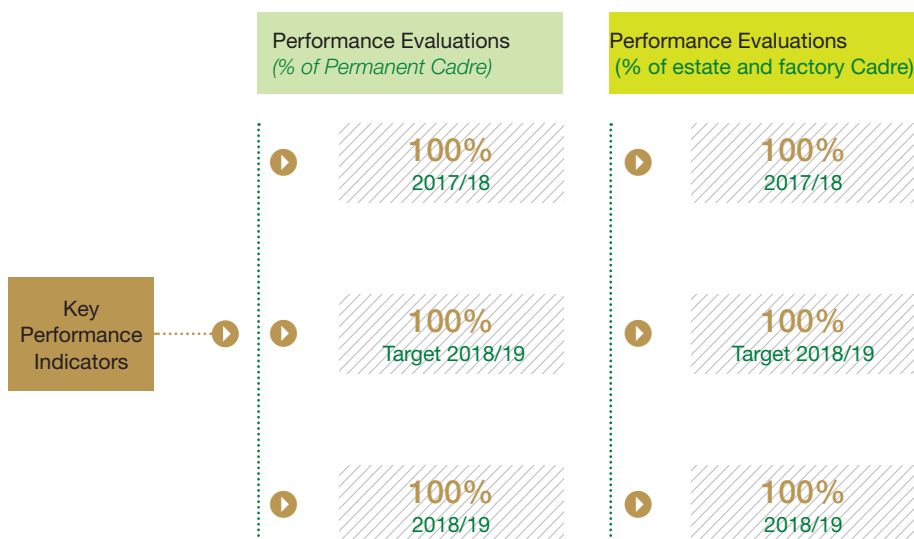
By being the first and the only company amongst RPC's, we have developed a web base "Online Invoicing and Marketing Ledger" to give faster and more accurate service and timely product to our buyers and brokers, which intern upholds our brand image. And moving forward we will be linked with web base systems of our

brokers and buyers as well. Helps to improve our market intelligence – predict and forecast market trends and timely requirements.

Market intelligence focuses on five key areas as depicted herein. Research and management information reports are prepared and circulated accordingly for deliberations in strategy and decision-making process.

Performance Monitoring Mechanism

➤ Refer: Human Capital, Productivity and Performance Management, Page 159



Management Discussion & Analysis

Intellectual Capital

Driving for a performance-based workplace, especially significant for a labour intensive business such as ours, we have in place a well-structured performance management system. This system tracks, monitors and reports on employee performance and productivity in the field, factories and at the corporate office. With real-time information and data communication along with a competent data analytics team, performance monitoring paves way for effective and transparent management decision making in terms of employee productivity, promotions, increments, rewards and recognition. Performance monitoring results are displayed on performance dashboards and subsequently, factored into management information reports compiled for decision making.

Key Performance Monitoring Mechanisms;

- All Staff & Executives are evaluated through “Performance Evaluation System” – Balance Score Card
- Manual Grade is also evaluated by giving “Colour Card System”

Future Navigator



Strengthening our performance monitoring at the estate level, we adopted ‘Future Navigator’, an app to track, monitor and assess operations across estates and factories from a triple-bottom-line perspective. With the support of the ‘Future Navigator’, we can now effectively monitor estate performance on a quarterly basis with regard to economic, environmental and social aspects and rank them according to their level of sustainability on a set of key performance indicators in terms of;

- yields and profitability;
- product development;
- customer satisfaction and complaints;
- reporting, transparency and accountability;
- occupational health and safety;
- living standards of employees;
- community health and wellbeing;
- solid waste;
- energy and emissions; and
- environmental investments.

Key Objectives

- Improve sustainability of operations across estates and be the industry’s benchmark.
- Recognise and reward sustainable performance at the estate level
- Monitor and track UN Sustainable Development Goals

Management Discussion & Analysis

Relationship Capital - Buyers, Brokers and Customers

► Overview

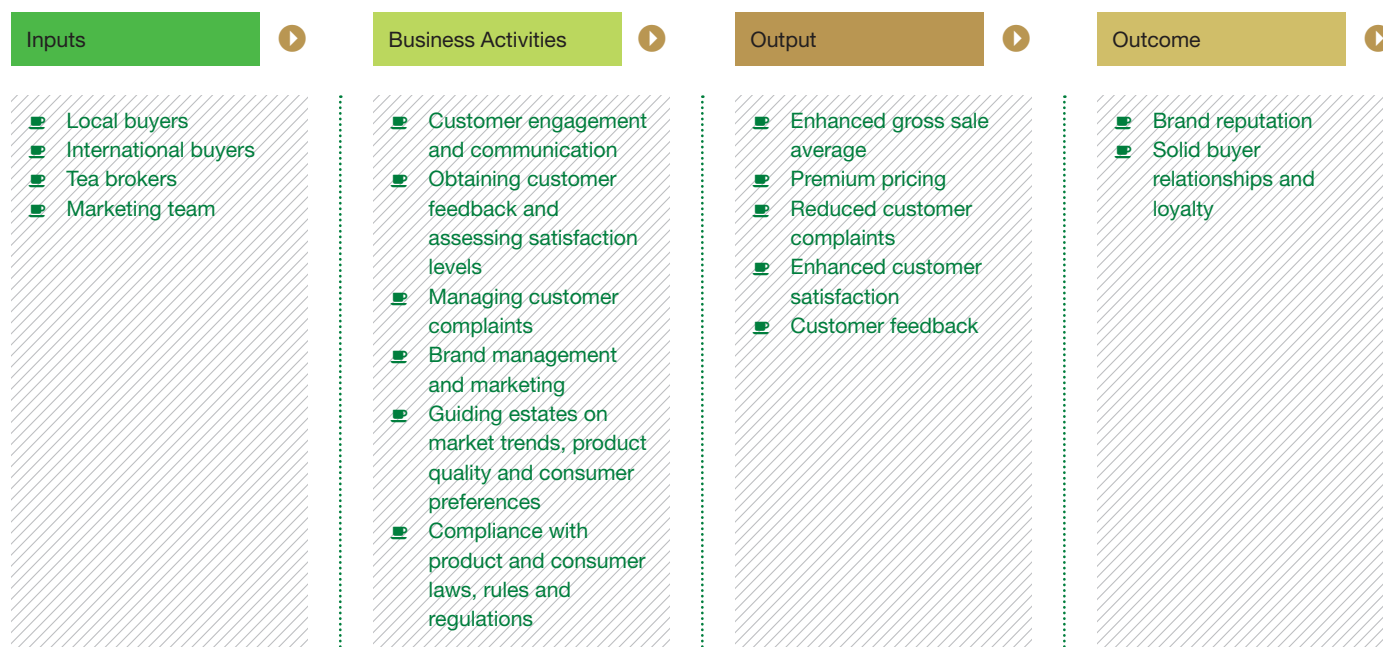
Positioned at the helm of the plantation industry, we are renowned for our commitment to maintain and assure quality and standards in producing our teas. Through the years, we have developed our expertise and invested in best practices and braced our field and factory operations across our estates. This is what defines and determines our value proposition, securing the respect and confidence of our buyers, brokers and customers. This underscores the remunerative prices we are able to attract at the Colombo Tea Auctions, even amidst market challenges as was the case in reporting year. The section herein will focus on our engagement with our buyers, brokers and customers and on our unwavering commitment to sustain a premium product with responsibility.

“Positioned at the top for finest quality teas, we closely engaged, strengthened our bonds and gained the trust and confidence of our buyers, brokers and customers.”



Management Discussion & Analysis

Relationship Capital - Buyers, Brokers and Customers



GRI: Disclosures: 103-2, 3

Management Approach

Quality and Food Safety Policy

- “As a market leader for finest quality tea, we are firm in our assurance of quality and food safety standards of our products.”
- Good agricultural and manufacturing practices to be upheld in all our plantations.
- Upgrade and improve production facilities and manufacturing processes in every stage to conform with stringent global food safety standards.
- Ensure employee wellbeing, uplift their quality of life, develop their skills with intense training and enhance their job satisfaction.
- Execute the Food Safety Management System with consistent communications across all levels.
- Comply with relevant statutory and regulatory requirements.

Our management approach is buyer-centric. Closely engaging, we give top strategic priority to build, strengthen and sustain the trust and confidence of our buyers, brokers and customers. Product responsibility is key to our management approach which in effect is the premise underling our ‘Quality and Food Safety Policy’. We practice fair trade and give an assurance on the product with due information, meeting labelling requirements and being responsible in our marketing and brand communications.




We have well-structured systems and processes across our value chain to meet highest quality and safety standards in the teas we produce. We comply with national food safety policies, laws and regulations. We have adopted and follow through best and current practices in agricultural and manufacturing operations as advocated by internationally accepted certification standards including ISO 22000 Food Safety Management Systems, Rain Forest Alliance

Sustainable Agriculture Network, Ethical Tea Partnership and UTZ Sustainable Tea. We have also initiated and adopted ISO 9001 Quality Management System and ISO 14001 Environmental Management System in some of our flagship estates.

We have a comprehensive monitoring mechanism in place to safeguard best practices and give assurance on the quality and standard management. In this regard, we rely on internal audits, monthly factory visits, weekly checks on product quality and independent external audits carried out by certification bodies and independent audit institutions. Our monitoring initiatives give us a stable platform to address quality issues with corrective action and prevent any malpractices in our operations that would hinder product responsibility. We also keep track of the latest consumer trends and buyer preferences and thereby, cater our product offer to meet their dynamic requirements.

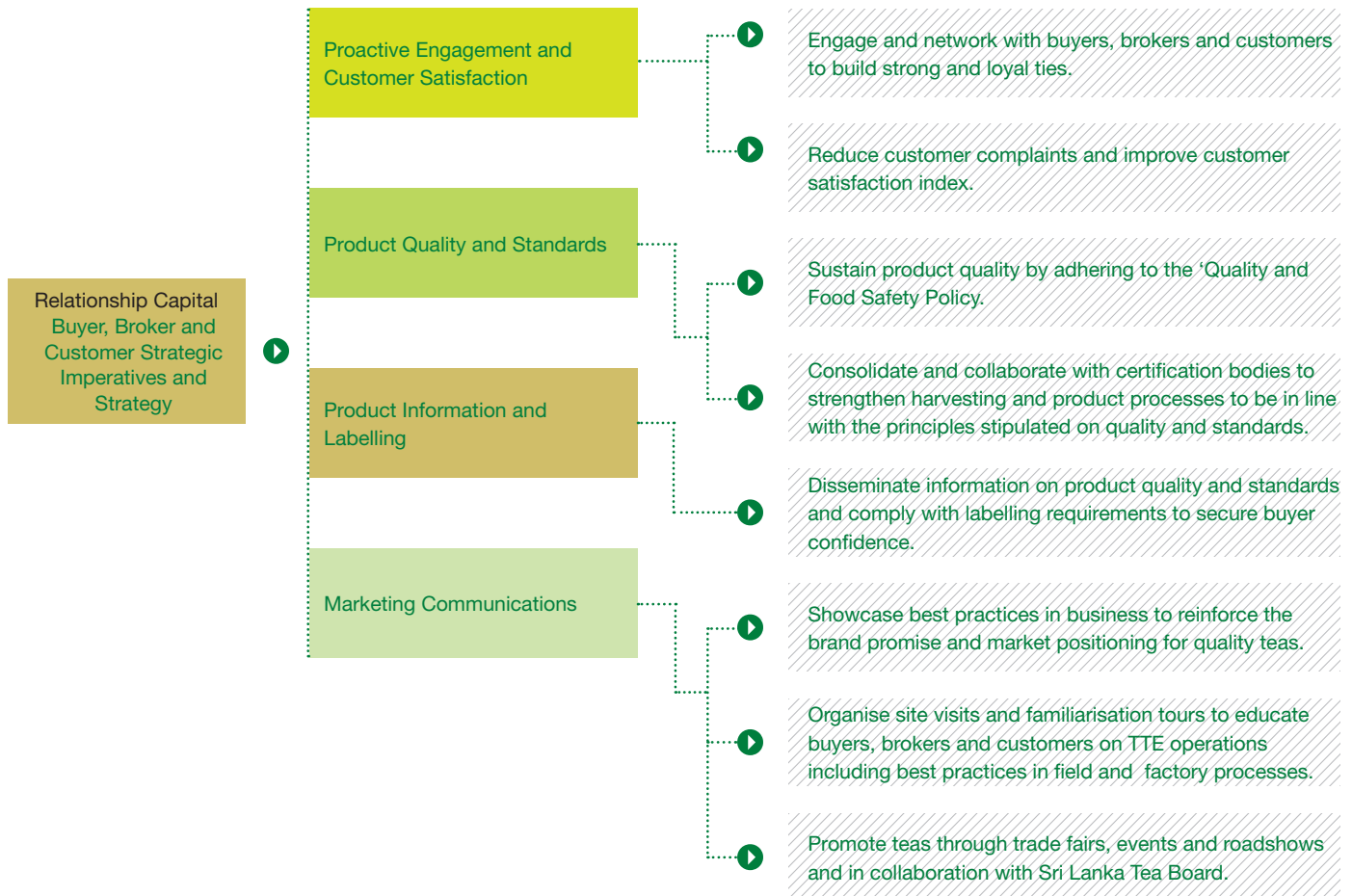
 GRI: Disclosures: 102-15

 Opportunities

-  Strong brand recognition and sound reputation at the Colombo Tea Auctions.
-  Adoption and allegiance to well recognised certification programmes related to quality, standards and ethical practices.
-  Well-equipped factories and due investments in latest machinery, equipment and IT for efficient operational processes.

 Risks

-  Trade union activity and strikes result in loss of operational days and affect timely harvesting and processing, thereby, compromising on quality of teas produced.
-  Climate change impacts on harvesting affect the quality of the leaf.
-  Economic and geopolitical issues in key export markets resulting in lower demand for quality teas.
-  Intense competition within and outside the country exerting pressure on remunerative prices.

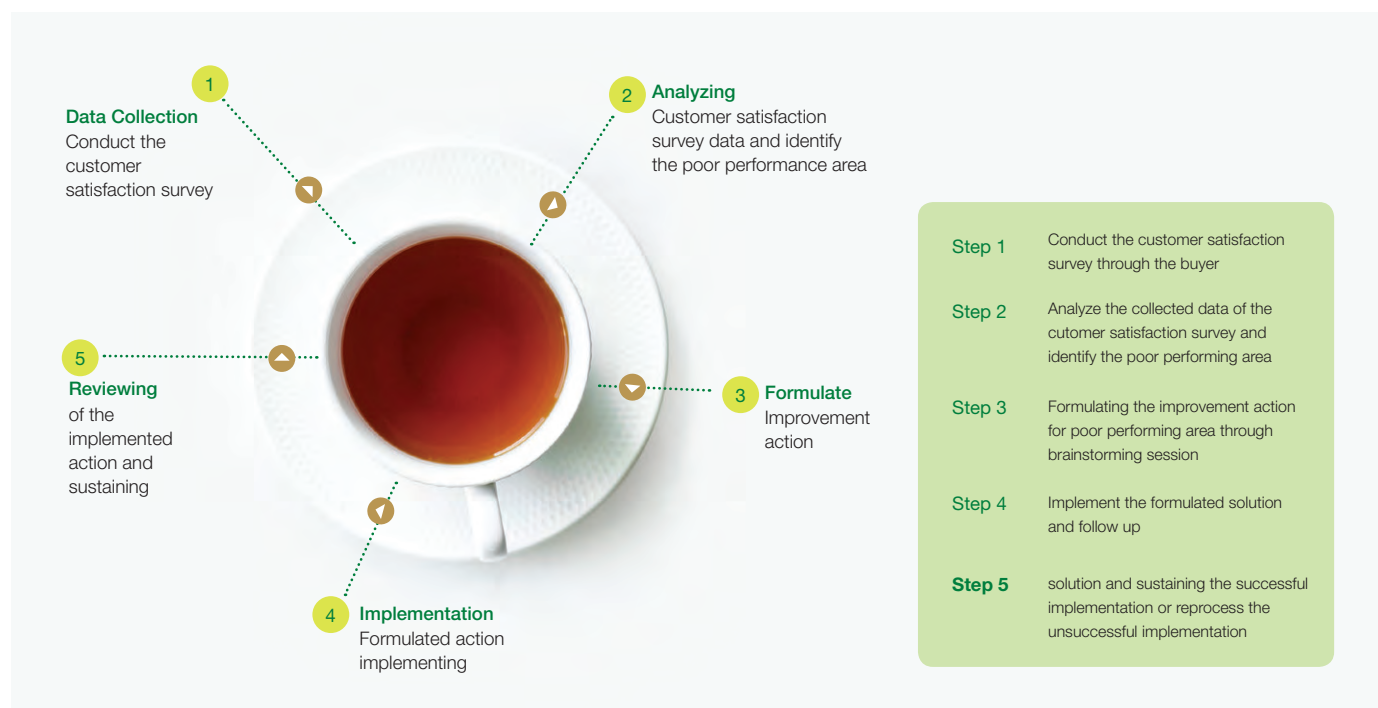


Management Discussion & Analysis

Relationship Capital - Buyers, Brokers and Customers

Proactive Engagement and Customer Satisfaction

	Buyers (Number)	Customer Complaints (Number)	Customer Satisfaction Index
	155 2017/18	7 2017/18	71% 2017/18
Key Performance Indicators Buyers	155 Target 2018/19	0 Target 2018/19	100% Target 2018/19
	212 2018/19	37 2018/19	81% 2018/19



Online Customer Satisfaction Survey - Key Areas Covered

<p>☑ Satisfaction on appearance and taste of teas</p>	<p>☑ Satisfaction on packaging quality, delivery and customer services</p>	<p>☑ Customer feedback on positive and negative attributes observed</p>
-------------------------------------------------------	----------------------------------------------------------------------------	-------------------------------------------------------------------------

As a top-ranking plantation company, building solid relationships with our buyers, brokers and customers warrants our focused attention. We strive to be agile, responsive and proactive in our engagement with due time, efforts and investments. We rely on their feedback from formal surveys and informal interactions to fine-tune and further develop the quality of products and services.

In the reporting year, we initiated a new online customer satisfaction survey system where customers can access and give feedback with ease—by scanning a QR code via any device. Our customer satisfaction index in the year under review stood at 81 percent vis-a-vis 71 percent in 2017/18, amidst the increased number of complaints with regard to MCPA contamination.

During the year, we have received 37 customer complaints and out of which 35 of them are related to excess MRLs.



<https://www.surveymonkey.com/r/D5GZ95H>

Product and Service Labeling

GRI: Disclosures: 417-1, 2

In accordance with the guidelines and standards by The Sri Lanka Tea Board and the Ceylon Tea Traders Association on product information and labeling, our packaging entails the required product information to support our customers to ascertain the quality of our teas. We have not recorded any incidents of non-compliance with regulations concerning product labeling during the reporting year.



Product Quality and Standards

GRI: Disclosures: 416-1, 2

12 RESPONSIBLE CONSUMPTION AND PRODUCTION						
	Rainforest Alliance (% Operations)	Ethical Tea Partnership (% Operations)	UTZ (% Operations)	ISO 9001:2015 (% Operations)	ISO 14001:2015 (% Operations)	ISO 22000:2005 (% Operations)
	88 % 2017/18	88% 2017/18	13% 2017/18	7% 2017/18	7% 2017/18	80% 2017/18
	100% Target 2018/19	100% Target 2018/19	15% Target 2018/19	10% Target 2018/19	10% Target 2018/19	100% Target 2018/19
Key Performance Indicators	88% 2018/19	88% 2018/19	13% 2018/19	7% 2018/19	7% 2018/19	80% 2018/19

Management Discussion & Analysis

Relationship Capital - Buyers, Brokers and Customers

Quality and Standards Audits - 2018/19

Location of Audit - Estates	Areas Audited	Salient Findings and Recommendations
External Audit: ISO 22000:2005 Food Safety Management System		
<ul style="list-style-type: none"> ☐ Dessford ☐ Somerset ☐ Radella Green Tea Factory ☐ Wangioya Reprocessing Centre ☐ Mattakelle ☐ Bearwell ☐ Holyrood ☐ Wattegodde ☐ Great Western ☐ Deniyaya ☐ Kiruwanaganga ☐ Moragalla. 	Requirements specified in the ISO 22000:2005 Food Safety Management System	<ul style="list-style-type: none"> ☐ Traceability and daily housekeeping practices to be further improved.
External Audit: SGS Lanka (Pvt) Ltd on ISO 14001:2015 Environment Management System		
<ul style="list-style-type: none"> ☐ Great Western 	Requirements specified in the ISO 14001:2015 for Environmental Management System.	<ul style="list-style-type: none"> ☐ ISO 14001:2015 standard framework to be integrated with operational processes. ☐ Aspect impact and mitigation of environmental impact to be covered for the product life cycle.
External Audit: SGS Lanka (Pvt) Ltd on ISO 9001:2015 Quality Management System		
<ul style="list-style-type: none"> ☐ Great Western 	Requirements specified in the ISO 9001:2015 for Quality Management System.	<ul style="list-style-type: none"> ☐ Improve total quality management on a continuous basis. ☐ Identify risk and opportunity of processes and promote business integration.
External Audit: Rainforest Alliance Certification Body on Rainforest Alliance Standard		
<ul style="list-style-type: none"> ☐ Bearwell ☐ Great Western ☐ Holyrood ☐ Logie ☐ Mattakelle ☐ Palmerston ☐ Wattegoda ☐ Calsay ☐ Clarendon ☐ Desford ☐ Radella ☐ Somerset ☐ Deniyaya ☐ Kiruwanaganga ☐ Wangioya Reprocessing Centre 	All requirements specified in SAN standard under five principles: <ol style="list-style-type: none"> 1. Effective planning and management system 2. Biodiversity conservation 3. Natural resource conservation 4. Improved livelihoods 5. Human wellbeing 	<ul style="list-style-type: none"> ☐ Adopt a six-year continuous improvement system on sequential progression of sustainability performance as aligned to SAN 2017 Standard. ☐ Focus on climate smart agriculture and agro chemical management.
External Audit: Sri Lanka Standard Institution on UTZ Standard		
<ul style="list-style-type: none"> ☐ Radella Green Tea Factory ☐ Wattegodde 	Sustainable farming and better opportunities for farmers, their families and our planet.	<ul style="list-style-type: none"> ☐ Focus on improving: <ul style="list-style-type: none"> ☐ Agricultural methods ☐ Working conditions ☐ Child wellbeing ☐ Environmental conservation and protection
Internal Audits: Under the Sustainability Governance Structure		
<ul style="list-style-type: none"> ☐ All 16 estates 	Food safety, UTZ and Rainforest Alliance, Environment Management System, Quality Management	<ul style="list-style-type: none"> ☐ Business integration of all management systems on sustainability. ☐ Continuously improve all processes and sub processes with regular supervision

As a responsible plantation company, we give top priority to maintain highest standards of food safety and quality across our value chain, be it in our tea nurseries, planting and harvesting in our fields and manufacturing made tea in our factories. Harvesting and transporting of green leaf to our factories and thereafter, packaging and sale, are carried out in line with HACCP/ISO 22000 food safety criteria. All products are subject to necessary quality checks which include testing for maximum residue levels, heavy metals, micro biological and physical parameters. In the reporting year, we strengthened our quality check mechanism to be responsive to buyer concerns in Japan and the European Union on Ceylon teas containing higher Maximum Residue Level of MCPA chemical. Our products are also subject to the quality checks carried out by the Sri Lanka Tea Board at the point of sale at the Colombo Tea Auction in conformity to ISO 3720 standard. Aside food quality and safety, we also follow social and environmental responsibility as guided by best practices, particularly under our certification programmes.

This reporting year, we carried out 46 audits on our manufacturing systems, processes and practices across all 16 of our estates. This included health and safety facets of both the customer and employee. Audit findings were presented to the respective estate management for their deliberations and necessary improvement and actions. In the year, we did not report on any incident on non-compliance with our 'Quality and Food Safety Policy', laws, regulations, principles, standards and practices upheld by our certification bodies with regard to quality and standards of our teas.

Marketing Communications

 **GRI: Disclosures: 417-3**

We are responsible in our marketing communication initiatives. We participate at trade fairs, road shows and networking events for direct marketing. We sponsor buyers, brokers and customers and facilitate site-visits and familiarisation tours to our tea plantations and factories. During these visits, we showcase our systems and processes. We elaborate on the key measures we have adopted in terms of current and best practices in our field and factory operations. These visits enable us to build relationships through common understanding and shared experiences. We also have in place a full range of well-designed and thought out product brochures and leaflets to support our marketing initiatives.

In the year under review, our organisation did not report on any incidents of non-compliance with regulations and voluntary codes with regard to marketing communication aspects.

Compliance

Our organization did not record any monetary fines for non-compliance with laws and regulations concerning products and services during the reporting year.



Visit to XFTEA, one of our main clients in Changsha, Hunan in China



Tea tasting sessions



Management Discussion & Analysis

Relationship Capital - Buyers, Brokers and Customers



Buyer Interactions



Way forward discussion meeting with the masters of the trade



Training sessions



Promotion Campaigns



Management Discussion & Analysis

Relationship Capital – Suppliers

► Overview

With extensive operations, our suppliers play a critical role within our value creation process. We are committed and strive to build and nurture positive relationships across the supply chain. Fair, responsible and accountable in all our dealings, we work closely with them to meet our shared goals. In this section, we elaborate on how we engage and manage our suppliers to be in line with our strategic priorities whilst setting forth our procurement practices and our efforts as a responsible corporate, to foster best practices in their businesses.

“Building stronger relationships across our supply chain, we engaged our suppliers, supported them and inculcated best practices in their businesses.”



Management Discussion & Analysis

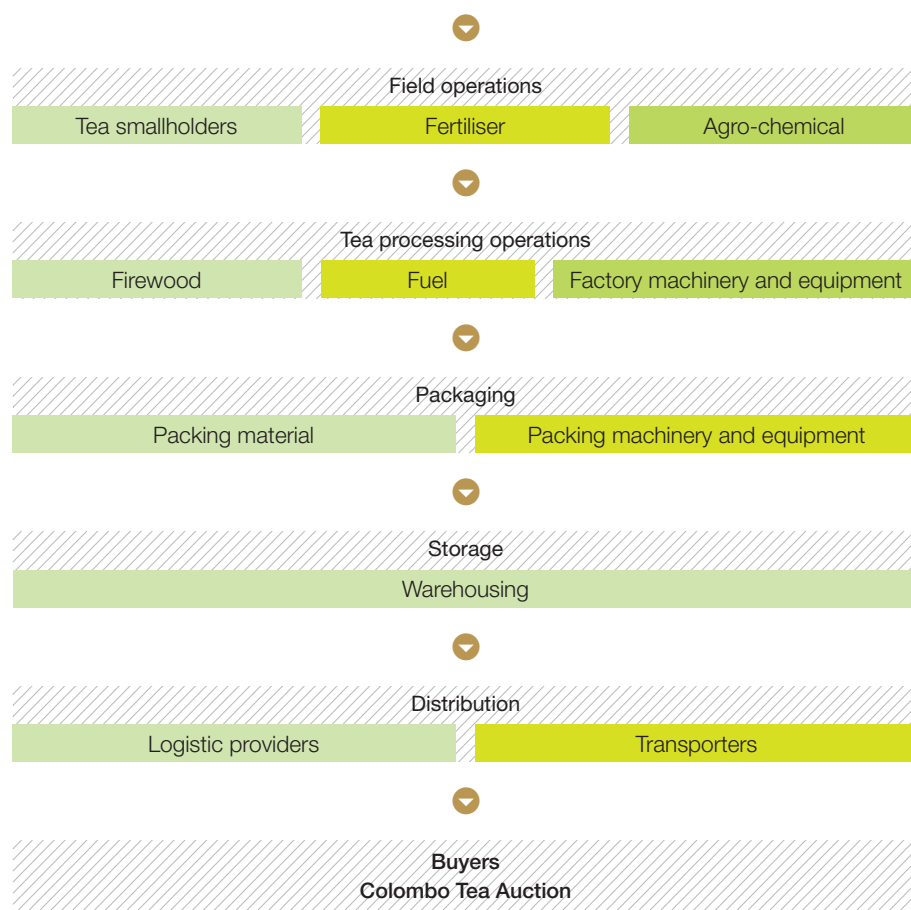
Relationship Capital – Suppliers



 GRI: Disclosures: 102-9

 GRI: Disclosures: 103-2, 3

Supply Chain



Management Approach

Guided by best practices, we are pragmatic and responsible in our engagement with all our suppliers. We are consistent in managing our transactions with them, ensuring professionalism in meeting our payments and contractual obligations.

We have in place a comprehensive and stringent supplier screening mechanism to ensure that they meet our strategic priorities and that they are aligned to our corporate values and practices. The screening process takes into account the nature of their businesses, quality and standards in their product offer, fair pricing, timeliness of delivery along with their work values including social and environmental responsibility and compliance with relevant laws, rules and regulations. Suppliers are selected purely on merit ascertained through this screening process.

Our certification programmes have laid out clear guidelines on how to manage our supply chain and support us in our endeavours to inculcate best practices in their operations. Our estate management and the corporate office closely monitor them and their performance. Internal audits along with external audits through our certification bodies are also carried out periodically, covering the entirety of our supply chain.

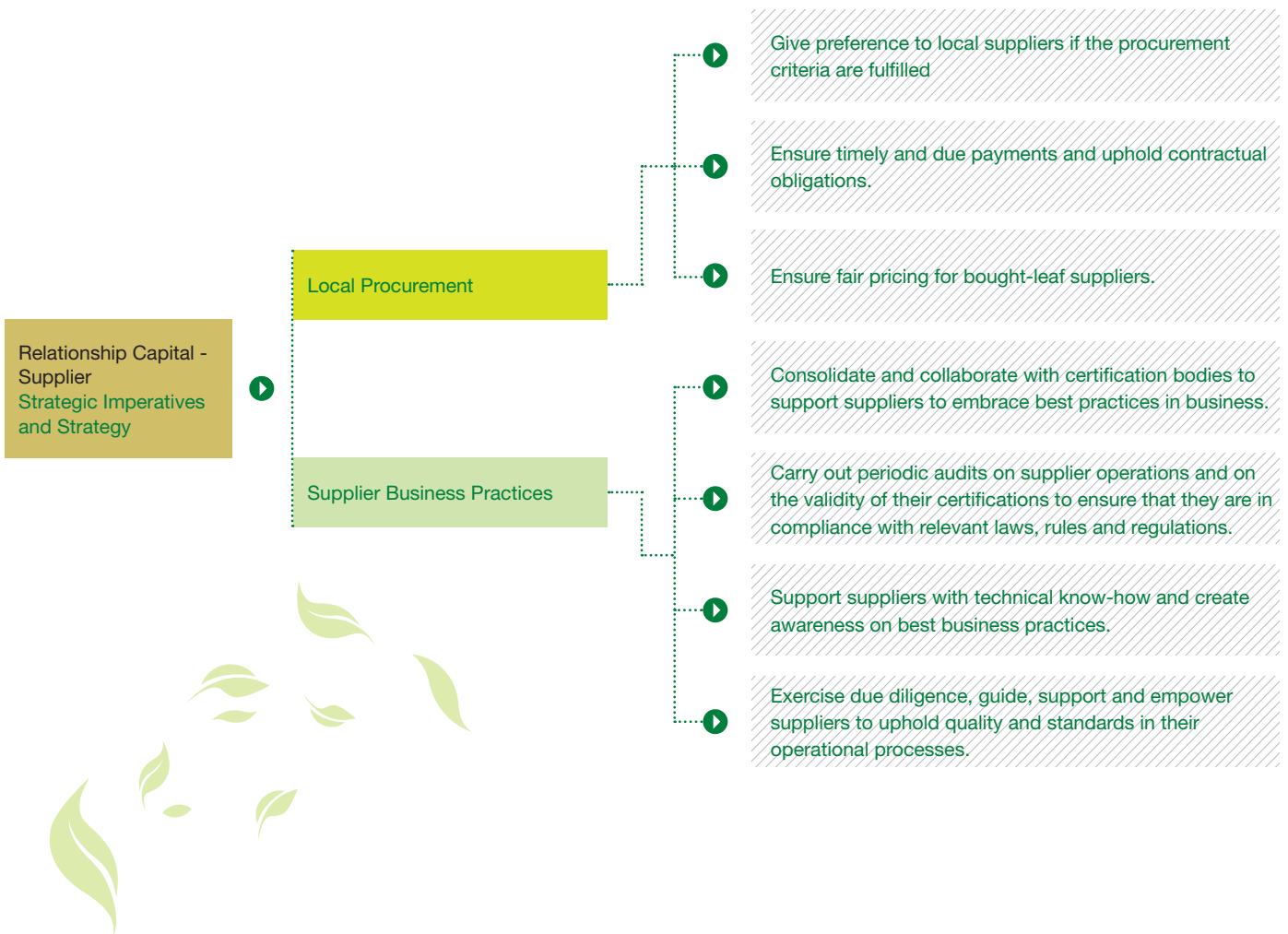
 GRI: Disclosures: 102-15

 Opportunities

- Strong supplier base with long standing and loyal relationships.
- Adaptability of suppliers to follow best practices in their operations.
- Greater recognition and acceptance for advocating best business practices across the supply chain.
- Allegiance to certification programmes that support and guide effective supplier screening and assessments for best practices.

 Risks

- Tendency of suppliers to compromise on best practices for short-term gains.
- Supply of poor quality products and services.
- Irresponsible pricing may impact the cost of production.
- Climate change may impact the quality and volume of green leaf supplies.
- Macroeconomic imbalances and political uncertainties may impact the viability of supplier businesses.
- Government policies including subsidies may impact supplier businesses and relationship with the company.
- Shift in loyalty due to intense competition.

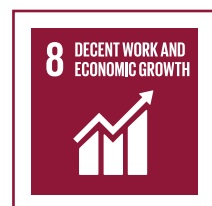


Management Discussion & Analysis

Relationship Capital – Suppliers

Local Procurement

GRI: Disclosures: 102-9, 204-1

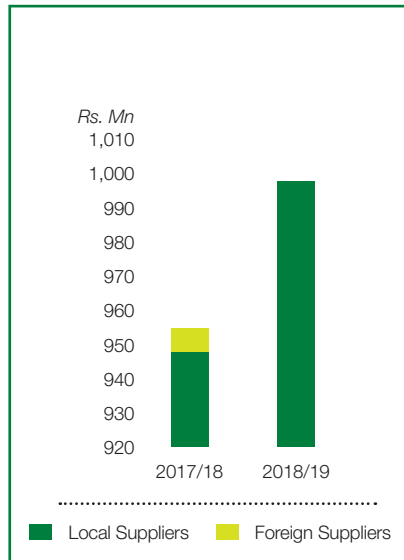


Key Performance Indicators

Local Suppliers (% of Total)	Tea Smallholders (Number)	Bought-leaf (% of Total Production)
99% 2017/18	1,600 2017/18	13% 2017/18
100% Target 2018/19	1,700 Target 2018/19	13% Target 2018/19
100% 2018/19	1,650 2018/19	13% 2018/19

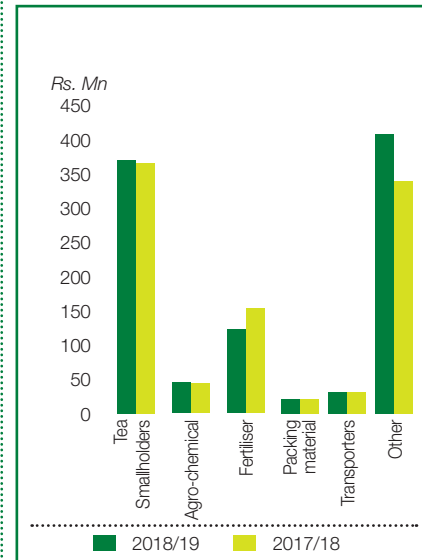
As a corporate policy, we give preference to our local suppliers, provided that they meet our procurement criteria. This paves the way for our local suppliers to create value and strengthen their businesses, with trickle down benefits spreading across the society. As illustrated below, 100 percent of our procurement expenditure of Rs. 998 million in the year under review was taken up by our local suppliers.

Local vs Foreign Suppliers




In 2018/19, we spent Rs. 998 million on 3,726 numbers of our local suppliers, corresponding to 100 percent share and an increase of 1 percent as compared to 2017/18.

Local Supplier Mix
















Out of total local supplier expenditure, we spent nearly 38 percent on tea smallholders and 17 percent on agro-chemical and fertiliser suppliers.

 **GRI: Disclosures:** 308-1, 2, 414-1, 2, 407-1
408-1 & 409-1

 Refer: Manufactured Capital – Procurement of Machinery & Equipment, Page 30



Supplier Potential Negative Impacts		
Business	Environment	Social
Illegal business entity <ul style="list-style-type: none">  Unethical business practices and products  Fraud and corruption  Governance malpractices 	Green house gas emissions <ul style="list-style-type: none">  Non-renewable resource depletion  Solid Waste generation and irresponsible disposal  Unsustainable use of water  Wastewater pollution of water bodies  Non-compliance with environmental laws and regulations 	Deplorable workplace conditions <ul style="list-style-type: none">  Child labour  Forced labour and exploitation  Human rights violations  Collective bargaining rights violations  Non-compliance with labour laws and regulations

Our supplier base of 1,800, is solid with long-standing relationships established with most of them. Closely engaging them, we are well aware of the nature of their businesses, workplace practices and values. In the case of tea smallholders, we maintain a consistent dialogue, work together and seek to instill environmental and socially responsible practices in their smallholder operations. Our certifications programmes—Rainforest Alliance, Ethical Tea Plantations and ISO—collaborate and support us in carrying out extensive training in this regard. The Tea Smallholders Authority is also responsible for monitoring their operations.

As for our fertiliser and agro-chemical supplier, Hayleys Agro-fertilizer (Pvt) Ltd is certified under ISO 14001:2015 Environmental Management System and ISO 9001:2015 Quality Management System. Our packing material suppliers, Uni-Dil Packaging Ltd and Uni-Dil Paper sacks (Pvt) Ltd also operate as per ISO 22000:2005, ISO 9001:2015 standards, St. Regis (Pvt) Ltd. certified SLS 1492-2014, SLS 1474-2013, FSSC 22000, ISO 22000:2005. Quick Pack (Pvt) Ltd certified ISO 22000:2005. The periodic audits carried by our purchasing division at the corporate office keep a track on the validity of these certifications. We also monitor our fuelwood suppliers through a structured questionnaire to confirm that they meet

the required laws and regulations to supply fuelwood with relevant and valid Licences. As discussed under the 'Manufactured Capital' section, we carry out due diligence on all our machinery and equipment suppliers, focusing on environmental and social considerations.

In the reporting year, we did not record any incidences of suppliers resorting to illegal activities. There were no incidences recorded in terms of negative environmental and social impacts including child and forced labour and violations of human rights, the rights to exercise freedom of association and collective bargaining along the supply chain including its suppliers. We have not engaged any new suppliers in the year under review.

Management Discussion & Analysis

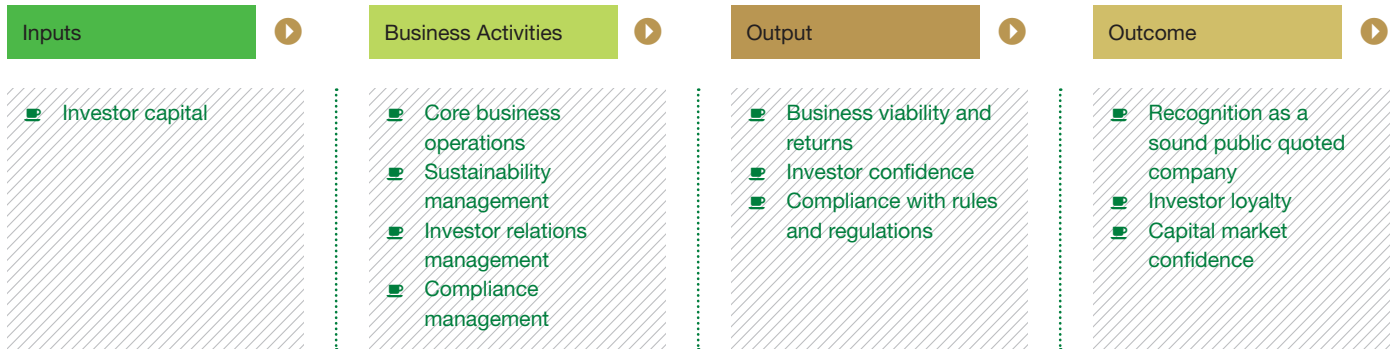
Relationship Capital – Investors

► Overview

Well-respected and recognised on the Colombo Stock Exchange for over twenty years, we stand committed to be an exemplary corporate with viable and sustainable business practices. Responsible and accountable, we are focused in steering our organisation to achieve operational excellence and ensure sound returns to all our investors. This section will highlight on our commitment to be transparent with our investor dealings, build confidence and meet our obligations including operational viability, good governance and compliance.

“Amidst industry challenges, we reinforced our positioning at the helm of the tea industry and sustained profitability with sound returns.”





CA 54th Annual Report Awards 2018
Plantation Companies - Gold Award
Institute of Chartered Accountants of Sri Lanka



CMA Excellence in Integrated Reporting 2018
Best Integrated Report – Plantation Sector -
Certificate of Merit
Institute of Certified Management Accountants of Sri Lanka



Best Presented Annual Report Awards and SAARC Anniversary Awards
Corporate Governance Disclosures 2017
Agricultural Sector - Second Runner-up
South Asian Federation of Accountants



Asia Sustainability Reporting Awards-2018
Finalist
Asia's Best Materiality Reporting
Asia's Best Environmental Reporting
Asia's Best Carbon Disclosure
Asia's Best SDG Reporting
Asia's Best Report Design
CSRWWorks International



Asia Sustainability Reporting Awards 2018
Asia's Best Integrated Report (Winner)
CSRWWorks International

Management Discussion & Analysis

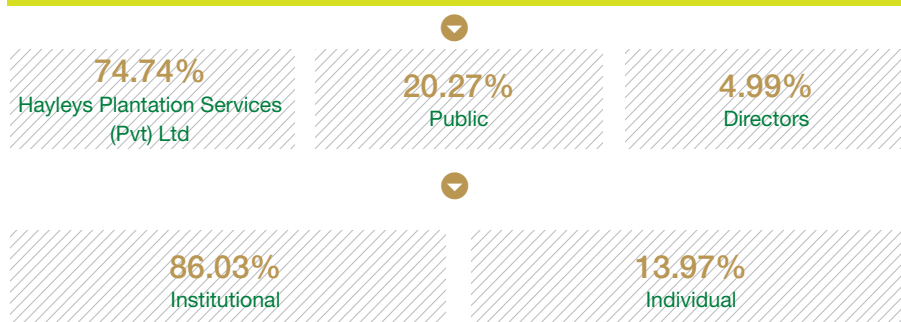
Relationship Capital – Investors

 **GRI: Disclosures:** 103-2, 3

Management Approach

▶ Refer: Corporate Governance, Pages 199 to 210 and Risk Management, Pages 190 to 198, Investor Information, Appendices 276 to 277 Pages

Talawakelle Tea Estates PLC



Note: Out of the total, nearly 98% percent are residents.

Investor relations come under the purview of our Company Secretaries, Hayley's Group Services (Pvt) Ltd. This company is responsible to look into all investor dealings— disseminating relevant information, responding to their queries and resolving grievances or issues as and when they arise.

Reinforcing our positioning on the public domain, we give top strategic priority to build and sustain long-standing relationships with our investors, both existing and potential. We are unwavering and stand responsible in delivering excellence against all odds with optimum returns for our investors.

We follow an open and transparent approach in engaging our investors. We are accountable to provide accurate and relevant information on the company as a going concern, enabling our investors to make smart choices in their investment decision making process. We are consistent in our communication by way of correspondence, general meetings and

reporting, both quarterly and annually. Due care is taken in our reporting initiatives to be in line with current best practices. The financial statements are prepared as per

 **GRI: Disclosures:** 102-15

+ Opportunities

- Sound corporate reputation and parental strength and backing.
- Long-standing presence on the Colombo Stock Exchange.
- Dedicated Company Secretariat to address investor needs and issues.
- Top level commitment and focused efforts to adopt best and ethical business practices in operations and uphold good governance.
- Strong commitment to comply with laws, regulations and directives

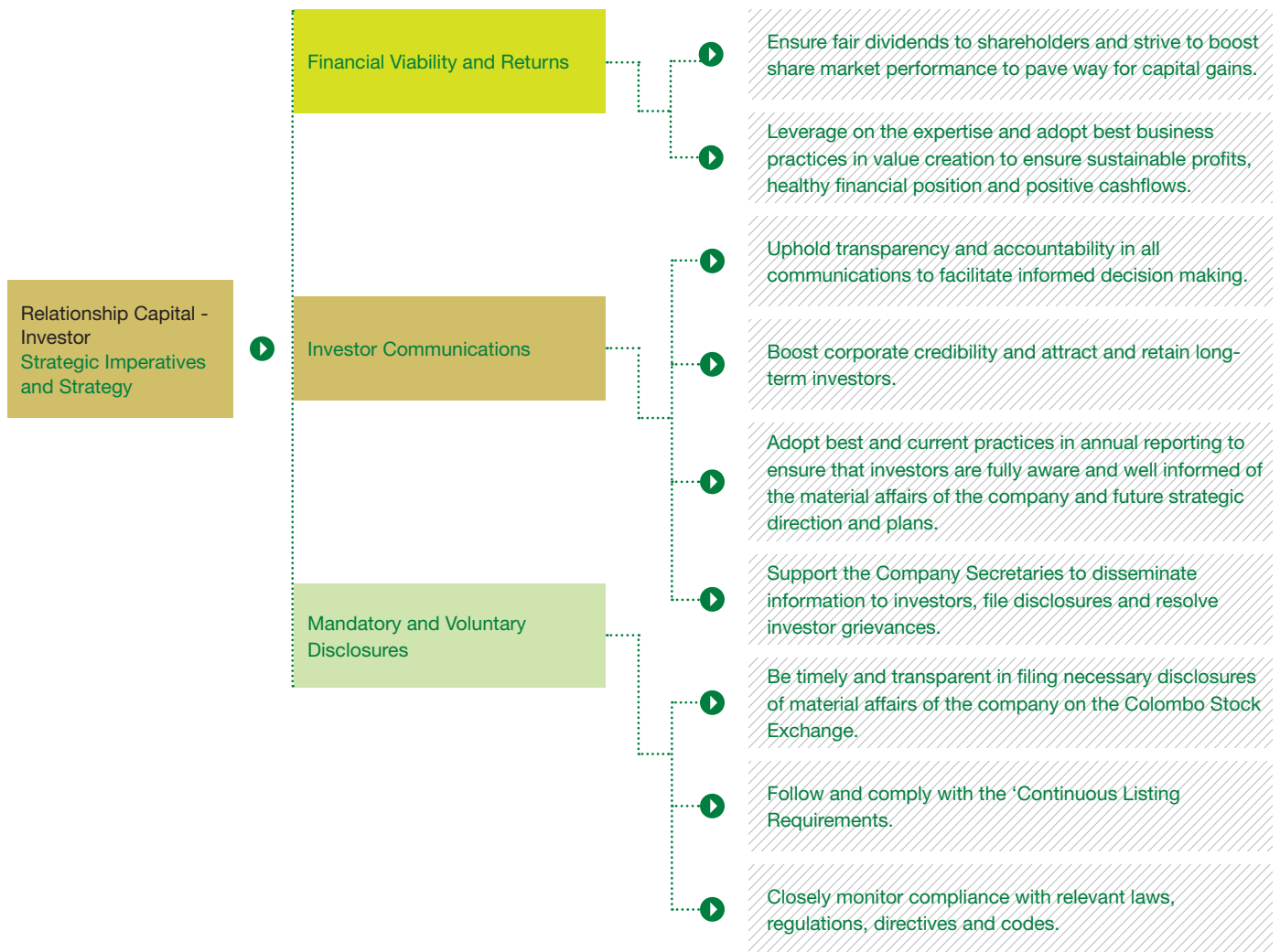
accepted accounting standards and are externally assured by independent auditors.

We are steadfast in our compliance function. We are consistent and timely in meeting our disclosure obligations and filing material information on the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka. We meet the rules set under the Company's Act No.7 of 2007 and Continuous Listing Requirements. We are diligent and responsible in managing our related party transactions, conflict of interest and safeguarding our organisation from insider trading.

Our approach to governance is guided by best practices. We follow the latest Code on Good Governance 2017 as issued by the Institute of Chartered Accountants of Sri Lanka whilst the Board, management and employees at all levels are guided by the internal Code of Business Ethics and Conduct. Our risk management and internal controls are comprehensive, underscoring our business viability from a long-term perspective.

- Risks

- Global economic and geopolitical uncertainties and domestic macroeconomic and socio-political issues may impact the company's earning capacity and result in loss of returns and share performance.
- Industry-wide issues on labour and climate change may lessen the attractiveness of the plantation sector as an investment option.
- Changing plantation sector policies, laws, rules and regulations may result in the loss of investor confidence.
- Bearish trends on the Colombo Stock Market may reflect adversely on the plantation sector and the company's stock performance.



Financial Viability and Returns

Refer: Financial Capital, Page 88

Key Performance Indicators	Return on Equity (%)		Dividend Payout Ratio (%)		Earnings Per Share (Rs.)		Net Asset Value Per Share (Rs.)	
	22.15	2017/18	21.5	2017/18	23.19	2017/18	104.70	2017/18
	7.3	Target 2018/19	13.1	Target 2018/19	7.59	Target 2018/19	103.94	Target 2018/19
	15.3	2018/19	50.7	2018/19	16.77	2018/19	109.46	2018/19

Management Discussion & Analysis

Relationship Capital – Investors

Navigating through adversities in the operating landscape and managing our business with acumen and resoluteness are fundamental to secure financial viability and optimum returns to our shareholders and our potential investors. It warrants our strategic focus to build and strengthen our capital base and boost the value we create and the value we could share.

The year challenged the entire industry from adverse weather affecting crop volumes; wage increase after intense negotiations; and pressure on pricing due to quality issues at the Colombo Tea Auctions. Notwithstanding these challenges, we remained focused in our strategic delivery and maintained and differentiated our products on quality and standards. We posted a sound top-line, albeit lower than the previous year, and net profits after tax reached Rs.398.1 million. We maintained a healthy financial position and cashflows as at the year-end. This year, we paid total dividends of Rs. 8.50 per share, amounting to Rs. 201.8 million.

Company Share Performance

Key Indicators	2018/19	2017/18
Colombo Stock Exchange		
All Share Price Index	5,557.24	6,476.78
S&P SL 20 Index	2,738.95	3,650.10
Market Capitalisation (Rs Bn)	2,605.90	3,032.71
Average Daily Turnover (Rs Mn)	697.58	915.30
Net Foreign Investments (Rs Bn)	-27.00	17.70
Plantation Sector Index	716.80	913.14
Company Performance		
Closing Share Price (Rs. per share)	48.70	54.50
Shares Traded (Number)	717,864	2,436,347
Daily Average Turnover (Rs. Mn)	0.153	0.545
Market Capitalization (Rs. Mn)	1,156.6	1294.4
% of Plantation Industry Market Capitalisation	4.66	4.09
% of Overall Market Capitalisation	0.04	0.04

Source: Colombo Stock Exchange

Reversing the upside trends witnessed in the preceding year, capital market performance was sluggish in the year under review. Global economic slow-down along with macroeconomic imbalances and political instability in the domestic front did not reflect well on the market results. Both price indices, ASPI and S&P SL20, declined by 14.1 percent and 24.9

percent respectively. Market capitalisation and average daily turnover were lower compared to the previous year. Plantation sector Index also remained modest. With such bearish sentiments on the stock market, our share market performance was mediocre, recoding a decline compared to the preceding year.

Investor Communications

Transparent and accountable, we engage our investors and apprise them on the industry risks and challenges along with our response—corporate strategy and our performance. We are conscientious in meeting our disclosure obligations as a listed entity including filing of quarterly financials on the Colombo Stock Exchange, publishing press releases on key events and milestones achieved and convening general and extraordinary meeting.

In the reporting year, we duly held our 26th Annual General Meeting, deliberated on the financial year 2017/18 and adopted key resolutions with the participation of our Chairman, the Board of Directors and the senior management along with nearly 74 shareholders. We organised investor networking events whilst our Company Secretariat also interacted with some investors on a one-to-one basis to resolve their grievances.

We are focused in our reporting initiatives, following through integrated reporting guidelines combined with latest GRI standards. Our Annual Report 2017/18 themed 'To the Rhythm' was well acclaimed, winning coveted awards for reporting excellence both at the national level as well internationally.

Mandatory and Voluntary Disclosures

Meeting our regulatory obligations under the Continuous Listing Requirements, we are consistent in filing mandatory as well as voluntary disclosures with the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka. In the year under focus, we met all our disclosure obligations.

Management Discussion & Analysis

Social Capital

► Overview

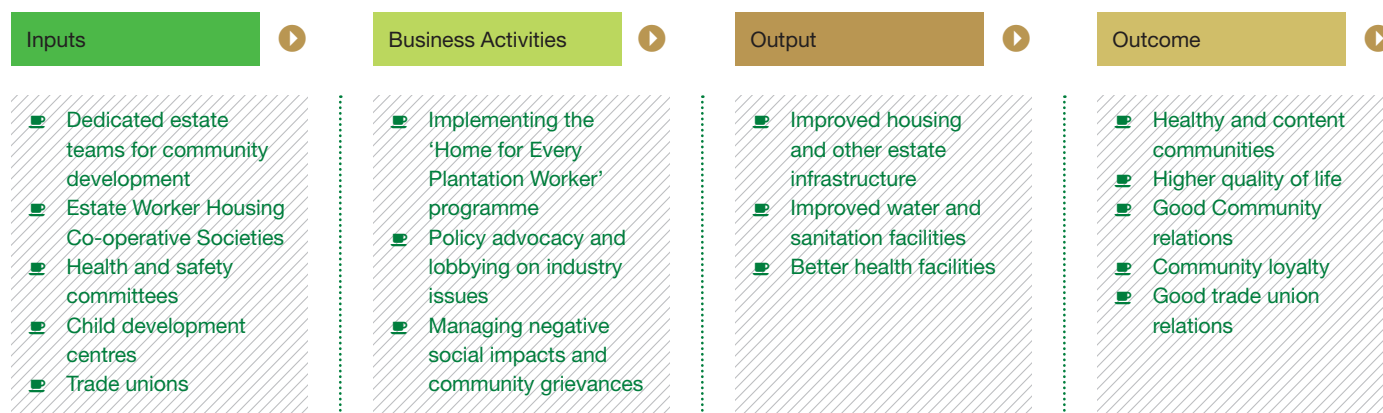
We operate in the midst of vibrant communities, with over 41,000 living within our estates. Our business is inextricably linked to them, particularly, sourcing our human capital and mustering their support and goodwill in creating shared value. It is in this light that we give strategic precedence to engage them, support their collective needs and raise their living standards, with benefits trickling down to the entire society. This section will focus on our dedicated efforts to build relationships and nurture our communities whilst highlighting our role within the industry at the policy level. We also discuss our commitment to social responsibility in mitigating potential negative social impacts that may arise from our operations.

“Following through with our dedicated initiatives, we continued to invest in our resident communities, providing them with basic amenities, health and nutrition and capacity building to uplift their quality of life.”



Management Discussion & Analysis

Social Capital



National Business Excellence Awards 2018
Excellence in Corporate Social Responsibility
Merit Award
 National Chamber of Commerce

GRI: Disclosures: 103-2, 3

Management Approach

Social Policy

"Alone, we can do so little; together, we can do so much" – Helen Keller.

- Consult and engage local communities on plans for new projects, constructions, diversifications, change of ownership and any other operational changes.
- Community concerns, views and their expectations are factored into the decision making process.
- Give precedence to local workers for training and employment on estates.

We engage and work in concert with the Ministry of Plantation Industries in managing community relations. 'Estate Worker Housing Cooperative Societies' work closely with us in rolling out our community initiatives. We also carry out these programmes in collaboration with the Plantation Development Project, Plantation Human Development Trust, National Housing Development Authority, Ministry of Livestock and Rural Community Development, MJF Foundation, T-Field Child Development Foundation and other reputed local and non-governmental organisations.

From a broader perspective, we are proactive in our public role as a leading Regional Plantation Company. We have gained the trust and confidence in the industry and in the business arena with power to influence our stakeholders and advocate best practices and lobby for policies to make a positive impact on our industry. We are also concerned and take necessary steps to manage potential negative impacts resulting from our operations.

As aligned to our social policy, our engagement with our communities, both at the estates and the neighbouring villages, is well structured and responsible. It is an intrinsic part of our business strategy, with focused action plans to develop communities, ensure their wellbeing and foster sound relations with them. Our certification programmes guide us with best practices in this regard, closely engaging, our dedicated community development programme, 'A Home for Every Plantation Worker', underscores our efforts to look into the wellbeing of our estate communities. Aside this, we support our neighbouring village communities in their community initiatives including religious events, festivals, sports activities and medical camps.

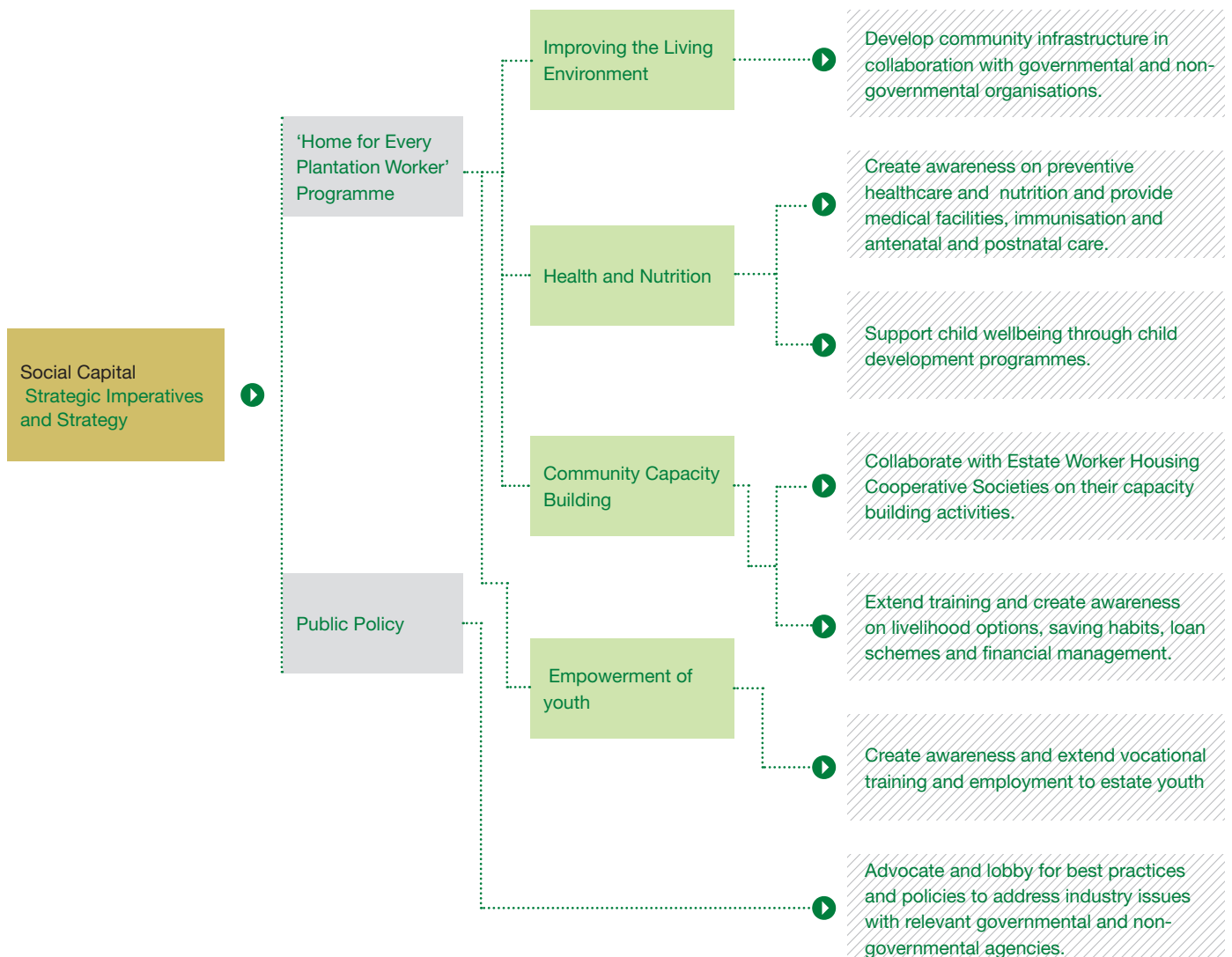
GRI: Disclosures: 102-15

+ Opportunities

- Positive brand for upholding social responsibility.
- Estate Worker Housing Co-operative Societies to improve living conditions and quality of life.
- Collaborative support from the Plantation Human Development Trust, local and non- government organisations and professional bodies for social development programmes.

- Risks

- Out-migration of estate residents from the industry seeking for alternative work with higher social status.
- Ageing estate population with greater needs for healthcare facilities.
- Poor attitude of entitlement without taking responsibility for their lives.
- Unhealthy lifestyles of the estate population.
- Changing socio-cultural, political and technology trends inciting community unrest.



Management Discussion & Analysis

Social Capital

'A Home for Every Plantation Worker'

 **GRI: Disclosures:** 203-1, 2, 413-1

'A Home for Every Plantation Worker' is our dedicated social development programme, with well-planned initiatives to address community needs, improve their wellbeing and better their standards of living. This programme is comprehensive and is mainly implemented in the high grown region where we have communities residing within our estates. Focused areas under this programme and related initiatives are outlined below.


Improving the living environment:

With strategic precedence given, we invest and work towards developing and improving the living environment of our estate communities. Under this initiative, we provide necessary infrastructure facilities, inter-alia, roads, housing, water and sanitation, recreation and learning facilities. The Estate Worker Housing Cooperative Societies together with the Plantation Human Development Trust collaborate with us in implementing these initiatives.

Community capacity building:

Focused in our efforts to build capacity, we extend skills development opportunities for our communities, strengthening their livelihoods and uplifting their quality of life. In this regard, our communities are offered housing loans, saving schemes along with training on household finance management, microfinance, home gardening etc. We also encourage our communities to come on board as entrepreneurs to manage tea blocks of

land as advocated under the proposed revenue share business model. The Estate Worker Housing Cooperative Societies support and collaborate with us in implementing our key initiatives in this regard.

 **Health and nutrition:** Advocating healthy communities, this strategic imperative focuses on healthcare in terms of nutrition and preventing communicable and non-communicable diseases. Under this, we have in place a comprehensive immunization programme to prevent Tuberculosis, Polio, Hepatitis B, Influenza Type B, Mumps, Measles, Rubella etc. We also carry out awareness building programmes on health and nutrition; initiate early childhood development programmes; antenatal and postnatal care; and providing medical services.

 **Empowerment of Youth:** Empowering the youth within our estates, we follow through a focused youth development programme. We engage our youth, create awareness on significant social issues and extend vocational training opportunities to support them to build their skills and confidence, so as to aspire and achieve better livelihoods and life goals.



*Improving Living Environment
Radella Estate*



Child Care Facilities - Somerset Estate



Medical Screening - Somerset Estate

Improving the Living Environment – 2018/19

Road Development	Housing Construction and Upgrades	Providing Water and Sanitation	Child development and community centres
5 Estates	6 Estates	9 Estates	3 Estates
5 Projects	47 Houses	9 Projects	3 (Upgrading) Centres
Rs. 14.5 Mn Investment	Rs. 26.8 Mn Investment	Rs. 5.2 Mn Investment	Rs. 2.4 Mn Investment

Outcome	Secured, content and empowered communities	Healthy communities	Improved quality of life
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Field Restroom – Dessford Estate



Housing – Indola Estate



Sanitation Facilities - Dessford Estate

	Beneficiaries (Total Number)	Investment (Rs. Million)
Community Infrastructure Development Key Performance Indicators	Whole Community 2017/18	100.6 2017/18
	15,000 Target 2018/19	100 Target 2018/19
	Whole Community 2018/19	54.9 2018/19

Management Discussion & Analysis

Social Capital

Community Capacity Building – 2018/19

Estate Worker Housing Cooperative Societies Loans scheme	Estate Worker Housing Cooperative Societies Savings Schemes	Community Training	
Creating awareness and providing housing and micro loans	Creating awareness on savings	Creating awareness on household finance, microfinance and supplementary livelihood options	
11 Estates	9 Estates	12 Estates	
1,744 Beneficiaries	4,910 Beneficiaries	6,067 Beneficiaries	
Rs. 11.73 Mn Loans Granted	Rs. 10.24 Mn Total Savings	Rs. 0.31 Mn Investment	
Outcome	Supplementary livelihoods	Stronger and empowered communities	Reduction in out-migration from estates for other employment



Improving Saving Habits - Somerset Estate








Providing Loan Facilities - Kiruwanaganga Estate



Awareness on Dengue - Bearwell Estate

Community Capacity Development Key Performance Indicators	Beneficiaries (Total Number)		Investment (Rs. Million)	
	▶	14,694 2017/18	▶	19.6 2017/18
	▶	15,000 Target 2018/19	▶	20 Target 2018/19
	▶	16,424 2018/19	▶	26.1 2018/19

Health and Nutrition – 2018/19

Immunisation Programme	Healthcare and Nutrition	Antenatal and Postnatal Care	Early Childhood Development	Auxiliary Medical Services
				
Vaccinations covering BCG, Penta, Polio, DTP, Hib, MMR etc.	Creating awareness on communicable and non-communicable diseases and nutrition	Clinics, creating awareness on nutrition, and issuing free supplements	Daycare centres, dental and eye clinics and free mid-day meals	Medical camps, eye clinics and issuing free iron supplements
16 Estates	16 Estates	16 Estates	12 Estates	8 Estates
5505 Beneficiaries	100,220 Beneficiaries	24,690 Beneficiaries	32,261 Beneficiaries	20,040 Beneficiaries
Provided by Government	Rs.6.9 Mn Total Savings	Rs.0.8 Mn Investment	Rs.0.6 Mn Investment	Rs.0.4 Mn Investment
Outcome	Reduction in anemia	Lower number of underweight children	Lower infant mortality and maternal mortality	Higher level of worker productivity



Importance of a Balance Diet
Bearwell Estate



Child Development - Kiruwanaganga Estate



Iron Supplement Programme - Mattakelle Estate

Health and Nutrition Key Performance Indicators	Beneficiaries (Total Number)		Investment (Rs. Million)	
	▶	208,767 2017/18	▶	6.3 2017/18
	▶	250,000 Target 2018/19	▶	8 Target 2018/19
	▶	204,855 2018/19	▶	9.4 2018/19

Management Discussion & Analysis

Social Capital

Youth Empowerment – 2018/19

Vocational Training	Social Issues	Personal Development	Leadership Skills	
				
Language and computer skills training and awarding scholarships	Creating awareness on substance abuse, depression etc.	Awareness on personal hygiene, health, nutrition and safety	Leadership skills training	
11 Estates	2 Estates	11 Estates	6 Estates	
3,313 Beneficiaries	100 Beneficiaries	1,068 Beneficiaries	177 Beneficiaries	
Rs. 0.33 Mn Investment	Internal Consultancy	Rs. 0.05 Mn Investment	Rs. 0.01 Mn Investment	
Outcome	Skilled and talented youth	Youth employment	Vocation Opportunities for Youth	Reduction in out-migration



Improving Leadership Skills
Somerset Estate



Providing Scholarships
Kiruwanaganga Estate



Encouraging Environmental Protection
Somerset Estate

Youth Empowerment Key Performance Indicators	Beneficiaries (Total Number)	Investment (Rs. Million)
	2,855 2017/18	0.4 2017/18
	3,000 Target 2018/19	0.5 Target 2018/19
	12,574 2018/19	0.4 2018/19

Public Policy

 **GRI Disclosures:** 102-13, 415-1

Our Memberships in Associations 2018/19

Ceylon Chamber of Commerce

Planters' Association of Ceylon

Employers' Federation of Ceylon

Plantation Human Development Trust

Biodiversity Sri Lanka

Well respected as a leading corporate, we wield power and influence, with responsibility, in our policy advocacy role within the tea industry. We maintain memberships in governmental and non-governmental bodies related to the industry, actively participating both in terms of policy making and lobbying to address industry issues and challenges. Our senior management holds key positions in policy making committees. Our Managing Director is a member of the Planters' Association of Ceylon, Tea Small Holdings Development Authority, Sri Lanka Tea Board, Rubber Research Board and Tea Council of Sri Lanka; whilst our Chief Executive Office is a board member of the Plantation Housing Development Trust.

Apart from our engagement at the policy level, we do not have any political memberships and do not support for political agendas. This reporting year, we did not record any monetary or non-monetary political contributions.

Policy making and lobbying key areas

Biodiversity and climate change

Tea research and development

Good agricultural practices

Fertiliser subsidy

Product quality and standards

Brand Ceylon Tea and marketing

Productivity improvements

Minimum wages

Revenue-share business model

Community housing and other infrastructure

Community development

Plantation worker wellbeing

Management Discussion & Analysis

Social Capital

Negative Social Impacts and Mitigatory Measures

▶ Refer: Human Capital, Forced Labour, page 148; Child Labour, Pages 147-148; Occupational Health and Safety, page 152 and Intellectual Capital, Certifications, page 105

 **GRI Disclosures: 413-2**

Our operations are extensive and far-reaching with a large community base resident within our estates in the high grown region. Their wellbeing is of strategic importance to our success—present viability of operations as well as long-term sustainability. Therefore, upholding social responsibility warrants our focused efforts to mitigate negative impacts or even potential impacts that may arise from our operations. The ‘Home for Every Plantation Worker’ programme as discussed above, sets a well-structured platform to develop our communities, enable them in their daily living and thereby, minimise our business impacts. Our corporate ethos along with our allegiance to renowned certification programmes strengthen our commitment to be a responsible corporate citizen.

Potential negative impacts from a social perspective is set out below along with our proactive measures in place to mitigate such impacts, if and when necessary.

Potential Negative Social Impacts and Mitigatory Measures and Initiatives

Labour Exploitation: Estate workers are vulnerable to forced labour or exploitation with long working hours in difficult workplace conditions. They may be called upon to work under duress and child labour could occur.

Mitigatory Measures

- ▶ **Labour laws:** We follow and comply with Sri Lanka's labour laws, rules and regulations.
- ▶ **Company policies:** We have in place human and social policies to guide us in adopting best practices in labour and community management.
- ▶ **Trade unions:** Our estate workers have the right to access trade unions and collective bargaining.
- ▶ **Statutory obligations:** We are timely in meeting all statutory obligations as per relevant laws.
- ▶ **Certifications:** We follow best practices in labour and community management as guided by the internationally acclaimed certification bodies.
- ▶ **Technology adoption:** Due investments are made to automate and streamline processes to relieve and support the workload.

Female Workforce Issues: Female workers may become vulnerable to sexual harassment and violence. They may be subject to work under duress, particularly, during their maternity and postnatal period.



Mitigatory Measures

- ▶ **Code of Ethics and Conduct:** All employees are guided by the Code including supervisors and managers. We have a structured mechanism in place to take disciplinary action against any violations of the Code.
- ▶ **Estate grievance mechanism:** We have a grievance mechanism in place at the estate level to redress issues related to our female workforce.
- ▶ **Well-woman initiative:** We are proactive in our efforts to educate and create awareness on women's health and nutrition and provide comprehensive antenatal and postnatal care.
- ▶ **Women and child protection:** Structured measures are in place to prevent sexual harassment and violence against women.

Potential Negative Social Impacts and Mitigatory Measures and Initiatives

Health and Safety Impacts: Our estate communities are highly vulnerable to health and safety issues. The living conditions in crowded areas and inadequate sanitation and access to clean water may expose them to communicable diseases including water borne diseases. Their lack of knowledge on healthy lifestyles increases their vulnerability to non-communicable diseases. They are also prone to accidents and injuries in the fields and factories including undue exposure to agro chemicals.

Mitigatory Measures

-  **Occupational Health and Safety Programme:** We follow through best practices in health and safety and roll out key initiatives in this regard at the workplace. Our health and safety committees are represented by the workers. Well-structured safety measures are in place including awareness building on chemical applications and access to protective and safety equipment and gear. Training is extended on first aid.
-  **Community Healthcare Programme:** Under our dedicated community programme, we have prioritised health and nutrition initiatives, focusing on immunisation, preventive healthcare, nutrition, antenatal and postnatal care and providing essential medical services. We collaborate with governmental and non-governmental agencies to provide water and sanitation facilities. Fully equipped medical centres are established within estates along with ambulance services in key locations.

Community Grievance Redressal

 **GRI: Disclosures:** 419-1

We are open and accessible with an organised grievance mechanism to support our estate workers and our local communities to discuss and resolve their issues and concerns. Our estate management is the first point of contact for handling grievances. Unresolved grievances at the estate level will be forwarded to the corporate management for remedial action. We also consult our trade unions in the grievance management process. In the reporting year, we did not record formal grievances through this mechanism. We were also not subject to monetary fines or any other non-monetary sanctions for non-compliance with laws and regulations from a social perspective.

Management Discussion & Analysis

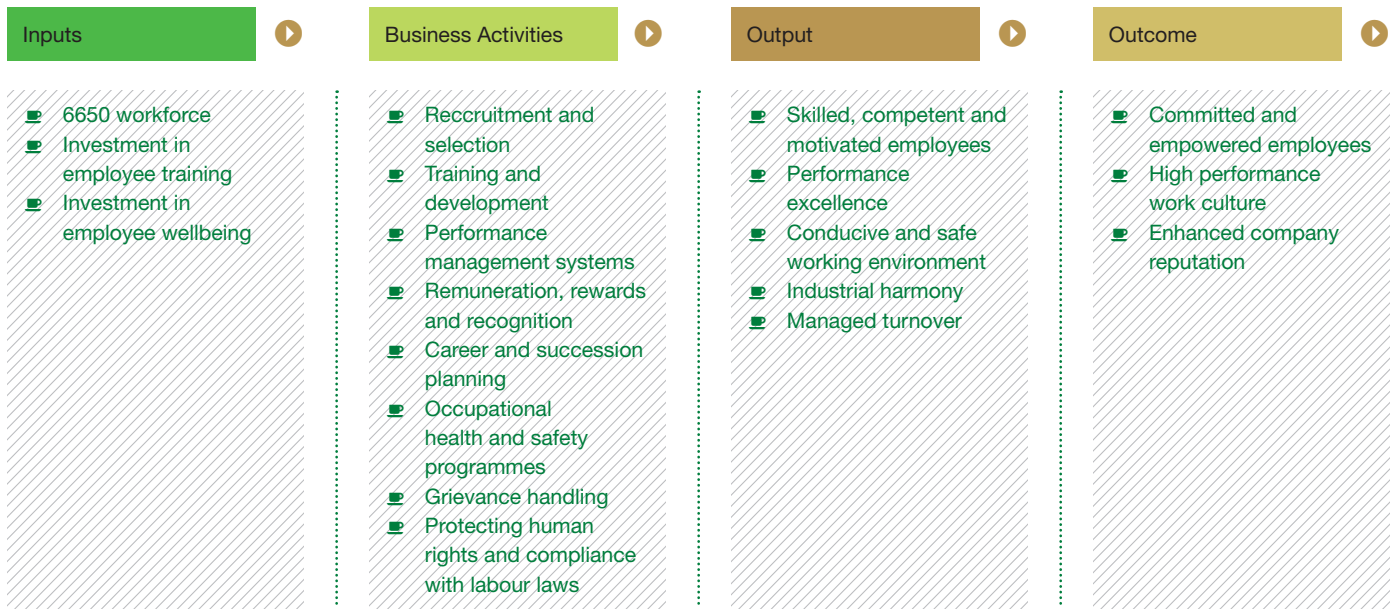
Human Capital

► Overview

We have with us over 6000 people working across our estates and factories in the high and low grown elevations. Their dedication and hard work essentially underline our operations, growth and our path ahead. We deeply value our engagement with our people and remain committed to extend a fair and an empowering workplace, upholding best human resources (HR) policies and practices. Human capital section herein will discuss in detail, our people management approach, strategy and HR performance, highlighting key performance indicators.

“In an enabling work environment, we continued to build on skills and drive for performance, thus, securing employee commitment and reaching out to our corporate goals.”





Asia Pacific HRM Congress Award, 2018
Best HR Organization to work with -
Hayleys Plantations
Asia Pacific HRM Congress



The Golden Globe Tigers 2018
Excellence in HR Leadership, Best Advance in Performance Management -
Hayleys Plantations
World HR Congress



National Business Excellence Awards 2018
Excellence in Performance Management -
Gold Award
National Chamber of Commerce



National Business Excellence Awards 2018
Excellence in Capacity Building -
Gold Award
National Chamber of Commerce



National HR Conference, 2018
Great HR Practices - Winner
Hayleys Plantations
Institute of Personnel Management of Sri Lanka



National Social Dialogue & Workplace Cooperation Award 2018 (Large Scale), Labour Department

- Somerset - Silver
- Dessford - Bronze
- Mattakelle - Merit

Management Discussion & Analysis

Human Capital

 GRI: Disclosures: 103-2, 3

Management Approach

HR Policy

“People will continue to be our most valued resource and we are committed to nurture and develop them consistently”

- Treat people with dignity and respect
- Enhance quality of life, self-esteem and morale of the workforce
- Encourage people to be initiative, creative and innovative
- Train, empower, motivate the workforce
- Give due recognition for performance
- Equal opportunity and prohibit any form of discrimination or discriminatory practices
- Employee right for freedom of association, right to form and join trade unions and bargain collectively
- Prohibit any form of forced and bonded labour
- Minimum age of employment shall be 18 years
- Precedence to be given to local workers for employment and training on estates

Operating in a labour intensive industry, our workforce plays a pivotal role within our value creation process and thereby, warrants strategic precedence. We are focused and consistent in our engagement with our people, at the corporate office in Colombo and at the estates and factories. Complying with the country's labour laws, rules and regulations and as guided by our HR policy, industry norms and our certification principles and standards, we are equitable, responsible and ethical in our workplace practices.

We follow a ‘top-down’ labour management approach. Our corporate HR along with regional clusters guides individual HR teams at the estate level. These teams are responsible and hands-on in implementing,

 GRI: Disclosures: 102-15

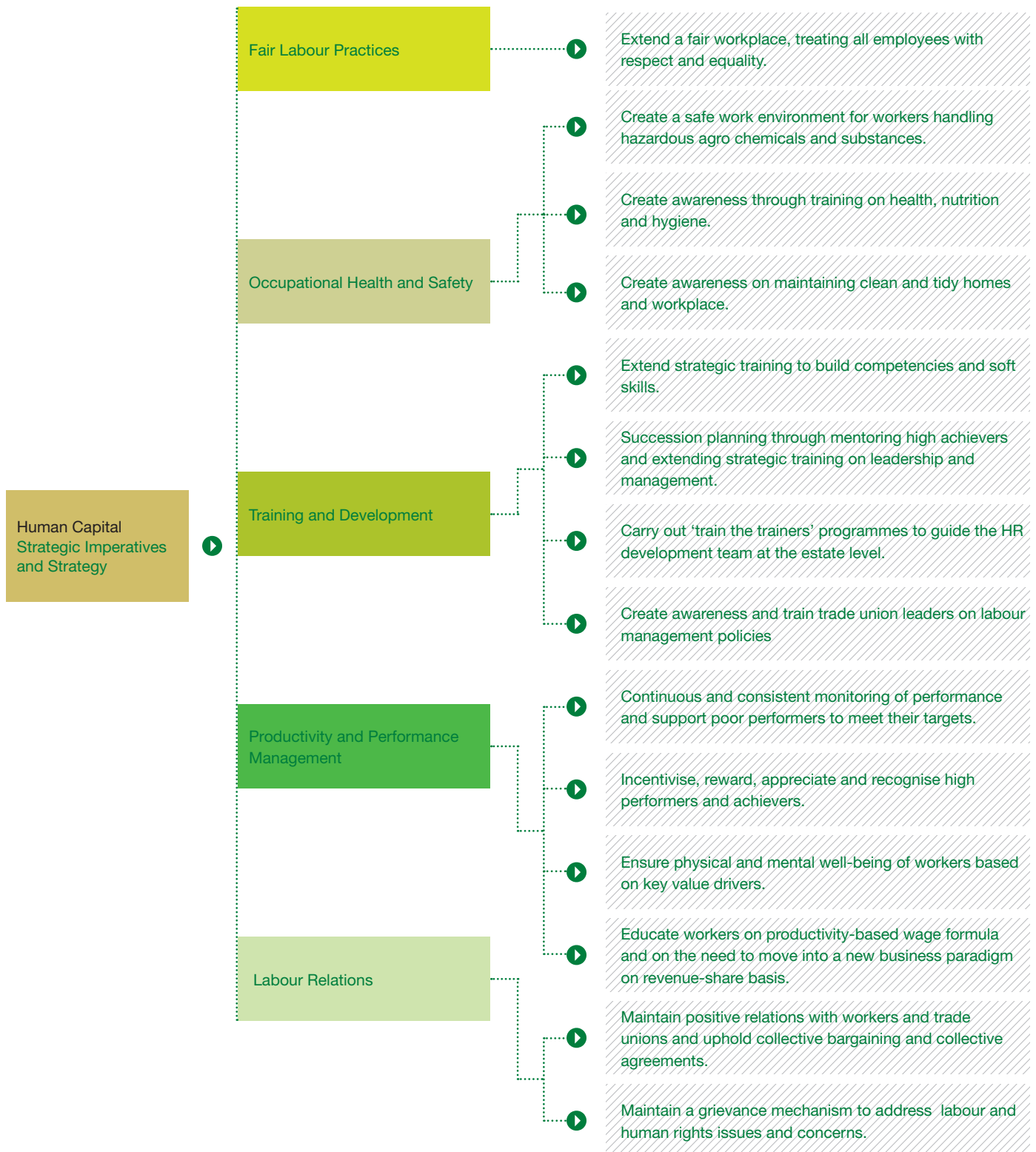
+ Opportunities

- Large human resource base within the estate communities to source as labour.
- Trainability qualities of the workforce enabling modernisation of operations.
- Top-down commitment to inclusivity and diversity supports to nurture an enabling work environment, worker loyalty, motivation and higher productivity.
- Commitment to bring in a learning and development culture empowers the workforce and supports business viability.
- Commitment to nurture a performance oriented work environment supports an engaged workforce and higher productivity

managing and monitoring HR activity plans in line with the organisation's HR policy, goals, strategy and plans. Our management approach is built and determined on five strategic imperatives. Accordingly we give due precedence to fair labour practices in terms of recruitment and retention; develop employees with learning opportunities and training to build their competencies to meet the current industry challenges; build estate level workforce, enhance their quality of life and their morale on a well-thought-out key value driver programme for higher productivity; and consistently monitor, motivate and incentivise employees on performance. We also give priority to manage sound labour relations through cordial trade union engagements, collective bargaining and grievance handling.

- Risks

- Intensive and irrational trading union activities impact labour productivity, cost of production and viability.
- Absenteeism lowers productivity and compromises the competitive edge.
- Urbanisation and changing socio-economic aspirations lead to greater labour out-migration
- Ageing workforce impedes on labour productivity and operational viability.
- Influencing power of technology trends change worker attitudes and expectations, impacting productivity, causing labour unrest and out-migration.



Management Discussion & Analysis

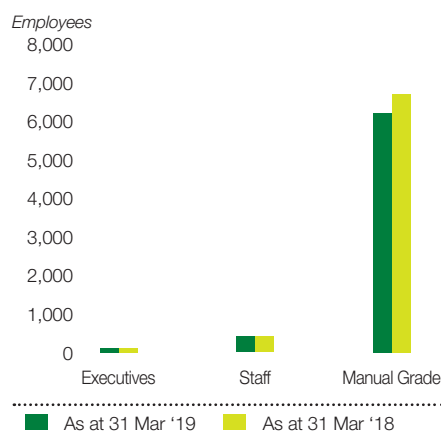
Human Capital

GRI: Disclosures: 102-8, 405-1 & 406-1

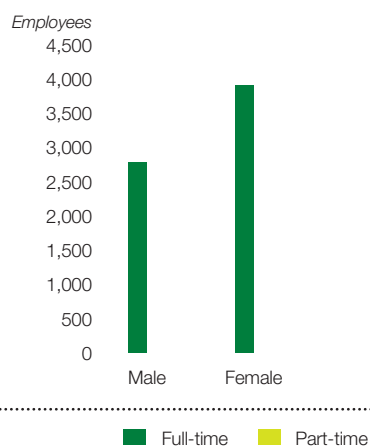
Workforce Profile and Diversity

Diversity is an integral part of our workplace. We seek to maintain a balanced workforce, moving towards fair representation, inter alia, of gender, ethnicity and age. We strive to inculcate a broad-minded work culture where we nurture unity within diversity. Our HR policy upholds equal opportunity and our workplace practices are non-discriminative. All recruitment, promotions, remuneration, rewards and training are purely determined on merit. Our collective bargaining agreements and the certification programmes complement our efforts in this regard. We have not received any complaints or being subject to any legal action for discrimination during the reporting year. The annual audits conducted independently by our certification bodies did not record findings of violating our non-discrimination policy. Procedures are in place to deal with such incidents, if and when, they occur.

Workforce

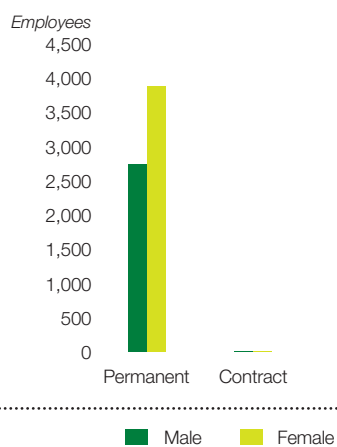


Employment Type by Gender



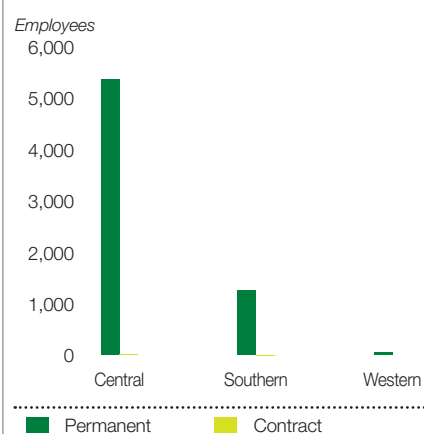
6,650 employees worked as full-time staff, representing 41.6 percent of the workforce as male employees and 58.4 percent as female employees.

Employment Contract by Gender



3786 employees were female, representing 61 percent of the permanent workforce, mainly in manual grade.

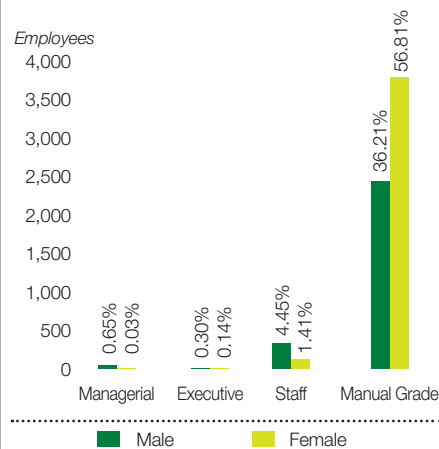
Employment Contract by Region



5373 employees worked in the high-grown estates, representing 81 percent of the workforce.

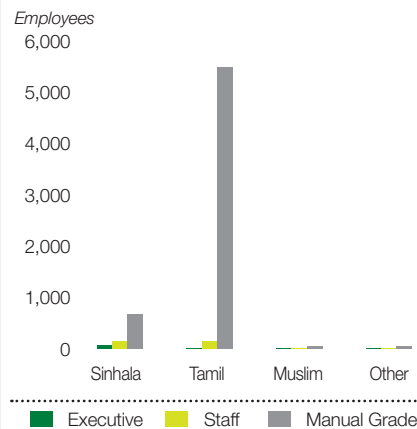
Workforce Profile and Diversity

Employment Category by Gender



Majority of the manual workforce is female. Staff and executive categories have more representation of male employees. We also have a female member representing the Board of ten, and two female members representing the corporate management of eight.

Employment Category by Ethnicity



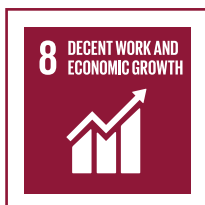
Manual grade employees mainly fall under minority groups whilst executive and management staff are skewed towards majority Sinhalese.

Employment Category by Age



All three employee categories mainly fall under the age of 30-50 years, a good mix of experienced senior staff and the dynamic younger staff.

Fair Labour Practices



Women Empowerment

Empowering our female employees and the women living in our estate communities, this year, we pledged our allegiance to the UN Global Compact Women Empowerment Principles. Our Chief Executive Officer pledged the management support by signing the CEO Statement of Commitment to reinforce and foster our ideals on gender equality within our workplace.

UN Women Empowerment Principles

Establish high-level corporate leadership for gender equality

Treat all women and men fairly at work – respect and support human rights and non-discrimination

Promote education, training and professional development for women

Implement enterprise development, supply chain and marketing practices that empower women

Ensure the health, safety and well-being of all women and men workers

Promote equality through community initiatives and advocacy



Measure and publicly report on progress to achieve gender equality



Management Discussion & Analysis

Human Capital



Staff Recruitment and Turnover

GRI Disclosure: 401-1

Recruitment vs Turnover 2018/19				
	Recruitment		Turnover	
	Total Number	Rate of Recruitment (% of total workforce)	Total Number	Rate of Turnover (% of total workforce)
Gender				
Male	190	2.85	261	3.92
Female	188	2.82	292	4.39
Age				
Below 30 years	149	2.24	110	1.65
30-50 years	182	2.73	262	3.93
Ove 50 years	47	0.70	181	2.73
Region				
High Grown	156	2.34	306	4.60
Low Grown	222	3.33	247	3.71
Total	378		553	

Upholding the principle of equal opportunity, we look to employ the right talent to the organisation without prejudices. The recruitment process is well-structured with selection criteria, guidelines and procedures in place. Due precedence is given for internal staff in terms of transfers, promotions and cross-placements between estates and departments.

In the year under review, 378 new employees joined our cadre, representing an decrease of 35% percent over the previous year. Majority of the new recruitments, 81 percent, were employed within the manual category whilst nearly 56 percent within this category were female. Out of 72 executive and staff recruitments, 24 percent were female employees. We also promoted 33 and transferred 14 employees within the staff and executive grades.

Underscored by best labour management practices, our retention rate stood at 93.2 percent whilst the average turnover rate was 6.8 percent as at 31st March 2019. Staff turnover was highest within the manual worker category, corresponding to 86 percent. The turnover was high amongst the female workers and within the age group of 30-50 years.

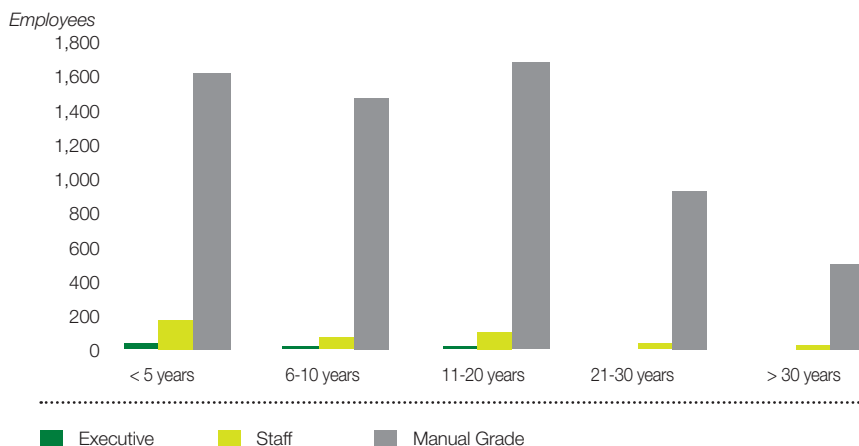
Maternity Leave

 **GRI Disclosure: 401-3**

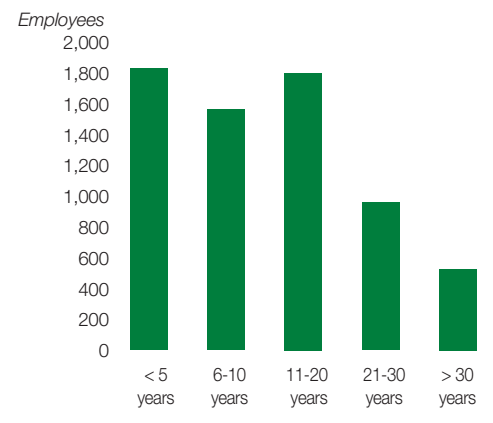
Maternity Leave & Retention – 2018/19		
	Number	% of Female Workforce
Maternity leave availed	129	3.3
Returned to work after maternity leave	62	1.6
Resignations after maternity leave	4	0.1
Retained within the organisation after 12 months of taking maternity leave	125	3.2
Return to work rate: 48%		
Retention rate: 97%		

As per Sri Lanka's labour laws, our female employees are entitled to avail 84 working days as maternity leave. In the year under review, 3.3 percent of female employees availed maternity leave and 1.6 percent returned to work. Only 0.1 percent resigned after maternity leave. Our female employees are also supported to avail their entitlement for feeding time after their maternity leave. As per our labour laws, male workers are not entitled to paternal leave.

Service Analysis by Category Wise



Service Analysis by Overall Workforce



Child Labour

 **GRI Disclosure: 408-1**

 Refer: Relationship Capital – Supplier, Page 123

Our service record is robust and stable. Out of the total cadre, 50 percent accounted for a healthy service record between an average of 6 to 20 years as at 31st March 2019. Manual and staff grades, accounted for 99 percent whilst the executive category accounted for 1 percent within this service category.

As guided by our HR policy, we do not engage or employ minors in our estates and factories across the organisation. We follow stringent recruitment procedures where we call for and verify age on documentary proof of our candidates for any vacancy. We are also cautious and follow due processes to identify and prevent child labour taking place across our supply chain including its operations. Our child care initiatives carried out within our estates in collaboration with non-governmental organisations demonstrate our commitment to protect and safeguard our children.

Management Discussion & Analysis

Human Capital

Child Protection Focal Training – ‘Mother and Child Friendly Plantations’

As initiated in the preceding year, we continued to collaborate with the Save the Children, Hong Kong, to take forward the three-year programme to address child welfare including child protection, health, nutrition and education. We as a Plantation sector, launched and pledged our allegiance to the Child Protection Policy in February 2018 and worked

towards meeting child protection and early childhood care and development standards. In the reporting year, we carried out comprehensive training at the estate level including representative from the resident communities to create awareness and advocate child friendly initiatives under this programme.



- Estates engaged: 16
- Participation: 12
- Training sessions held: 2 (Child Protection Focal Points)
- Training investment: Rs. 3.5 Mn
- Beneficiaries: 293 (Children of Dessford Estate)
- Other Initiatives: Formed 6 Children clubs and village child development committees at Dessford Estate

Forced Labour and Exploitation

Refer: Relationship Capital – Supplier, Page 119

GRI Disclosure: 409-1

Following Sri Lanka's labour laws and as enshrined in our HR policy and guided by our certification programmes, we uphold professionalism in our engagement with our employees and treat them with utmost respect. We are conscientious in meeting our employer obligations. Our compensation is aligned to the industry standards and we make productivity-based payments and offer benefits to ensure employee wellbeing. We are responsible in meeting our statutory obligations including defined benefit, contribution and gratuity payments. We are also conscious of safeguarding our supply chain including its operations from irresponsible labour practices. We have a screening mechanism in place to identify, screen and monitor incidences of forced labour and exploitation amongst our suppliers and business partners.

Child Protection Focalpoint Training – 9 Module Programme Salient Topics

Children's Rights

Violence Against Children

Preventing and Responding to Violence Against Children

Gender Awareness

Child Participation

Child Protection Policy

Staff Code of Conduct

Reporting Child Protection Concerns

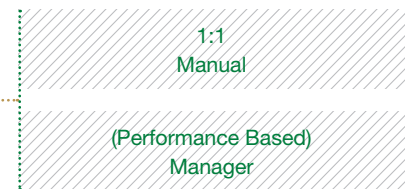
Independent Inquiry and Investigation

Remuneration and Benefits



GRI Disclosure: 201-3, 202-1, 401-2 & 405-2

Ratio of Basic Salary of Female Employees to Male Employees



Our compensation policy is well in line with industry norms. Collective bargaining is present which underlines a fair pay system. Compensation for manual and staff grade employees is collectively determined on a wage formula in consultation with the trade unions. Therefore, female employees are entitled to a basic wage/salary equivalent to male employees. Executive and manager's basic salaries are determined on their level

of qualifications, experience and industry norms.

We are also timely and fair in meeting compensation payments and statutory benefit and contribution obligations as stipulated by the labour laws in Sri Lanka. In the reporting year, we provided a sum of Rs. 175 million to the Employees Provident Fund and Employee Trust Fund. Our

gratuity liability provision stood at Rs.143.4 million. Our full-time permanent cadre is entitled to a comprehensive set of fringe benefits over and above their salaries and wages. We incurred a sum of Rs.1,738 million as salaries & wages and Rs. 125 million for other benefits.



Kiruwanganga Estate



Great Western Estate



Indola Estate

For the Youth Empowerment	Basis of Contribution	2018/19	2017/18
Rs Mn			
Defined Contribution Plan Obligations			
Employees' Provident Fund	8%* 175		180
Employees' Trust Fund	3%		
Defined Benefit Plan Obligations			
Gratuity Provision	143.4		107
Gratuity Payments	83		

Note: 3% is contributed by the employees

Management Discussion & Analysis

Human Capital

Benefits Permanent and Full Time Employees FY 2018/19

Estate Level

Manual Category

- Housing with electricity and water
- Medical facilities and free clinics and prescription drugs
- Maternity benefits and child care facilities
- Scholarships for children
- Milk, wheat flour and mid-day-meal nutrition programme for children
- Death donations

Staff Category

- Living quarters with electricity and water
- Employee and immediate family medical insurance for OPD, spectacles and hospitalisation
- Scholarships for children
- Death donations

Executive Category

- Living quarters with electricity and water
- Employee and immediate medical insurance on OPD, spectacles and hospitalisation

Manager Category

- Bungalows with electricity and water
- Employee and immediate family medical insurance on OPD, spectacles and hospitalisation

Corporate Office

Staff Category

- Employee and immediate family medical insurance - OPD, spectacles and hospitalisation

Executive Category

- Employee and immediate family medical insurance on OPD, spectacles and hospitalisation

Manager Category

- Employee and immediate family medical insurance on OPD, spectacles and hospitalisation



Child Care Facilities - Mattakelle Estate



New Housing - Great Western Estate



Medical Facilities - Somerset Estate

Occupational Health and Safety

GRI Disclosure: 403-1, 4



Health and Safety Policy Salient Features



“We are totally committed to provide a safe and clean work environment to all employees and ensure their health and safety at the workplace.”



- Extend preventive and protective safety measures in all production and processing areas
- Extend regular training and educate on relevant health and safety aspects
- Be proactive in implementing health and safety programmes across operations
- Health and safety committees to be led by estate managers with worker representation
- Comply with applicable national health and safety laws and regulations
- Carryout regular health and safety risk assessments and review health and safety standards, programmes and objectives

Health and Safety Topics Covered in Collective Agreements

Maternity Benefits	Medical Aid Scheme
Death Grants	Workmen Compensation

Health and Safety Committees

443 Committees High Grown	232 Committees Low Grown
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Workforce Covered by Committees

8.2% High Grown Workforce	18.6% Low Grown Workforce
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Staff Representation in Committees

21 Managers	8 Executives	154 Staff	492 Manual
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Management Discussion & Analysis

Human Capital



Palmerston Estate



Kiruwanaganga Estate

Occupational Health and Safety High Risks Areas and Mitigatory Measures Taken

Manual Employees

Communicable Diseases

- Comprehensive immunisation programme for employees and for the resident communities
- Medical center facilities in estates with ambulance services
- Free medicine on prescriptions
- Regular health camps to create awareness on preventive healthcare

Water-borne Diseases

- Timely investments to provide water and sanitation infrastructure
- Collaborate with government and non-government organisations to provide clean water and sanitation facilities
- Regular health inspection of the workplace and homes

Malnutrition and Anaemia

- Prioritising as a key value driver with special emphasis given within the HR strategy
- Training and awareness building on nutrition and support for manual workers
- Testing blood of the estate workers for hemoglobin levels and issuing de-worming and iron tablets
- Awareness building programmes on nutrition for antenatal and prenatal care

Accidents and Insect and Snake Bites

- Medical Centers facilities
- Ambulance services in strategically located estates providing 24-hour medical services and first aid

Agro-chemical Hazards

- Separate sanitation and changing room facilities for all agrochemical sprayers
- Personal protective equipment for agrochemical sprayers
- Awareness building for workers engaged in agrochemical transport, storage and application
- Material safety data sheets to monitor agrochemical applications responsibly

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Manager/Executive/Staff

Non-communicable Diseases

- Extending a comprehensive medical insurance scheme
- Awareness building programmes on non-communicable diseases

Work Stress

- Encourage staff to have a work-life balance
- Carryout motivational building and stress management programmes

In accordance with our health and safety policy, we have periodically assessed the risk levels and found that the manual grade category employees have greater risk due to the nature of their jobs. As such the Company have taken precautionary measures to safe guard such employees while also ensuring the safety of other staff.

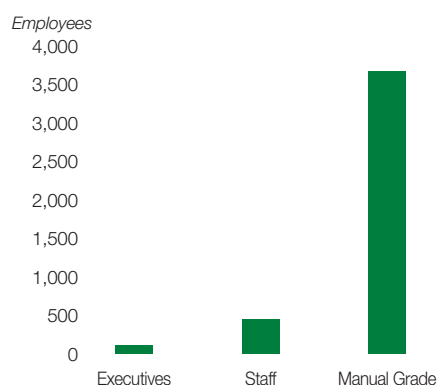
Health and Safety Training Focus Areas

Health and Nutrition

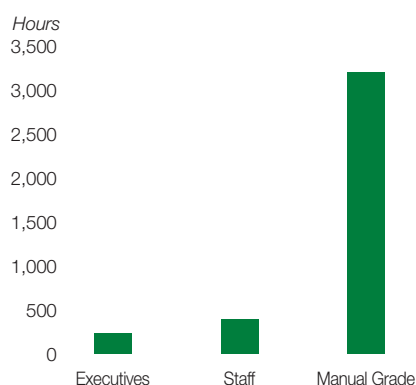
Safe Manufacturing Practices

Safe Agro-chemical Applications

Employees Trained on Health and Safety by Employee Category



Hours on Health and Safety by Employee Category



As guided by our health and safety policy and in line within the collective bargaining agreements, we follow through a comprehensive programme to ensure health and safety across our organisation. Our health and safety committees represented by all employee categories are responsible to spearhead, implement and monitor the health and safety initiatives covering our estates, factories and the corporate office as well as amongst our resident communities. Our certification programmes also support our efforts to ensure both mental and physical wellbeing and safety of our people. The human development progress reports we publish for all our

Health and Safety Training - 2018/19

Training Areas	Employee Category	Number of Participants	Training Hours	Training Outcome
Health and Nutrition Communicable and non-communicable diseases Importance of nutrition Awareness on health and hygiene	Executives	45	114	Improvement in health and safety Healthy employees Higher level of productivity Less hazards Clean environment Less injuries Reduced lost days Improved efficiency Reduced wastage
	Staff	110	110	
	Manual Grade	520	526	
Good Manufacturing Practices Good safety practices at work Knowledge and importance of MSDS Reduce spillages Protection from hazards	Executives	38	86	
	Staff	123	123	
	Manual Grade	1626	1313	
Safe Agro-chemical Applications Awareness and guidance for applying chemicals Calibration of spraying tanks Use of personal protective equipment (PPEs) Safe handling of chemicals Environmental pollution	Executives	15	30	
	Staff	215	151	
	Manual Grade	1532	1365	

Management Discussion & Analysis

Human Capital

estates on a quarterly basis closely monitor our health and safety programmes to ensure that the outcomes are in keeping with our organisational goals.

Injury and Lost Days

Occupational Health & Safety Records – 2018/19						
	Injury Rate		Occupational Disease Rate		Lost Day Rate	
	Manual Grade	Total Workforce	Manual Grade	Total Workforce	Manual Grade	Total Workforce
Male	0.27	0.25	0	0	0.49	0.05
Female	0.72	0.67	0	0	0.05	0.04
High Grown	0.79	0.73	0	0	0.09	0.08
Low Grown	0.21	0.19	0	0	0.08	0.01

Assumption:
 Types of injuries: Falls, snake and insect bites in the fields, estate and factory machinery accidents, estate transport related accidents, accidents related to agro chemical applications etc
 Injury rate includes both major injuries and minor injuries
 Lost days are calculated based on scheduled work days

Occupational accidents and injuries reached 675 in the reporting year. This corresponded to 10 percent of the total workforce. The total man days lost stood at 882.5 compared to 568.5 in the preceding year. All injured employees were given duty leave and insurance relief under the workmen's compensation cover. There were no fatalities recorded within the workplace or during work hours in the reporting year.



Health & Safety Training - Palmerston Estate

Training and Development



GRI Disclosure: 404-1 & 2



National Vocational Qualification (NVQ) Training

Collaborating with the Employers' Federation of Ceylon (EFC) and the International Labour Organization (ILO), we extended internationally accepted vocational training to field/supervisory and team leaders at the estate level to further develop their technical skills.

- Qualification: National Vocational Qualification, Level I, II and III
- Resource persons: Specialised and experienced trainers from EFC and ILO
- Participating estates: 12 high grown and 4 low grown estates
- Number trained: 35
- Training completed: 2 Days
- Training sessions held: 2
- Training areas: Technical competencies on agronomic and agricultural practices



Outward Bound Training

In our quest to build and strengthen our collaborative spirit within our estates, we organised an interesting outbound training programme in the month of July 2018 for our planting executives & corporate staff.

- Training theme: Leadership, Team Building & Improving Self Confidence
- Training institute: Sri Lanka Command Regiment Training School, Uva Kudaoya
- Participating estates: 16
- Number trained: 55
- Learning outcome: increased self-confidence, improved team work and leadership skills



Training and development warrant strategic priority to build our large workforce with skills, team spirit, work ethics and commitment to reach out to higher level of productivity and operational excellence in a challenging business backdrop. Our approach to training is pragmatic, hands-on and well-structured to address skills gap and motivation to accomplish our organisational goals from a long-term standpoint.

Our annual training plan factors in the training needs at all employee levels as ascertained by the line supervisors and managers, particularly, during the performance evaluations process. Our training is structured as in-house programmes, on-the-job training as well as external training including overseas training. We have in place well-equipped training facilities to support training initiatives in most of our estates. We encourage all staff with necessary leave and support to avail these training opportunities.

Training Hours		Employees Trained		Training Investment (Mn)	
Key Performance Indicators	▶	13,209 2017/18	▶	14,336 2017/18	▶ 2.98 2017/18
	▶	15,000 Target 2018/19	▶	15,000 Target 2018/19	▶ 2.5 Target 2018/19
	▶	10,011 2018/19	▶	10,156 2018/19	▶ 4.2 2018/19

Apart from structured programmes, we also offer scholarships and study loans, particularly, targeting our younger staff members, to further develop their skills and take up relevant study courses under well-recognised professional and vocational training bodies and universities.

We work with renowned trainers and resource persons including the academia to extend well-rounded and strategic training for our employees to build their technical and soft skills. We also work closely and collaborate with our certification bodies, National Institute of Plantations Management, Tea Research Institute and National Institute of Business Management in this regard. Our qualified and well-experienced senior staff, consultants and advisors are called upon to support our internal training initiatives. During the reporting year, our training reached out to 10,156 employees of all categories across the organisation covering 10,011 training hours. Our training investment in the year stood at Rs. 4.2 million, an increase of 41 percent over the previous year.

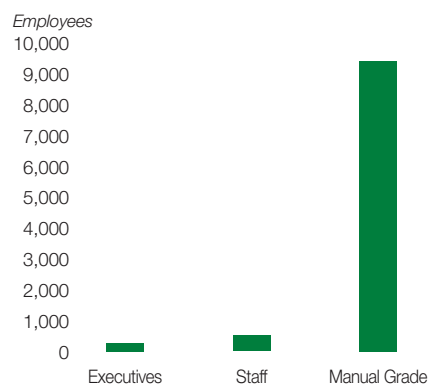
Management Discussion & Analysis

Human Capital

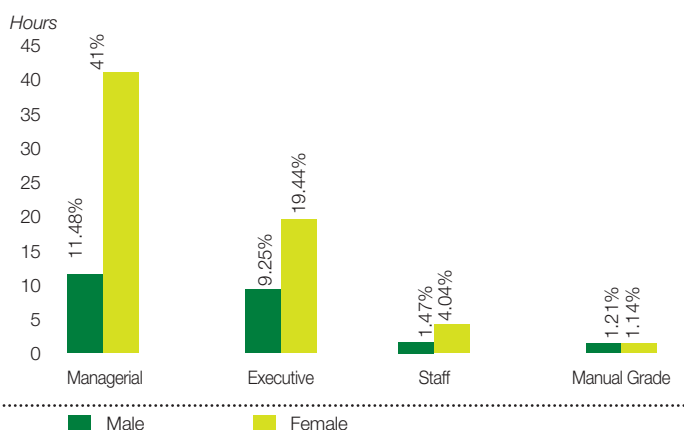
Training Focus



No of Employees Trained



Average Hours Trained Gender Wise



Training Programmes - 2018/19

Training Programme	Training Institute/Trainer	Employee Category	Training Outcome
Agriculture and Manufacturing			
Tea Manufacture & Factory Practices	National Institute of Plantation Management (NIPM)	Managers	Expertise in tea manufacturing & Efficient Factory Management
Cultivation & Management of Export Agricultural Crops	Uva Management Development Institute, Passara	Field Staff	Nutrient management and awareness on plant, soil, water,
Productivity Concepts and Techniques	BizEx	Field & Factory Staff	Improve the production efficiency, enhanced knowledge and time management
Tea Tasting & Grading	National Institute of Plantation Management	Managers	Expertise in tea manufacturing, achieving higher prices
Field & Factory Practices	Internal/External Consultants	Field & Factory Workers	Work Efficiency, Time management and enhanced Knowledge

Training Programmes - 2018/19			
Training Programme	Training Institute/Trainer	Employee Category	Training Outcome
Quality and Standards			
Quality Assurance	In-house	Factory Staff/workers	Enhancing Quality, higher productivity
5S Concepts	In-house	Staff & Workers	Time Management & Efficiency
Occupational Health & Safety			
Communicable & Non-communicable diseases	In-house/External Consultant	Executive & Staff	Improvement in health and safety, healthy employees
How to use Personal Protective Equipment in the Workplace	In-house	Staff & Workers	Safety & reduction in accidents
Importance of safety and good safety practices at work	External Consultant	Executives, Staff & Workers	Safe working environment & good health
Safety Handling of Agro Chemicals	In-house	Staff & Workers	Safety & Good Health
Awareness on health and Hygiene	In-house	Staff & Workers	Good health, cleanliness and hygiene
Environmental Management			
Climate Opportunities for Business	Ceylon Chamber of Commerce	Asst Manager	Climate change mitigation action, adapting business strategies to the climate change, climate smart agriculture initiatives
Awareness on Environmental Policy	In-house	Staff & workers	Reduce pollution, cleanliness healthy lives
Waste Management	In-house	Staff & workers	Cleanliness, environmental protection
Energy Efficiency Improvement	SGS Lanka (Pvt) Ltd	Managers	Cost reduction, energy consumption, reduce carbon footprint
Strategic Management			
Corporate Management Programme	JASTECA (Japan)	General Manager	Acquiring knowledge of best leadership traits, ability to take challenges, drive organizational performance
Problem Solving & Decision Making	Hayleys	Manager	Avoid complications, taking right decisions, development
Industrial Safety for Higher Productivity	External Consultants	Managers	Ensuring adherence to set rules and procedures, achieving results on measurable targets
Continuing Professional Development	Certified Management Accountant	Managers & Executives	Increased self-confidence, acquire knowledge
Leadership, Team Building & Improving Self Confidence	Sri Lanka Command Regiment Training School	Managers & Executives	Increased self-confidence, Improved team work and leadership skills

Management Discussion & Analysis

Human Capital

Training Programmes - 2018/19			
Training Programme	Training Institute/Trainer	Employee Category	Training Outcome
Current Trends in sustainable Business Practices	Ind-Expo	Managers	Acquired new knowledge, applied current business practices
HR Development			
Orientation Programme	Hayleys PLC	Executives	Awareness on the Company
Language Proficiency	National Institute of Plantation Management	Managers & Executives	Improved communication skills, better understanding, improved work
Leadership Mindset in the 4th Industrial Revolution "Redefining skills for 2020"	Praguna Management (Malaysia)	Managers & Asst Managers	Understanding the influence of digitalization on business & challenges in creating a digitalized organization
Community Capacity Building	In-House	Workers	People development
Improve the living standards of employees	In-House	Workers	Happy & healthy workforce, higher productivity
Leadership, team work, gender equality and gender based violence	External Consultants	Field & Factory Staff	Building Confidence, Enhancing Inter Personal Relations



Motivating Employees - Bearwell Estate



Waste Management - Kiruwanaganga Estate



Leadership Programme - Malaysia



Nursery Preparation - Indola Estate



Awareness on Environmental Policy - Radella Estate



Child Protection Programme - High Grown Estates

Productivity And Performance Management

Estate Productivity

8 DECENT WORK AND ECONOMIC GROWTH		Key Value Drivers Programmes/Initiatives 2018/19	
		<p>“Be a part of the solution, not a part of the problem”</p> <p>Dr. Roshan Rajadurai - Managing Director</p>	
1	Zero anaemia, maternal malnutrition and underweight children for a healthy life	▶	<ul style="list-style-type: none"> Awareness building on anaemia, nutrition, worm infestation Identify anaemic workers through Hemoglobin screening Issue iron and de-worming tablets Awareness building on iron rich foods and nutrition and home gardening of nutritious and medicinal plants Awareness building on breast feeding and child nutrition and family spacing
2	100% attendance at work for increased earnings	▶	<ul style="list-style-type: none"> Awareness building on the importance of estate work Supporting poor performers through HR and welfare programmes Rewards and recognition for performance Introduce and encourage workers to adopt the out-grow model
3	Create a better future for family and children for a prosperous life	▶	<ul style="list-style-type: none"> Awareness building on smoking, alcoholism and other addictions Awarding scholarships to high achiever children Introduce life insurance Train workers on household cash management
4	Clean, tidy homes and working places	▶	<ul style="list-style-type: none"> Awareness programmes on cleaning houses and surroundings Training on solid waste management Organise inspections from health officials
5	Nutritious food and healthy lifestyle for a better quality of life	▶	<ul style="list-style-type: none"> Training on growing nutritious and medicinal value vegetation in home gardens Training female workers on preparing nutritious food Well-women and eye clinics Senior citizen wellbeing programmes Awareness building on savings and credit management Medical assistance for minor surgery
6	Training and development and talent enhancement to maximise human potential to increase earning capacity of employees	▶	<ul style="list-style-type: none"> Training on key value drivers Training on productivity, leadership, team building and positive thinking Forming and training occupational health and safety committees Training on certification programmes

Management Discussion & Analysis

Human Capital

As a labour-intensive operation, worker productivity is a critical success factor determining our viability and long-term sustainability. Our approach is to build a healthy workforce, ensure their wellbeing and uplift their living standards and their quality of life. This we believe will improve worker morale, increase their productivity, secure their loyalty to the workplace and retain them within our estates.

We have in place a structured platform to develop the overall well being of our workforce, both physically and mentally, encompassing six value drivers. Our competent and trained team of human development officers under the regional cluster supervision guide and implement the value driver programme across our estates, mainly in the high grown region.

Best Plucker Competition

Championing productivity amongst the estate workforce, we initiated the best plucker competition in collaboration with the sister companies within the plantation sector of the Hayleys Group. The competition is opened up for best pluckers who will be selected on a set of structured criteria that will be applied across the estates. The best pluckers at the estate level will go on to compete at the company level. The winners at the gang, division, estate and company levels will be duly recognised and rewarded. The selection and rewarding process is transparent and fair, without prejudice. Already 16 estates have held their competitions and the company competition is to be held on 1st July 2019.

Participating Estates: 16

Participating Number of Pluckers: 463

Assessment Criteria:

- 40% for kilos plucked
- 30% for quality of leaf
- 30% for plucking practices and bush maintenance after plucking

Rewards for the three best pluckers at Final Level

- One-day family outing
- Weekend outing package for family
- Foreign tour for family

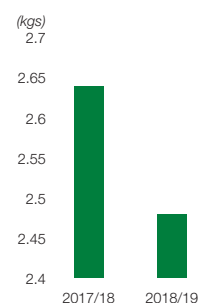


Key Value Drivers Outcomes 2018/19

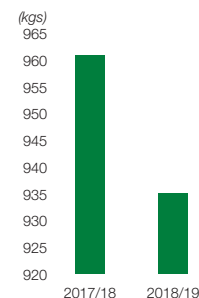
93.2%
Estate Worker Retention



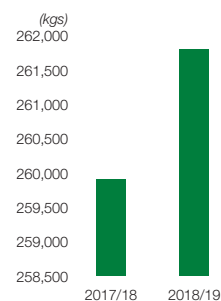
Worker Productivity MT - kgs/worker days



Production/Estate Worker



Earnings/Worker



Performance Evaluations

▶ Refer : Intellectual Capital, Performance Management Mechanism, Page 109

 GRI: Disclosures: 404-3

Driving for a performance-based work culture, we continued to rely and follow through a comprehensive performance management process. We have in place clear measurement criteria under the balanced score card method to evaluate employee performance annually on a set of key performance indicators from six different perspectives. Our performance evaluations cover staff, executive and management categories. Evaluations are carried out at a collective level as well as at an individual level. All rewards including salary increments, bonuses, incentives and recognition are determined on the results and the merits ascertained during the performance evaluation process.

In the year under review, we evaluated all employees and they were duly rewarded and recognised. High achievers were appreciated at the staff awards organised by the Hayleys Plantation sector. They were also given special training and continued to be mentored to develop their management and leadership skills under the abled-guidance of our senior management at the corporate office and at the estates.



Employee Appreciation -
Great Western Estate

Balanced Score Card - Performance Evaluation Criteria

Financial Perspective

- Profit
- Gross sales average
- Cost of production

Business Process Perspective

- Yield
- Good agricultural practices
- Forestry and planting programme
- Business diversification

Customer Perspective

- Certification Standards
- Relationship with buyers
- Record keeping for Reporting

Learning and Development

- Key value drivers
- Company's standing Instructions, rules and regulations
- Training programmes
- Knowledge sharing

Competencies

- Systems adherence
- Leadership skills
- Planning and organisation
- Communication skills
- Judgement/decision making
- Work knowledge
- Self development

Values

- Honesty and integrity
- Passion for work
- Openness and trust
- Inner work standards
- Attitude
- Team work
- Conduct
- Innovation

Management Discussion & Analysis

Human Capital

Staff Recognition and Awards

Annual Staff Recognition Ceremony
2018/19 - "Celebrating Excellence"



Labour Relations

GRI: Disclosures: 102-41, 402-1 & 407-1

Collective Bargaining Agreements - Key Areas Included and Notice Period for Implementing Operational Changes



Manual Grades

- Base Wage
- Attendance Incentives
- Productivity Incentives
- Fixed Price Share Supplements
- Over Kilo Rates
- EPF, ETF
- **Minimum notice period:** Under the 'Labour Management Relations' in the wage agreement, stipulates that any change to work arrangements, norms, productivity, etc., shall be effected only after a consensus has been reached through fortnightly consultations with the trade unions.

Staff Grades

- Salaries, Overtime, Increments
- Promotions
- Holidays
- Leave
- Gratuity
- Transfers
- **Minimum notice period:** As per the Part II of staff collective agreement; indicates that any material change to the organisation's structure or operations even amalgamation, sub-leasing of estates/divisions shall be finalised with prior notice and consensus between the management and the unions.



Wage Negotiations

In the reporting year, under the collective bargaining process, the Company together with the plantation industry stakeholders went in for wage negotiations which were intense and rigorous. As was the case across the industry, there were incidences of labour unrest in most of our estates on the wage issue. Subsequently, a consensus was reached on 28th January 2019 with a new wage formula for the estate worker which will be applicable up until 27th January 2021.

		Rs.
Wage Formula:	Daily Wage	700
	PSS	50
	Total	750
	EPF/ETF	105
	Grand Total	855

As an equitable plantation company, we recognise our employees' right for freedom of association and collective bargaining. Our manual and staff grades employees, accounting for over 99 percent, are covered by collective bargaining agreements with trade unions. The agreements enshrine the employee right to information and the management obligations to be transparent and accountable on the organisation, significant operational changes and decisions. The agreements have the necessary clauses stipulating the requirements of carrying out prior consultations and striking a consensus with the employees and the trade unions on the terms of effecting any material change to the organisation's structure, operations and work norms. The agreements stipulate the minimum notice period to be given on these changes. In the reporting year, there were no incidents or risks reported of violating these agreements in any of the estates and factories. We also did not record any risks or violations of employee rights across our supply chain including its operations.

Labour Grievance Mechanism

As a Regional Plantation Company, we have in place a formal mechanism to manage labour grievances at the estate level. Our collective agreements entailing standards, practices and the procedures on managing labour relations guide the estate management and the trade union representatives in this process. Apart from this, we also practice an open workplace culture. The management closely engages employees at all levels and maintains a healthy dialogue to redress their grievances. The best practices we follow in human resource management along with the guidelines set by our certification programmes, complement our efforts to maintain good labour relations and industrial peace across our estates. In the reporting year, we did not record any formal grievances related to violations of labour rights including human rights.

Management Discussion & Analysis

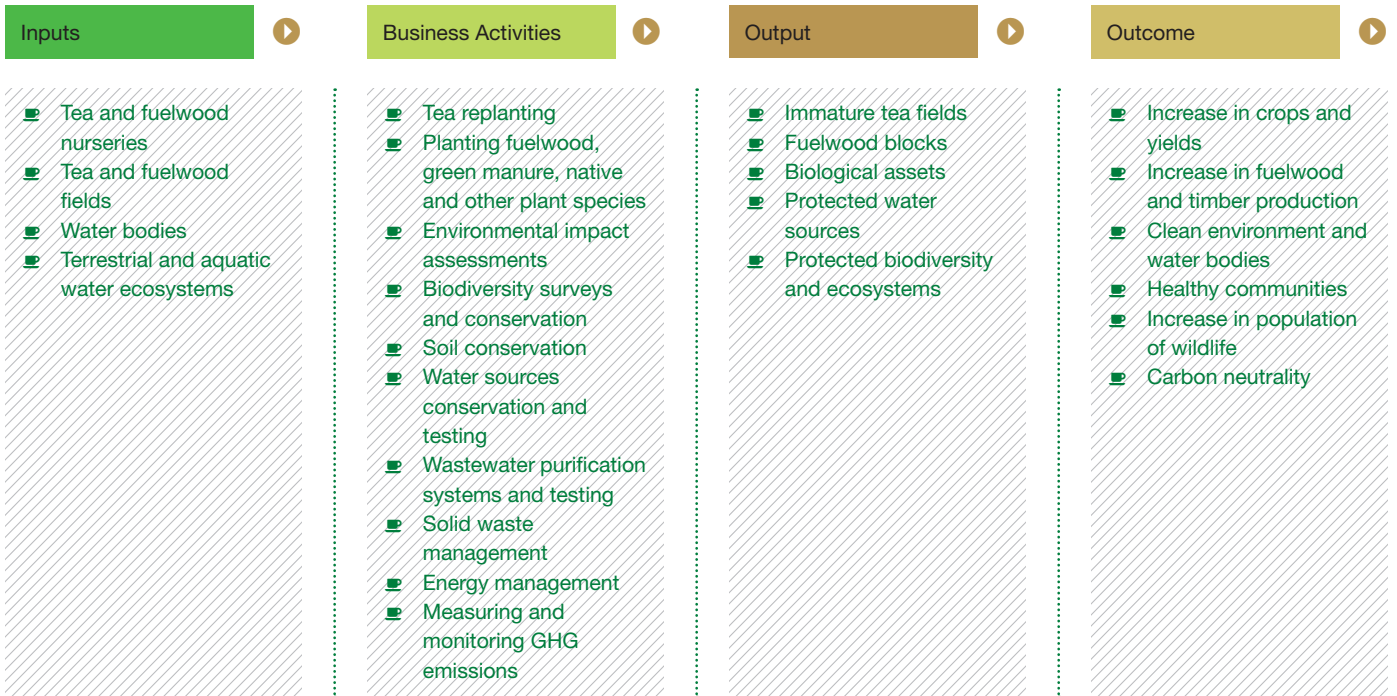
Natural Capital

► Overview

With over 6000 hectares of high value land resources under our custody, we have always remained steadfast in our efforts to protect and conserve the environment across our estates. As a plantation company, we rely on natural resources with the climate directly impacting the viability and the very sustainability of our operations. Therefore, upholding environmental responsibility—being efficient in resource utilisation, managing operational impacts and controlling our carbon emissions—stands strategically significant and warrants our focus and due investments. This section will focus on the environmental management framework we have in place to engage and initiate key measures and campaigns to conserve, protect and build our natural capital.

“We upheld best environmental practices with key initiatives to ensure responsible resource utilisation, solid waste management, water and biodiversity conservation and worked towards carbon neutrality.”





National Business Excellence Awards 2018 Silver
Excellence in Environmental Sustainability
National Chamber of Commerce



Presidential Environmental Awards 2018 Green Award - Silver
Bearwell Estate
Central Environmental Authority



Asia's Sustainability Reporting Awards 2018 Finalist
Best Environmental Reporting, Best Carbon Disclosure
CSRWorks



Presidential Environmental Awards 2018 Green Award - Bronze
Radella and Sommerset Estates
Central Environmental Authority



Presidential Environmental Awards 2018 Green Award - Merit
Mattakelle and Dessford Estates
Central Environmental Authority

Management Discussion & Analysis

Natural Capital

 **GRI: Disclosures:** 103-2, 3

Management Approach

Environmental Policy



“We are committed to work 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 neighbourhood.”



- Pursue environmentally responsible methods in all agricultural operations, field practices and manufacturing processes.
- Protect biodiversity and water sources through a well-managed conservation programme.
- Strive to conserve resources by optimising utilisation and minimising waste through practicing cleaner production principles.
- Advocate education and awareness on the environment and its relevance, importance, care and management.
- Comply with applicable environmental laws and regulations.
- Assess, review and update the environmental management strategies, systems and objectives periodically.

The environmental policy sets out our commitment to ensure that our operations are in line with best practices in environmental management. We have a capable management team who is responsible to implement, monitor the progress and take forward our environmental initiatives and campaigns as guided by the policy. The team is also responsible to create awareness and internalise the policy amongst all employees as well amongst the resident communities and in turn, muster their support and time in addressing

environmental issues and implementing environmentally friendly measures.

Our management approach is in compliance with Sri Lanka's environmental laws, rules, regulations, standards and policies set by the Central Environmental Authority. We are guided by best practices advocated by the internationally acclaimed certification programmes including the Rainforest Alliance Sustainable Agriculture Network (Rainforest Alliance) and the Ethical Tea Partnership, UK. We have taken membership and actively participates with key initiatives led by the 'Biodiversity Sri Lanka', a national body where the corporate sector collaborates with conservation agencies to manage environmental and biodiversity related issues. We are also guided by the sustainable principles prescribed by the United Nations Global Compact (UNGC) programme and we work towards meeting the sustainable development goals.

 **GRI: Disclosures:** 102-15

Opportunities

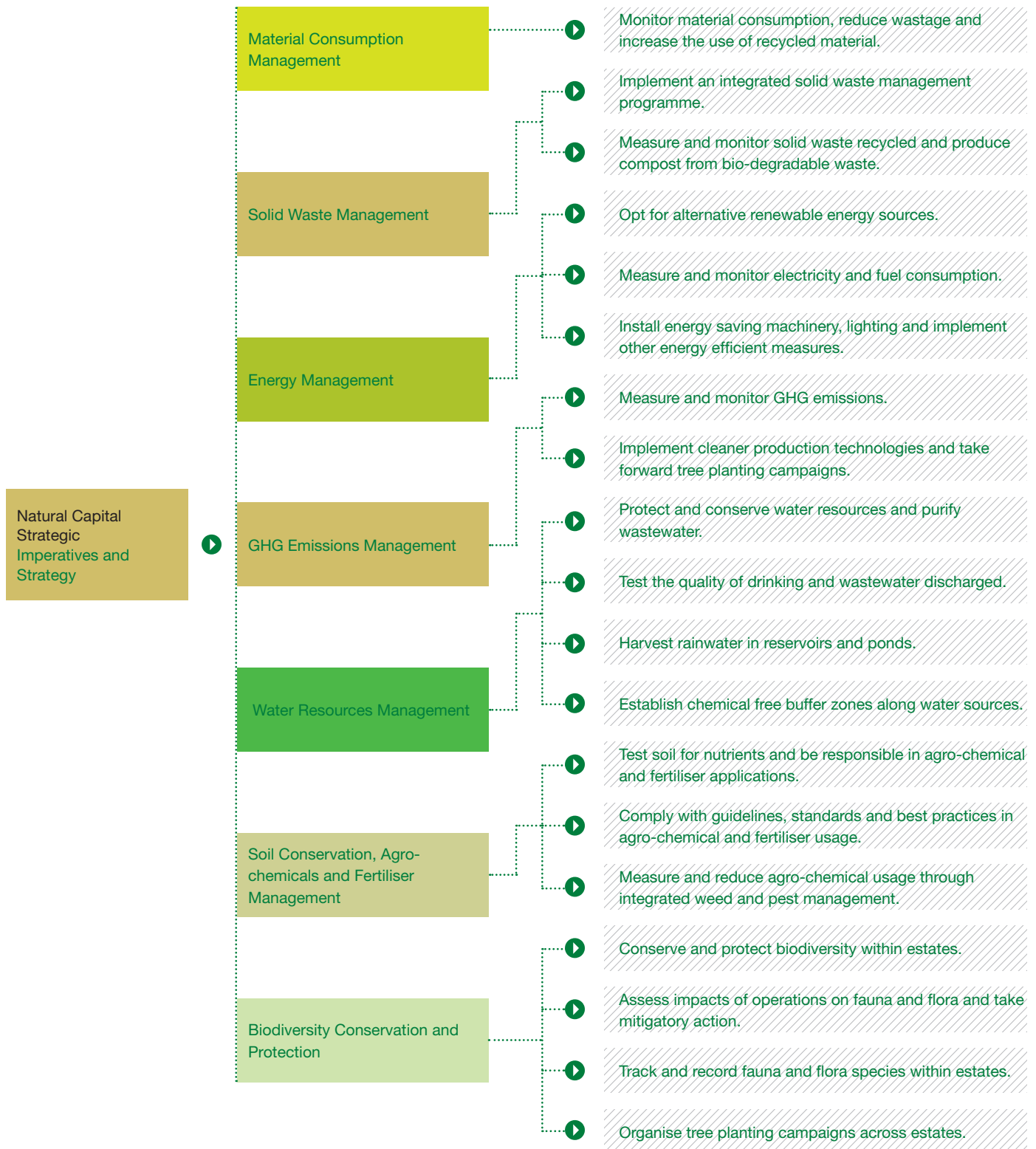
- Top management commitment to protect the environment and reduce the corporate's carbon footprint.
- Comprehensive environmental policy in place.
- Dedicated officers to spearhead forestry and sustainability initiatives.
- World renowned certification programmes in place and pledge to follow UNGC principles.
- Implementation of cleaner production technologies and sustainable agriculture practices.
- Availability of land for promoting sustainable environmental initiatives.
- Availability of water bodies for effective rainwater harvesting and protecting fauna and flora.
- Availability of water streams for hydropower generation.
- Greater demand for green and ethical products.
- Recycling of solid waste.

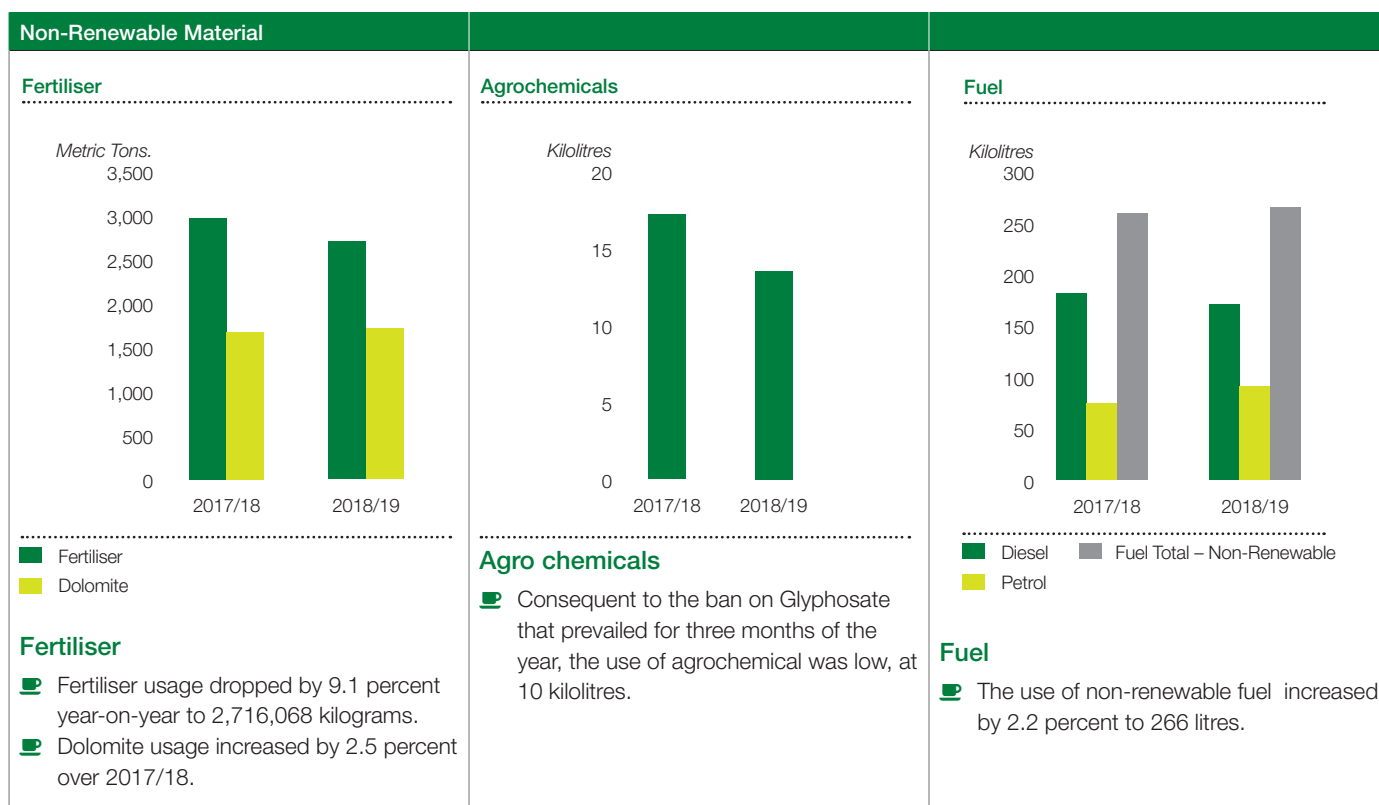
Our environmental strategy is comprehensive; taking into consideration environmental risks that impacts our operations, or vice-versa, and opportunities that we could take on to boost our viability and sustainability as a plantation company. Our strategy is built on seven strategic imperatives, encompassing material consumption, solid waste, energy, green-house-gas (GHG) emissions, water, soil conservation, chemical and fertiliser management, and biodiversity. The action plans at the estate level are rolled out accordingly.

We also have in place a monitoring mechanism to measure our performance in terms of environmental sustainability and goals. We carry out internal audits across our estates, factories and our corporate office. Our certification bodies also monitor our environmental progress, with annual external audits as part of the re-certification process.

Risks

- Climate change leading to water scarcity, landslides, land degradation and impacting biodiversity.
- Soil erosion and loss of soil fertility and nutrients due to extreme rainfall patterns.
- Excessive use of resources due to the growing estate community.
- Excessive generation of solid waste spreading diseases, causing land and water pollution and impacting biodiversity.
- Use of fertiliser and agrochemical applications in estates polluting land and water bodies.
- Use of fuel for transport and electricity in factories, offices and quarters causing GHG emissions.



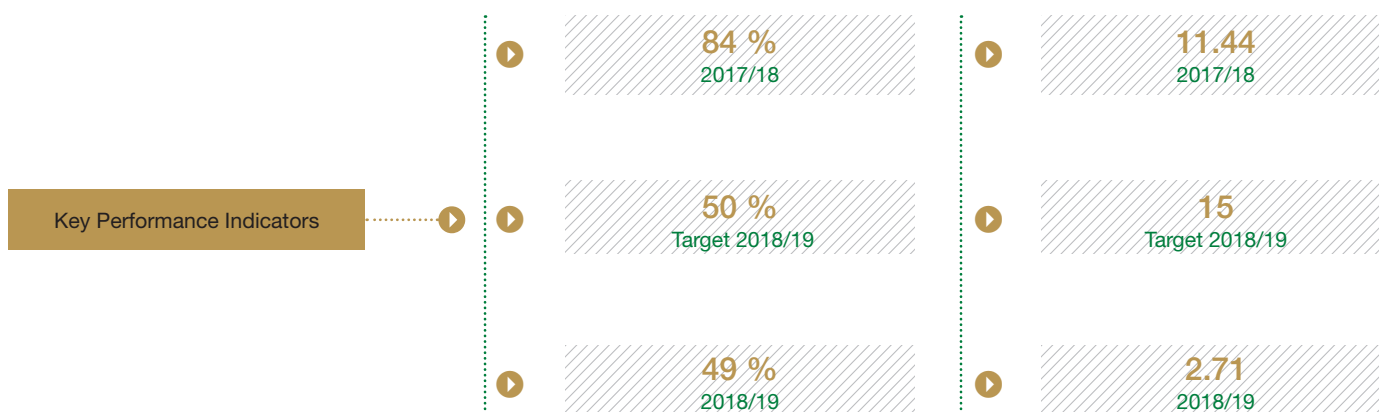


Solid Waste Management

GRI Disclosure: 306-2

Solid Waste Recycling Rate
(% of total waste generated)

Compost Produced
(kgs per hectare of land)



Management Discussion & Analysis

Natural Capital

"Beating Plastic Pollution – Save the World"

Marking the World Environment day on 5th June 2018, we organised an interactive awareness building programme on this year's theme, "Beating Plastic Pollution"; at the Corporate Office with the participation of 35 employees and other sister companies. We invited the famous environmental advocate, Mr. Narada Bakmeewewa as our keynote speaker. We also organised a mini-tree-planting campaign and distributed plants to all participants.

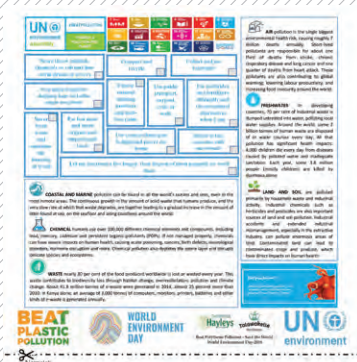
As themed, we collaborated with the United Nations Environmental Assembly and 'One More Generation Organization', a non-profit entity focusing on plastic pollution solutions, to pledge our allegiance in support of reducing one-time use of plastic straws, polythene, packaging etc., and advocating individual initiatives to reduce environmental pollution.



Environment Day celebration 05th June 2018 Corporate Office



Environment Day celebration 05th June 2018 Somerset Estate

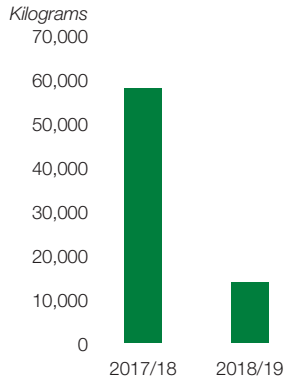
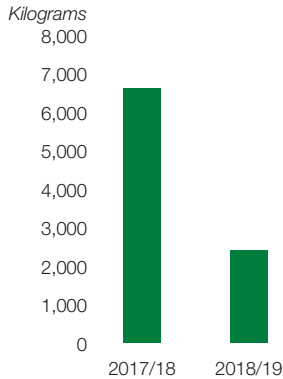
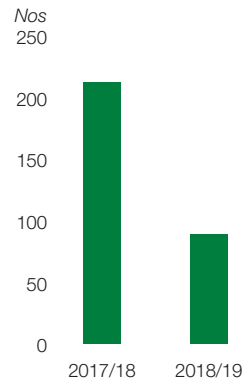


Pledge of Environment Day celebration 05th June 2018

We have an integrated solid waste management mechanism in place, underlined by the '3Rs' — reduce, reuse and recycle. Under this programme, we carry out awareness building initiatives and train our employees and communities on how to be responsible in disposing our bio-degradable and non-biodegradable waste. Our certification standards under Rainforest Alliance guide us in this regard.

Our biodegradable waste is used to produce compost for tea fields and home garden plots. All refuse tea is reprocessed at two factories in Wangioya in the high grown region and Pethiyagoda in the low grown region. We also have an arrangement with Unilever Sri Lanka to further extract absolute refuse tea at the Ceytea factory at Agrapatna and the Raigama estate factory at Ingiriya.

Non-biodegradable waste including metal, glass, plastic, polythene and paper are duly collected, segregated and recycled. Hazardous e-waste is collected and recycled in collaboration with an authorised recycling company. Used bulbs are collected and stored on-site to be appropriately disposed. The use of land-fill sites and burning waste are prohibited in our estates.

Solid Waste Management		
Compost  <p>Biodegradable Waste to Compost</p> <p>■ Biodegradable waste was used to produce 13,820 kilograms of compost, an decrease of 76.3 percent year-on-year.</p>	Recycled Non-Hazardous Waste  <p>Non-Hazardous Waste Recycled</p> <p>■ 2,441 kilograms of non-hazardous solid waste were recycled, corresponding to an decrease of 63.5 % year-on-year.</p>	Recycled E-waste  <p>Hazardous Waste Recycled</p> <p>■ 91 number of hazardous e-waste were recycled whilst 92 used bulbs were duly collected and stored for disposal.</p>

Hazardous Waste and Spills

GRI Disclosure: 306-3 & 4

No waste deemed hazardous under the terms of Basel convention has been transported, imported, exported or treated. No spills have been reported from any of the estates. Under the Rainforest Alliance certification programme—as a precautionary and preventive measure—spill collection mechanism has been constructed in all fuel and chemical storage facilities.



Energy Management

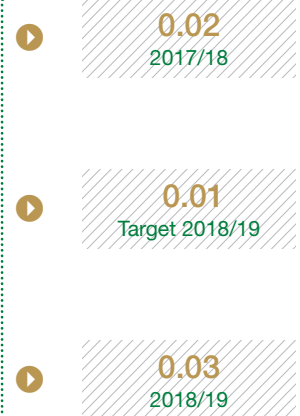
GRI Disclosure: 302-1, 302-2, 302-3, 302-4 & 302-5

Key Performance Indicators

Electricity Per Made Tea Kg (kilowatt hours per kilogram)



Energy Per Made Tea Kg (giga joules per kilogram)



Management Discussion & Analysis

Natural Capital

Key Measures to Control Energy Consumption

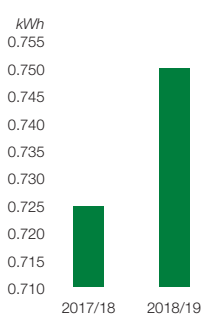
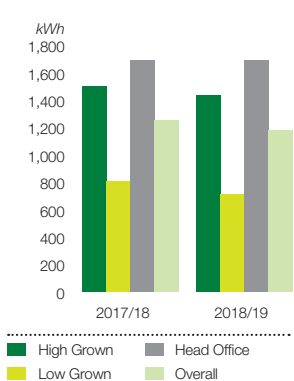
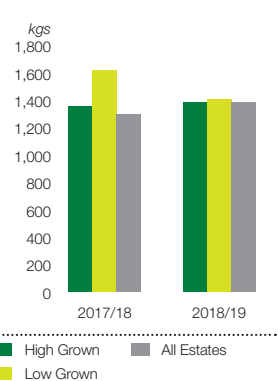
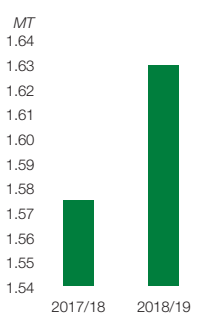
Firewood and briquettes used to operate tea driers	Energy efficient machinery and equipment	Lighting and variable speed drives in factories
Machinery and light switch on/off plans	Power factor correction	Optimising natural light in factories
Monitoring and controlling energy usage	Training on energy conservation under Rainforest Alliance	Green certification and monitor fuel consumption in vehicles

Identified as a strategic imperative, we are fully committed to minimise the use of fossil fuels and thereby, reduce our green-house-gas emissions and adopt sustainable energy sources. We strive to be efficient in the way we use energy, focusing on both direct and indirect energy sources. Direct energy consumption in the reporting year including fuels and oils used for machinery, equipment and transport, increased by 2.2 percent over the preceding year to 266 kilolitres. Indirect energy, electricity used to power our factories and buildings in the year touched 5,301,276 kilowatt-hours. Electricity in factories accounted for over 89 percent of the total consumed. Given the drop in tea production levels of high grown estate, electricity consumption in factories reduced by 3.6 percent whilst the overall level increased by 0.8 percent due to increase of low grown estate tea production. Our proactive measures we have adopted to manage and curtail electricity led to 0.1 percent energy savings in the reporting year. Reduction in energy requirements of sold products is not significant. Energy saving is not measurable due to nature of our sold products.

Energy Source/Area of Operation	Quantity		
	2018/19	2018/17	Variance %
Direct Energy Consumption by Primary Energy Source			
Biomass			
Firewood (Metric Tonnes)	10,107.10	9,919.06	1.9%
Briquettes (Metric Tonnes)	123.40	235.44	47.6%
Diesel (Kilolitres)			
Power generators	27.45	23.96	14.6%
Estate transport	120.87	128.93	6.3%
Estate supervisory vehicles, ambulances	17.02	22.80	25.3%
Others	2.46	2.58	4.4%
Head office vehicles	3.66	3.74	2.1%
Total Diesel	171.46	182.00	5.8%
Gasoline (Kilolitres)			
Estate supervisory vehicles, motorcycles, ambulances	42.26	37.09	13.9%
Agriculture equipment and machinery	26.53	15.76	68.3%
Others	5.74	3.50	63.8%
Head office vehicles	16.65	18.70	11.0%
Total Gasoline	91.17	75.06	21.5%
Oil (Kilolitres)			
Estate supervisory vehicles, motorcycles, ambulances	0.99	1.07	7.3%
Agriculture equipment and machinery	0.33	0.29	15.1%
Factory machinery	1.33	0.97	36.9%
Others	0.16	0.13	19.7%
Head office vehicles	0.29	0.45	36.4%
Total Oil	3.10	2.92	6.5%
Indirect Energy Consumption by Primary Source			
Electricity (Kilowatt-hours)			
High grown manufacture	3,160,450	3,277,104	3.6%
Low grown manufacture	1,550,734	1,397,896	10.9%
Bungalows, quarters, offices and other estate buildings	537,148	578,833	7.2%
Head office	52,944	51,210	3.4%
Total Electricity	5,301,276	5,305,043	0.1%
Method: Direct measurements and actual consumption of each estate and head office			

Management Discussion & Analysis

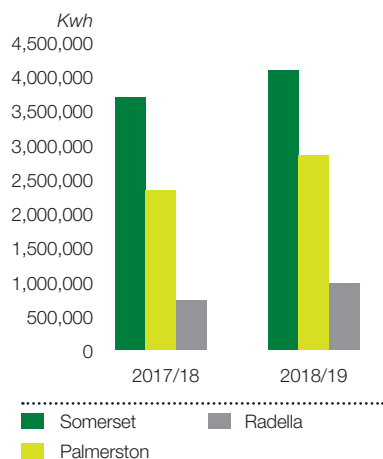
Natural Capital

Energy Intensity			
Electricity Intensity  <p>Electricity intensity in factories increased by 3.5 percent to 0.75 kilowatt-hours per kilogram of made tea in 2018/19 due to lower crop of green leaf.</p>	Electricity Intensity  <p>Electricity intensity of offices and quarters of 1194 kilowatt-hours per staff member in 2018/19 represented a decline of 6 percent over the intensity of 2017/18.</p>	Fuel Intensity  <p>Non-renewable fuel intensity of 34.8 made tea kilograms per litre of fuel in 2018/19, reflected a 2 percent drop over the intensity in 2017/18.</p>	Biomass Intensity –  <p>Biomass intensity of 1.63 metric tonnes of biomass per metric ton of made tea increase by 3.5 percent over the intensity in 2017/18.</p>

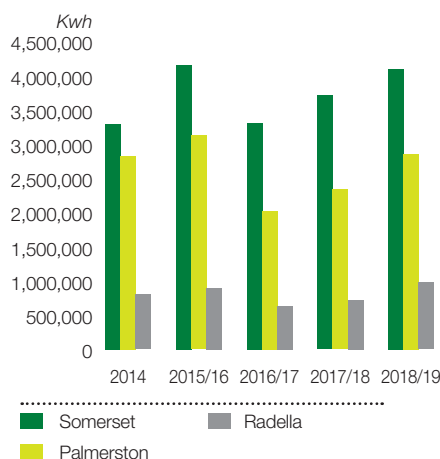
Energy Production by Primary Source

Hydropower Energy

Hydropower Generations



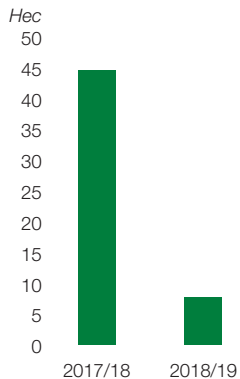
Hydropower Generations of Last 5 Years



Our mini hydropower plants under our subsidiary operations in Radella, Palmerston and Somerset continued to support our efforts to adopt alternative energy sources. In the reporting year, intense rain patterns led to higher generation of hydro-electricity 7,967,218 kilowatt-hours, corresponding to an increase of 17.2 percent over the previous year. Hydro-electricity exceeded 5,301,276 kilowatt-hours purchased from the Ceylon Electricity Board. Hydro-electricity accounts for 16 percent share of our energy mix.

Planting Fuelwood

Fuelwood Planted



Moving forward with our fuelwood planting initiatives, we planted an extent of 7.5 hectares in 2018/19, taking the total extent to 532 hectares from the period 2007 to 31st March 2019. 'Eucalyptus spp' blocks took up almost 90 percent of the extent. Optimising the land utilisation, we also continued to plant mixed forestry blocks including 'Calliandra calothyrsus' and 'Acacia decurrens', taking up the balance 10 percent. High grown estates accounted for over 87 percent of the total extent planted.

Solar Power

Broadening our renewable energy sources, we ventured into our first roof-top solar

power project at the Bearwell estate in the preceding year. This year, we added our second at the Moragalla estate which is due to be commissioned in June 2019. The total capacity of the solar panels at both estates stands at 222 kilowattpeak of electricity. These initiatives are expected to reduce our dependence on thermal electricity percent. With this, our carbon emissions are forecast to drop by 130 tCO₂e. In the reporting year, solar power electricity generated from the Bearwell estate is 115,344 kilowatt-hours, covering 28 percent of the estate electricity requirement and accounting for 2 percent of the total electricity consumed across the organisation.

Refer: Manufactured Capital, Page 96

GHG Emissions Management

Direct and Indirect GHG Emissions



GRI Disclosure: 305-1, 2, 3, 4, 5, 6, 7

Guided by our Environmental Policy, we are focused in our efforts address climate change and global warming. We give due strategic precedence to minimise our GHG emissions and move towards having a lesser carbon footprint. We have progressively adopted best environmental practices, particularly, in managing our energy usage, as discussed above, and ensuring that we meet our emission targets.

Following greater fuel efficiency methods adopted across the organisation, we were able to lower our GHG emissions by 0.4 percent under Scope 1 to 1,392 tCO₂e in the reporting year. With the drop in tea production, Scope 2 GHG emissions generated from electricity consumption in operational areas contracted by 0.1 percent decrease to 3,013 tCO₂e. The total GHG emissions under scope 1, 2 and 3 reached 4,877 tCO₂e. Electricity purchased from the National Grid stood at 5,301,276 kilowatt-hours, leading to 3,013 tCO₂e in emissions. Our three hydropower plants and Solar power roof top generated electricity of 8,082,562 kilowatt-hours, equivalent saving of 4,594.13 tCO₂e.

Our production facilities and domestic equipment do not generate emissions of ozone depleting substances; NO_x or SO_x gasses produced through our daily operations and community households too, are negligible.

Management Discussion & Analysis

Natural Capital

GHG Emissions – Scope 1, 2 and 3							
Scope	Source	Units	2018/2019		2017/2018		Variance %
			Quantity	GHG Emission tCO ₂ e	Quantity	GHG Emission tCO ₂ e	
Scope 1	Wood based boiler	Metric tonnes	10,107	300	9,919	294	1.9%
	Diesel (Generator / Process Machinery)	Kilolitres	30	80	27	71	12.7%
	Gasoline (Generator / Process Machinery)	Kilolitres	32	75	19	45	67.5%
	LP Gas	Metric tonnes	2	6	1	2	263.5%
	Urea	Metric tonnes	847	169	970	194	12.7%
	Dolomite/Lime	Metric tonnes	1,891	246	1,806	235	4.7%
	Diesel - company vehicles	Ltrs	142	380	155	417	9.0%
	Gasoline - company vehicles	Ltrs	59	136	56	129	5.6%
	Scope 01 - Total	tCO₂e		1,392		1,387	0.4%
Scope 2	Electricity	kWh	5,301,276	3,013	5,305,043	3,015	0.1%
	Scope 02 - Total	tCO₂e		3,013		3,015	0.1%
Scope 3	Electricity Transmission and Distribution Loss	kWh	530,128	301	530,504	302	0.1%
	Total busses/Lorries Distance (Hired)	Kms	161,550	116	166,384	119	2.9%
	Dumped Waste	Metric tonnes	3	43	1	22	97.2%
	Air Travel	Pass.km	130,666	12	150,620	13	9.0%
	Scope 03 - Total	tCO₂e		472		456	3.6%
Scope 1+2+3	Total Emission	tCO₂e		4,876		4,858	0.4%

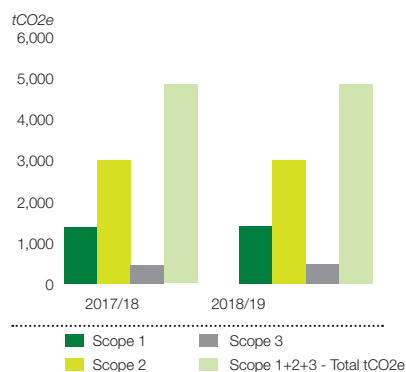
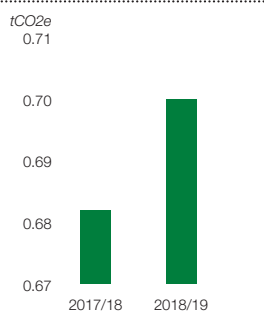
Note:

01) CO₂ fire extinguishers, refrigerant, employee commuting and raw material transport are excluded from the emissions calculations.

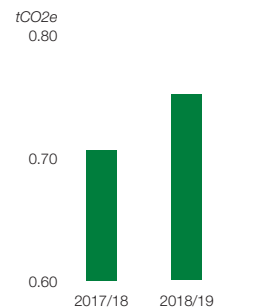
02) Emission of Urea and Dolomite, recalculate for 2017/18 use with different emission factors according IPCC guidelines.

03) GHG emissions are quantified based on the GHG Inventory standards of ISO 14064-1:2006, Intergovernmental Panel on Climate Change IPCC and The GHG Protocol.

Emissions Snapshot

GHG Emission tCO₂eEmissions Intensity
Scope 1+2GHG Emission intensity tCO₂e
per ton of Made Tea

📌 Emission intensity of scope 1 & 2, 0.7 tCO₂e per kilogram of made tea was greater than the previous year. Our target intensity is 0.6 tCO₂e per kilogram of made tea in 2019/2020.

Emissions Intensity
Scope 3GHG Emission intensity tCO₂e
per ton of Made Tea

📌 Emission intensity of scope 3 at 0.08 tCO₂e was above the result in the previous year.

Top Five Estates Lowest GHG Emissions Intensity 2018/19

0.72
tCO₂e/ton of Made Tea
Bearwell Estate
Rank 1

0.82
tCO₂e/ton of Made Tea
Somerset Estate
Rank 2

0.83
tCO₂e/ton of Made Tea
Great Western Estate
Rank 3

0.84
tCO₂e/ton of Made Tea
Deniyaya Estate
Rank 4

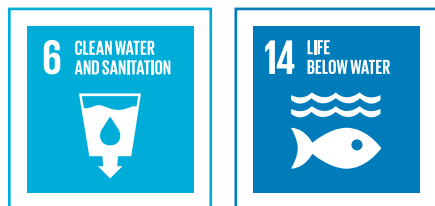
0.90
tCO₂e/ton of Made Tea
Wattegodas Estate
Rank 5

Management Discussion & Analysis

Natural Capital

Water Resources Management

Protecting and Conserving Water Bodies



GRI Disclosure: 306-3 & 4

Key Performance Indicators

Drinking Water Quality
(number of passed tests/
water sources)

Wastewater Quality
(number of passed tests/
wastewater sources)



100%
2017/18



91%
2017/18



100%
Target 2018/19



100%
Target 2018/19



100%
2018/19



93%
2018/19

Protecting Water Bodies Key Measures

Mechanical fences and meshes to
prevent water contamination

Chemical free buffer zones

Rainwater harvesting

Monitoring and reducing in
agrochemical usage

Wastewater purification systems

Annual water quality testing

Vegetative barriers

Wide grass buffer zones and riparian
habitats.

Awareness building to educate staff and
communities

Collaborations with the International
Water Management Institute

Follow Rainforest Alliance certification
guidelines

Protecting Water Bodies Estate Initiatives



Protected Drinking
Water-Clarendon



Water Conservation –
Holyrood Estate



Grass bufferzone for Water
Conservation - Great Western



Water Purification System-
Mattakelle Estate

Availability of water is essential to run and sustain our business and to support the lives of our estate communities as well as to nurture biodiversity. As guided by the Rainforest Alliance certification programme, our water management is well-structured with focused efforts to monitor and protect all water sources/ bodies within our estates. Water quality in all 147 sources is tested annually for required parameters. We also work closely with the International Water Management Institute (IWMI) to support our water management efforts. In collaboration with IWMI, we have done extensive research on water sources, their quality and availability of drinking water in four of our estates in Wattegoda, Holyrood, Logie and Mattakelle.

Water Withdrawal, Recycled and Reused

 **GRI Disclosure: 303-1, 2, 3**

As a tea plantation company, our processing operations are carried out with minimum water. It is mainly used for humidification and washing of the rolling rooms during and after the manufacturing process. Water is also used by factory employees. We withdraw water from our water sources/bodies including water springs and streams located within our estates. We do not withdraw water from national supplies. Rainwater harvesting is also used as a source.

Our Environmental management system fully align with Rainforest Alliances and ISO 14001:2015 standards. According to that, environmental impact assessment covers impact of water withdrawal. Moreover, these assessments consider the impact from the water withdrawal activities on bio diversity and community, to high value conservation areas and protected areas.

We measure our water withdrawal on actual consumption of factories per day for 300 operating days. Due to complexities, we do not track the water used by resident

communities, which also includes a large number of vegetable cultivators and those who work outside the estates. Our estates in the year, withdrew a total of 7,456 kilolitres of water as compared to 8,975 kilolitres of water withdrawn in the preceding year. This corresponded to a 16.9 percent decrease. Given our proactive measures in terms of water management, operational impacts from water withdrawal and quality of water bodies are minimal.

Comparatively minimum level of water use in the tea manufacturing process, water reuse and recycling amount is very low due to complexity of process we do not quantify this. But, typically treated water use for the field level activity and agricultural purpose.

Rainwater Harvesting

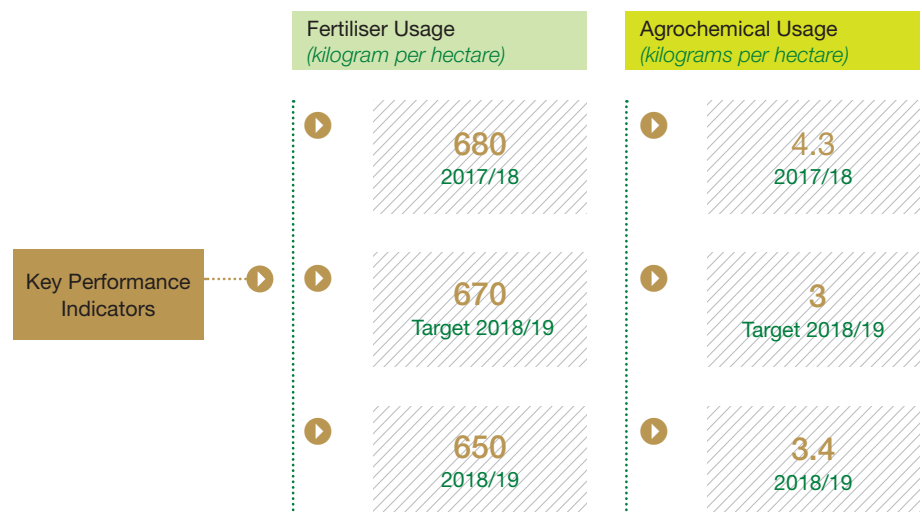
Rainwater harvesting is carried out in lakes, ponds and wetland areas available on our estates. We have also constructed special ponds for rainwater harvesting in strategic locations. All rainwater sources/bodies are well protected from possible contamination due to agriculture operations.

Wastewater Management

 **GRI Disclosure: 306-1 & 306-5**

Our wastewater purification systems set up in all our estates ensure that we purify wastewater from factory and domestic operations before releasing into natural water bodies. Apart from the purification system, we also rely on bioremediation through conservation of natural vegetation and plants as recommended in wastewater channels. Rainforest Alliance certification guidelines underline this process. Due laboratory testing is done annually to verify and ensure that the water purification process meets the required standards. In the year under review, wastewater purified and discharged stood at 6,360 kiloliters. This corresponded to a 19 percent decrease over 7,855 Kiloliters of waste water discharged in the previous year due to reduction of water withdrawn through efficient water usage. Given the comprehensive purification measures we have adopted, water discharges and run-offs have not affected any habitats and water bodies.

Soil Conservation, Agro-Chemicals and Fertiliser Management



Management Discussion & Analysis

Natural Capital

Soil Management Techniques

Testing soil for carbon, pH level and other nutrients

Planting of green manure and shade trees

Terracing, pruning, burying, mulching and thatching

Dolomite applications to correct pH imbalances

Planting grass and other cover crops in vacant patches

Composting, forking in pruned fields and burying of weeds

Planting vetiver and arachis pintoii in bank ledges and upper banks of drains

De-silting drains, lock and spill type drains, distilling lateral and leader drains

Special fertiliser mixtures to remedy nutrition deficiency levels

Soil Management Initiatives



Well protected field for soil conservation-Kiruwanaganga



Biofertilizers Use - Compost



Lock & spill Drains Great Western Estate



Tatching-Mattakelle Estate

Following good agricultural practices, soil conservation is given top strategic priority. We are consistent and focused in our efforts to prevent soil erosion, enrich and maintain its nutrients, acidity and carbon levels. We are guided by the '4R Nutrient Stewardship' programme as advocated by the International Plant Nutrition Institute, which approaches soil nutrient management from a triple perspective of economic,

social and environmental aspects. Our soil management practices are also guided by the Rainforest Alliance and the Tea Research Institute.

We are cautious in the way we use agro-chemicals in our operations. We closely monitor the usage and ensure that we apply minimum quantities and that we meet the prescribed food safety standards. Out of

the twenty recommended agro-chemicals by the Tea Research Institute, we use only five chemicals. Since 2014, we have suspended the use of insecticides, instead, we rely on biological control measures to control pest and insect attacks. With regard to weedicides, we use both chemical and manual weeding methods. With the lifting of the ban in July, 2018, we have commenced using the Glyphosate as a weedicide following the recommended standards.

Biodiversity Conservation and Protection



Key Performance Indicators

Trees Planted (number)

48,853
2017/18

50,000
Target 2018/19

21,760
2018/19

Biodiversity Initiatives (investment/revenue)

0.1%
2017/18

0.3%
Target 2018/19

0.1%
2018/19

GRI Disclosure: 304-1, 304-2, 304-3 & 304-4

With our estates spanning over 6,000 hectares in the hill country and the low country wet-zones, we are custodians of high value biodiversity areas. Our estates are located in watershed and catchment areas, feeding national rivers Nilwala, Gin, Kotmale Oya and Nanu Oya. Great Western, Radella and Holyrood estates are located near Kikiliyamana Natural Forest Reserve whilst Calsay estate and Nanuoya borders the Conical Hill National Forest, Agrabopaththalawa. In this setting, we stand committed and allocate necessary resources to protect and conserve biodiversity in the areas we operate. This is enshrined in our Environmental Policy.

We have a well-structured biodiversity conservation programme as guided by the Rainforest Alliance. Under this programme, we have well established Rainforest Educational and Information Centres in 6 of our estates to create

awareness and train the workforce and the resident communities on sustainable agricultural practices including ecosystems and biodiversity management, water and wildlife conservation and integrated solid waste management. These Centres are well-equipped with necessary educational material to take forward biodiversity related initiatives. We also carry out periodic biodiversity surveys with environmentalists and environmental institutions. The surveys enable us to identify and select biodiversity rich areas including faunal and floral species in home gardens, seasonal and perennials streams, small scale reservoirs and ponds, wetlands, secondary forests and tea fields.

Fauna and Flora

Our estates have over 220 faunal species, both vertebrates and invertebrates. Out of these species, over 113 come under the endangered, threatened and vulnerable species as per the IUCN Red Data List

published in 2012. Hunting, capturing and trafficking wild animals and birds and rearing within the estates are strictly prohibited. In addition, wildlife sightings by the community are recorded and monitored. Given these precautionary measures, none of the International Union for Conservation of Nature (IUCN) Red List of threatened species or habitats for such species are affected by our operational activities.

With regard to flora, agro-ecosystems on estates are dominated by tea fields along with low and high shade trees, native and endemic tree species and fruit trees. We have identified 169 floral species including endemic species. As per a survey carried out, Kiruwanaganga estate is the custodian of two critically endangered floral species—Diyapara (*Dillenia triquetra*) and Ruk (*Horsfieldia iryaghedhi*); and two endangered species—Vewal (*Calamus zeylanicus*), Kaluwara (*Diospyros ebenum*).

Biodiversity Protection and Conservation Measures

Biodiversity blocks wildlife and habitats are identified on maps through periodic surveys

Biodiversity areas are protected with a five-meter chemical free buffer zone

Signboards displayed to protect biodiversity

Conservation of Riparian habitats

Management Discussion & Analysis

Natural Capital

Faunal Species IUCN Red Data List 2012

Globally Threatened	▶	00
Critically Endangered	▶	06
Endangered	▶	44
Vulnerable	▶	37
Near Threatened	▶	26
Total Species	▶	113

Floral Species IUCN Red Data List 2012

Globally Threatened	▶	00
Critically Endangered	▶	02
Endangered	▶	02
Vulnerable	▶	02
Near Threatened	▶	27
Total Species	▶	31

Our Fauna



Black hooded Oriole-Wattegoda Estate



Green Forest Lizard (Calotes calotes) - Kiruwanaganga



Yellow fronted Barbet-Wattegoda Estate

Our Flora



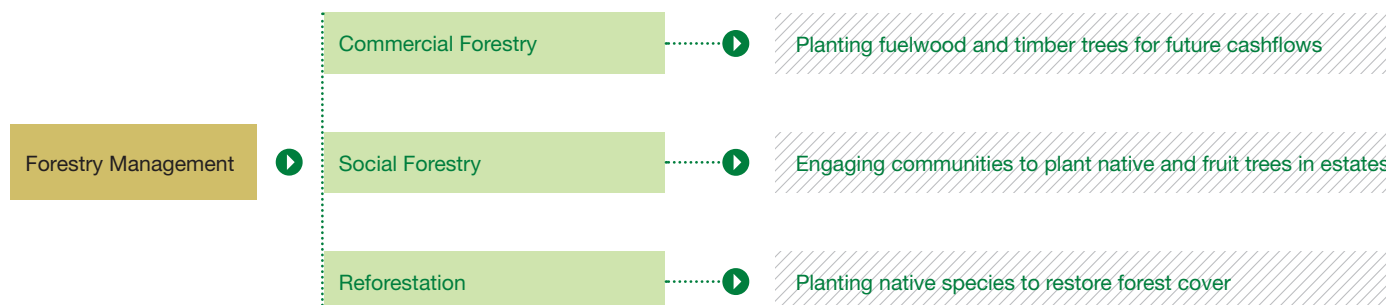
Golden Raspberry-Dessford Estate



Pink Butterfly Pea- Clitoria macrophylla
Wattegoda Estate



Wild Orchid Dessford Estate



One Million Tree Planting Programme Salient Features

Talawakelle, Nanuoya and Deniyaya
Location

500 Hectares
Planned Land Restoration

2013-2025
Timeline

Rs. 55 Mn
Planned Investment

Food and Agriculture Organisation (FAO)
Partners

FAO Motivation Grant for 100 Hectares
Funding

One Million Tree Planting Programme Actual Performance 2013 - 2018/19

240 Hectares
Land Restored

480,000
Trees Planted

Rs. 26.4 Mn
Investment

Taking forward our forestry development programme, we continued to follow through with our one million tree planting programme—planting species such as Eucalyptus grandis, Eucalyptus microcorys, Eu. toraliana, Accacia mengium, Calliandra colothisis, Terminalia arjuna etc. This initiative is in line with the Bonn challenge Barometer of Progress Project, a forest restoration programme led by the IUCN Sri Lanka Office, Biodiversity Sri Lanka, Forest Department and Climate Change Secretariat.

Continuing to further our one million tree planting programme, this reporting year, we planted over 165,159 plants on our estates at an investment of Rs12 million as follows:

Plant Species	Number of Plants Planted	
	2018/19	2017/18
Camellia sinensis (Tea)	143,399	150,555
Hevea brasiliensis (Rubber)	0	0
Eucalyptus	9,200	56,100
Grevillea robusta	3,931	1,499
Calliandra calothyrsus	900	443
Gliricidia sepium	600	0
Erythrina lithosperma (Dadaps)	1,585	3,243
Bambusa vulgaris (Bamboo)	0	0
Toona ciliate	0	0
Acacia decurrens	167	0
Terminalia arjuna (Kumbuk)	0	1,150
Cinnamomum Zeylanicum (Cinnamon)	0	32,250
Microbiota decussata (Cypress)	0	0
Albizia	0	100
Fruits, Native and other Plant Species	5,377	5,083
Total	165,159	250,323

Management Discussion & Analysis

Natural Capital



Environmental Impacts, Certifications and Compliance

 GRI Disclosure: 307-1

Operations and Managing Environmental Impacts

Product

Toxin free, bio-degradable and environmentally friendly

Packing Materials

Bulk tea packing is environmentally friendly and exported with the products.

Manufacturing Process

Uses biomass energy, fuelwood to control carbon emissions.

Solid Waste Management

Bio-degradable waste is used to make compost and non-bio-degradable waste is recycled.

Water Withdrawal

Water usage in the production process is minimal, thus, less impact on withdrawing from water sources.

Wastewater Treatment

Wastewater is treated to ensure required parameters prior to discharging to water bodies.

Alternative Energy

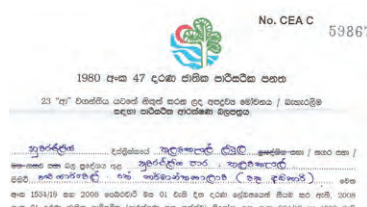
Advocate and invest in renewable energy, hydropower and solar.

GHG Emissions

Consistently measured, monitored and controlled to minimise the corporate's carbon footprint.

Biodiversity Conservation

Build and protect the quality of water resources, restore forest cover by planting trees and protect wildlife.



Environmental Protection Licence, All Factories

Issued under the provisions of the National Environmental Amended Act No 53 of 2000, the licence regulates pollution, discharges and emissions into the environment.



Rainforest Alliance Sustainable Agriculture Network, 14 Estates

Advocates best management practices in agricultural and manufacturing operations to mitigate environmental and social risks.



Ethical Tea Partnership, 14 Estates

Guides tea producers to adopt globally accepted social and environmental best practices and standards.



**ISO 14001:2015 Environment
Management Standard, Great Western
Estate**

Sets out the framework to adopt an effective environment management system.



ISO 50001:2011 Energy Management Standard, Hollyrood Estate (pending)

Sets out the framework to adopt an effective energy management system.



UN Global Compact Principles, Company Pledge

A leadership platform advocating UN sustainable development goals including six environmental goals.



Biodiversity Sri Lanka - Company Membership

An advocacy platform that brings the corporate and other concerned stakeholders together to advocate, lobby and address environmental and biodiversity conservation issues.

We have duly certified our environmental management systems, practices and initiatives. Periodic audits, both internally and externally are carried out to ensure that we comply with best environmental standards and practices. All high grown estates are certified under the Rainforest Alliance along with Kiruwanaganga and Deniyaya estates in the low grown and 14 estates are certified under the Ethical Tea Partnership. Great Western has adopted the ISO 14001: 2015 environmental

management standard whilst Hollyrood estate is in the process of obtaining certification under ISO 50001: 2011 energy management standard. Both these estates are the first amongst the Regional Plantation Companies to embrace these ISO certifications. We have also pledged our allegiance to uphold the environmental principles as stipulated by the UN Global Compact standards and work towards meeting the Sustainable Development Goals. We have voluntarily complied with Global Compact advance level criteria.

In the reporting year, we have not violated environmental related laws and regulations. We have not been subjected to monetary or non-monetary fines or sanctions for non-compliance. We are in compliance with the laws and regulations stipulated by the Central Environmental Authority and other relevant bodies. All our processing factories have obtained Environmental Protection Licences from the local authorities.

Environmental Investments

Our investment in environmental management reached Rs. 40 million during the year 2018/19 as set out in the table below. This corresponded to a 10 percent decreased over the investment in the previous year. Total investment represented 1 percent of our total revenue.

Overall Environmental Investment – FY 2018/19		
Strategic Imperatives	Environment Conservation Activity	Cost Rs
Solid waste management	Integrated waste management	2,910,275
Water resources management	Protection of water sources and water conservation	2,087,522
	Drinking and wastewater quality testing and monitoring	1,541,944
	Construction of wastewater purification systems	130,872
	Establishment of vegetative barriers and chemical free buffer zones	1,542,852
Energy management and GHG emissions management	Planting fuelwood	4,519,604
Soil conservation, agro-chemical and fertiliser management	Soil management and conservation	11,113,360
Biodiversity conservation and protection	Tree planting	12,234,696
Awareness programmes and certifications	Training and educational programmes	169,380
	Erecting of sign boards	409,415
	Establishment of Rainforest Educational and Information Centres	291,854
	Rainforest Alliance-Sustainable Agriculture Network certification & Obtaining ISO certification	1,704,333
Other		2,168,908
Total		40,825,015

Environmental Grievance Mechanism

We have in place a robust environmental management system with internationally recognised certification programmes. All grievances and complaints related to environmental management are addressed under this system. Our RA Steering Committee and health and safety committees set up across all estates are responsible to monitor environmental aspects and report grievances and complaints, if any, to the estate management or to the auditors during certification audits and internal audits. The management at the estate and the corporate level are open and accessible to employees, communities and to the general public to address environmental grievances. In the reporting year, we have not received any complaints or grievances related to any environmental impacts from any of our operational sites.

Management Discussion & Analysis

Future Outlook

► Overview

The world economic expansion is projected to decelerate further in the year 2019 with broad-based weakening of economic activity. All major economies across regions are expected to confront significant challenges in the short-term with geopolitical uncertainties, macroeconomic stress, trade tension and tightening financial conditions, inter-alia. The World Economic Outlook April 2019 published by the International Monetary Fund, projects a decline in growth for 70 percent of the global economy. However, on the up-side, advanced nations are progressively shifting toward more accommodative policies along with a stronger response from China to manage trade tariffs and better prospects for US-China entering into less hostile trade relations with a possible trade agreement. The year 2020 is expected to be more buoyant with a more stable outlook.

In the domestic front, the economy is in dire-straits in the aftermath of the devastation caused by the Easter Sunday attacks, with direct and grave implications on tourism, foreign investment and overall economic activities. This is further exacerbated with partisan politics that is intensifying by the day, especially with the forthcoming presidential election towards the latter part of the year and a general election due in 2020. The nation's economic growth is expected to hit an all time low in the near to medium term. Yet, the country has to come together, reconcile differences and work towards rebounding and rebuilding the economy. Greater focus in policy making and implementation to usher in socio-political stability and a balanced macroeconomic environment is key to the nation's growth aspirations from a long- term perspective.

With the sluggishness of the global economy together with intense volatility within the domestic front, the tea industry will continue to be challenged in its way forward. Adding to the distress, climate change implications on crop volumes and the quality of the leaf; poor productivity and irrational trade union actions and wage demands; lower yields; and market dynamics, will weigh down on the industry prospects in the short to medium term.

Moving forward, it is crucial that there is consensus amongst all stakeholders that the industry's future sustainability depends on shifting away from the archaic business model based on a wage system to a more dynamic model based on productivity and revenue-share concept. Aside this, the industry has to focus on tea research, reinforce Ceylon brands, roll-out an effective marketing campaign and advocate best practices. As a top-tier Regional Plantation Company, we are committed to the industry and work towards its sustainability in to the future.

In this regard, we will be smart and decisive in our strategy to navigate through challenges in our operating backdrop and secure our positioning as a quality conscious plantation company. We will continue to invest in strengthening our capital base and manage and mitigate operational impacts with best and current business practices.

Our plans, actions and targets in line with our overall strategic imperatives are set out for the year ahead, 2019/20.

Strategic Imperatives, Strategic Action and Key Targets – 2019/20			
Strategic Imperatives/Strategic Action	Key Indicators	Unit	Target
Quality Teas <ul style="list-style-type: none"> Follow best business practices and maintain certification on quality and standards in products, processes and systems. 	Ranking in prices amongst RPCs in both elevations	Rank	First
Land and Labour Productivity <ul style="list-style-type: none"> Invest in sustainable agricultural practices. Comply with guidelines and maintain certification. Monitor workforce performance and productivity and take timely actions for any lapses. 	High grown yields	Kilogram/hectare	1,505
	Low grown yields	Kilogram/hectare	1,292
	Tea replanting extent	Hectare	23.45
	Tea production volumes	Million kilograms	6.4
	Worker productivity	Kilogram/worker	2.75
Value Addition <ul style="list-style-type: none"> Invest in research on value addition and create innovative products. Collaborate with the Tea Board to market Ceylon brands at the national level. Strengthen existing buyer network and build new relationships in new markets. 	New products	Number	5
	Buyers	Number	10
New Revenue Stream <ul style="list-style-type: none"> Diversify into new revenue streams through crop diversification. 	Cinnamon	Hectare	23
	Agarwood	Hectares	5
Cost Controls and Management <ul style="list-style-type: none"> Maintain a lean cost structure and control leakages. 	Labour cost	Percentage of COP	65
	Profit before tax margin	Percentage	4.6
	Capital expenditure	Rs. million	246.4
	Current ratio	Times	3.10
	Operating cash flow	Percentage of profit before tax	210
Climate Change & Environmental Management <ul style="list-style-type: none"> Reduce dependency on non-renewable resources through solar and hydropower. Manage greenhouse gas emissions responsibly. Manage solid waste and wastewater responsibly. Engage in biodiversity conservation and protection initiatives. 	Greenhouse gas intensity	tCO2e/ton of made tea	0.60
	Energy consumption	Gigajoules/kilogramme	0.1
	Planting native, fruits and other plants	Number of plants/annum	10,000
	Planting fuelwood	Number of plants/annum	150,000
	Recycle solid waste	Kilograms	10% increase over by previous year
Workforce Development <ul style="list-style-type: none"> Empower employees through focused training and drive a performance-based culture./ Advocate clean, tidy and safe workplaces to address employee wellbeing. 	Employees trained	Number	10,000
	Training hours	Number	10,000
	Training investments	Rs. Million	4
	Training programmes on health and safety	Number	25
	Employees trained on health and safety	Number	3,000
Community Development <ul style="list-style-type: none"> Consolidate the 'Home for Every Plantation Worker' programme. 	Training hours on health and safety	Number	3,000
	Expenditure on 'Home for Every Plantation Worker'	Rs. Million	70
Governance and Risk Management <ul style="list-style-type: none"> Continue to follow best practices and codes in governance and maintain strong risk management and internal controls. 	Level of compliance to relevant codes and risk management requirements.	Percentage	100%

Our Commitment towards Sustainable Development Goals



No Poverty

With our dedicated community programme, 'Home for Every Plantation Worker', we provide housing, basic amenities and look into support and uplift the lives of our workforce and our resident communities as we work towards eradicating poverty within our estates.

[Refer Page: 71](#)



Zero Hunger

The welfare schemes we have in place for our employees, free mid-day meal programmes for the estate children, focused initiatives to promote better nutrition amongst communities and the support given for vegetable cultivation in home gardens, demonstrate our commitment to promote food security within our estates.

[Refer Page: 101](#)



Good Health and Wellbeing

The strategic precedence we give to our worker health and safety programme long with our comprehensive immunisation and preventive healthcare initiatives and auxiliary medical services we provide, advocate healthy lifestyles and a better quality of life for the people living and working within our estates.

[Refer Page: 151](#)



Quality Education

Advocating a learning work culture, we give top strategic priority with focused investments to extend training and development to all employees, across all staff grades. We also carry out comprehensive child development programmes and vocational training to empower our youth amongst resident communities.

[Refer Page: 154](#)



Gender Equality

As an equal opportunity employer, we are fair in our labour practices. Our recruitment, promotions, compensation and rewards are all determined on industry norms and on merit, without any consideration to gender bias. We have pledged our support to the UN Women Empowerment programme—a testimony to our commitment to uphold gender equality.

[Refer Page: 145](#)



Clean Water and Sanitation

Under our dedicated community programme, we provide clean water and sanitation facilities to our estate communities whilst carrying our focused measures along with water treatment facilities to ensure that our water bodies are conserved and protected from pollution.

[Refer Page: 178](#)



Affordable and Clean Energy

We strive to be energy efficient, relying and planting fuelwood for factory processing operations, generating hydropower—a more cleaner energy source—through our subsidiary operations and progressively seeking to move towards renewable solar energy.

[Refer Page: 171](#)



Decent Work and Economic Growth

With sixteen tea estates in both high and low grown regions, we give extensive employment opportunities under fair labour practices and have set out a solid platform to create significant value, with multiplier benefits permeating across the national economy.

[Refer Page: 71, 122, 145, 159](#)



Industry Innovation and Infrastructure

We are strategic in our investments, bringing in latest technology to automate our field operations, upgrade and expand our factory processes and strengthen our research and development work. We are consistent in our investments and we collaborate with relevant government and non-government bodies to develop estate infrastructure including roads, housing and other basic amenities for our resident communities.

[Refer Page: 108](#)



Reduced Inequalities

We create shared value across our estates, enabling opportunities for our workforce, communities and our suppliers to climb the income ladder. Our efforts and our advocacy role at the industry level to link productivity into the wage mechanism and encourage out-grower model on revenue-share further strengthen our commitment to usher in greater equality across our operations.

Refer Page: 149



Sustainable Cities and Communities

Our estates support over 40,000 people living within our estates—providing them with good housing, water, sanitation and healthcare facilities whilst building capacities to empower and uplift their standards of living.

Refer Page: 71



Responsible Consumption and Production

Upholding best and sustainable agricultural and manufacturing practices in line with our certification guidelines, we strive to maintain quality and standards in production. We are efficient in the way we use our resources and follow through the '3Rs' in managing our solid waste—reducing our material consumption wherever possible, reusing, like making compost out of biodegradable waste and recycling non-biodegradable waste, responsibly.

Refer Page: 115, 168



Climate Action

With focused initiatives to be energy efficient, tree planting, conserving biodiversity and collaborating with our certification bodies, we drive a concerted effort across our estates and our subsidiaries to minimise our carbon footprint and battle against climate change.

Refer Page: 175



Life Below Water

We treat our waste water responsibly within all our estates and factories and test for appropriate parameters prior to discharging to flowing water bodies, thereby, doing our part, to control pollution in the oceans and to protect marine life.

Refer Page: 178



Life on Land

As custodians of rich biodiversity, both in the Central hills and in the wet-zone in the South, we carry out well-structured initiatives and campaigns to protect and conserve our eco systems—forests, wild life, their habitats and with special care for endangered species living within our estates.

Refer Page: 180



Peace, Justice and Strong Institutions

We uphold best and ethical practices in business and governance to ensure that our operations are transparent, responsible and fair. We have a solid mainstay to nurture industrial peace whilst we shun any form of social prejudice, discrimination and forced and child labour.

Refer Page: 210



Partnerships for the Goals

We pledge our allegiance to support and partner all members across the globe to achieve the sustainable development goals as set out herein.

Refer Page: 184

Risk Management

 GRI: Disclosures: 102-11

Risk management is dynamic and challenging, more so, in an industry such ours where vulnerability is high in terms of both internal and external factors. Talawakelle Tea Estates PLC has an effective risk management framework in place to safeguard its capital and processes to create value continuously and smoothly. We follow an Enterprise Risk Management (ERM) approach—identifying risks and opportunities in relation to our objectives; assessing them in terms of their likelihood and magnitude of impact; and thereby, determining a response strategy. Risks are identified and mapped along with a comprehensive plan for mitigation. Risk mitigation strategies are formulated after detailed scrutinization of possible impacts and opportunities in respect of all stakeholders. They are well documented to prevent any deviation from our organisation's vision.



Risk Management Framework



The Board of Directors

The Board is responsible to ensure effective risk management at the corporate level. Our Board—comprising members with expertise and vast experience in diversified fields—sets out the risk management framework including our approach, the process, administration structure and sources of comfort with regard to its effectiveness. The Board recognises the significance and stands committed to be timely and efficient in identifying risks, evaluating and determining the risk appetite. In this regard, the Board is supported by an effective management and monitoring mechanism as set out below:

Audit Committee: As delegated by the Board, the Audit Committee is responsible to review the existence and effectiveness of policies and processes we have in place for risk management. Represented by members with sound financial and industry expertise, the Audit Committee has the oversight responsibility for risks and internal controls. Both internal and independent external auditors carry out well-structured audits to provide assurance on internal controls and compliance, encompassing financial and operational risks. Audit Committee meets every quarter, reviews and deliberates on risk assessments and recommends any improvements, if required.

Corporate Management Committee (CMC): Led by the Managing Director, CMC is responsible for risk assessment and mitigation as guided by risk appetite parameters outlined by the Board. The Committee prepares action plans and is tasked to implement the risk management process. The estate management is

invited to participate and present their risk management strategies at the CMC every month. The CMC examines the situations, processes, and possible events that may seriously reduce the organisation's earnings, threaten operational sustenance, impair liquidity or create legal, regulatory or reputational risks. Whilst the CMC identifies such risks internally, stakeholder engagement provides an opportunity to ascertain any risks based on their feedback.

The CMC will evaluate options available to mitigate and manage such risks. Continuous monitoring of these activities has been integrated to our operations. The estate management with the support of their respective teams provide useful information and feedback to the CMC to carry out this task. Internal control, internal audit and independent assurance provide comfort and assurance on risk management. The risk management review process is further enhanced by the oversight of the Hayleys Group Management Committee, Treasury, Strategic Business Development and the Group Legal and Management Audit and Systems Review departments.

Risk Management Governance Structure



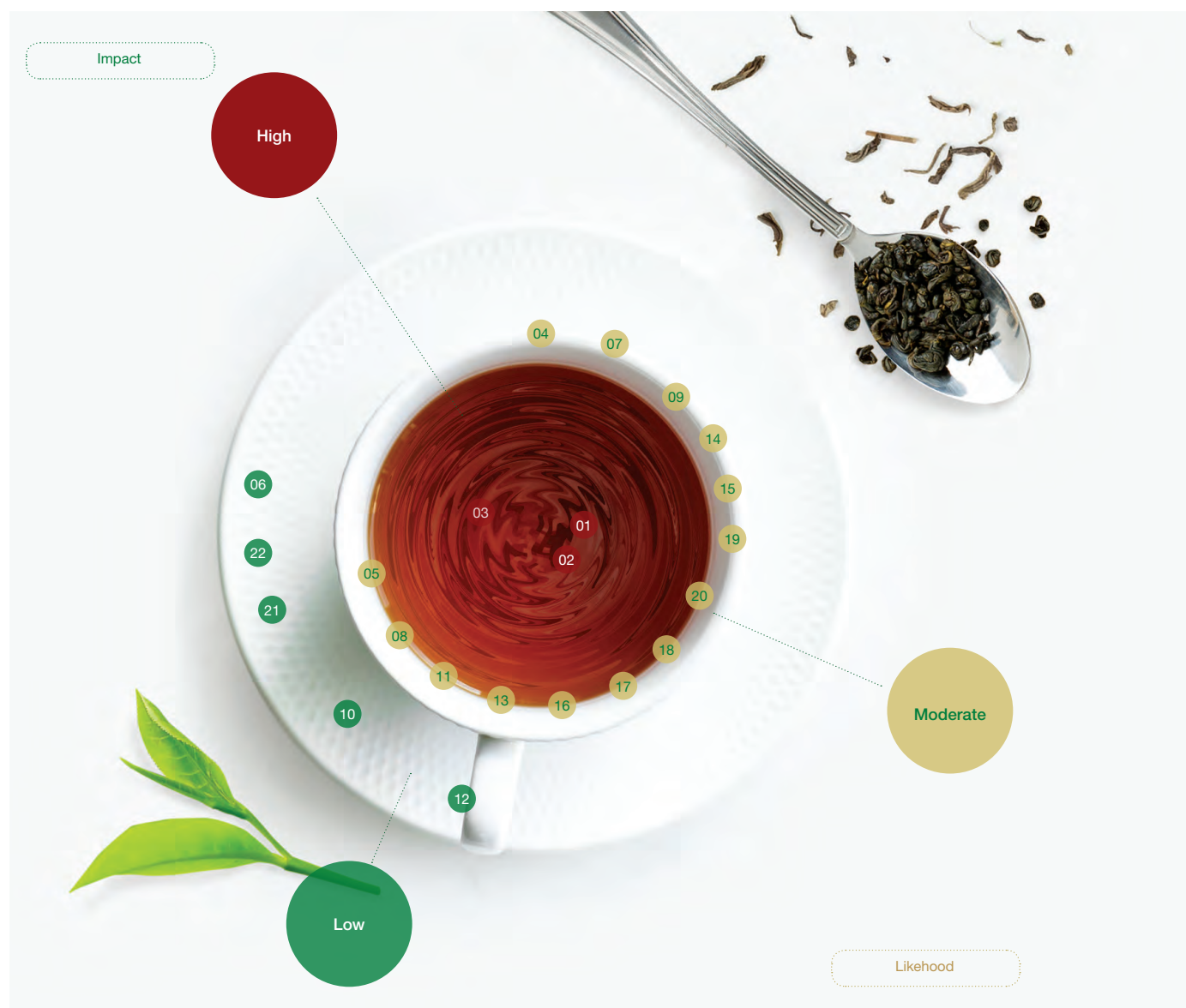
Risk Management

Risk Evaluation and Mapping

Risk is defined as the combination of a likelihood of an occurrence of an event and the impact that is caused by the event concerned. The occurrence of such events could hinder business objectives or have a positive impact as a result of maximising opportunities presented. Risk management deals with mitigating negative impacts whilst ensuring opportunities are maximized.

The likelihood of an event is assessed on the basis of past occurrences and the preventive measures in place. A ranking as per the probability of occurrence—high, medium and low—is assigned for each risk. The impact of an event is assessed by determining the loss it would cause and the extent of the impact. By considering these two factors, the impact is then categorised as high, medium and low. Subsequently, a risk map is developed based on the results of the risk assessment. The position of a particular risk indicates the risk appetite level and accordingly, the risk mitigation actions plans are formed and reviewed by the management committee.

Risk Assessment Matrix



STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES						
1. Socio-Economic and Political Risks		Year	2018/19	2017/18	2016/17	2015/16
<ul style="list-style-type: none"> Fluctuations in global and local market conditions Political and economic changes in key markets Changes in laws and regulations 		Risk Rating	High	High	High	High
Risk Assessment		Risk Management Strategies				
<p>Since revenue generated from manufacturing of black tea is exceeding 95 percent of the total revenue, changes in macroeconomic, political and global market conditions impact and erode the profit margins.</p>		<ul style="list-style-type: none"> Optimisation of the product portfolio from high and low grown to cater to specific market segments Quality focus production strategy Promote timber and fuel wood cultivation in low yielding tea fields Develop revenue streams from hydro power, timber, fuelwood and leisure projects Explore new markets and increase value addition with the support of the marketing arm, Mabroc Teas Work closely with relevant authorities and associations to ensure best interest for the industry 				
02. Wage Structure		Year	2018/19	2017/18	2016/17	2015/16
<ul style="list-style-type: none"> Strong trade unions play an active role in determining wages Wage structure is not fully aligned to worker productivity and market conditions 		Risk Rating	High	High	High	High
Risk Assessment		Risk Management Strategies				
<p>The higher rate of increase in wage related expenses has a major impact on profitability and competitiveness.</p> <ul style="list-style-type: none"> Collective Agreement is revised every two years and wage increments are not based on the market conditions Industry is highly labour intensive and labour cost accounts for 65 percent of the total cost Inadequate labour supply for the plantations gives more bargaining power to union and political bodies 		<ul style="list-style-type: none"> Forecast manpower trends in the tea industry Increase land and worker productivity through coaching, monitoring, motivation and mechanisation Optimise deployment of labour to maximise productivity Introduce technological advancements to fulfill labour deficiencies Outsource or suspend of non-value adding activities Negotiate with trade unions and stakeholders for a wage structure that is in line with productivity Introduce an 'Out Grower' model on estates Wage negotiations are done collectively with the Employers' Federation of Ceylon and the Planters Association 				
3. Market and Market Prices		Year	2018/19	2017/18	2016/17	2015/16
<ul style="list-style-type: none"> Changes in customer's buying preferences Manufacturing concerns in respect of complying with Minimum Residual Level (MRL) Changes in market rules and regulations 		Risk Rating	High	Moderate	Moderate	Moderate

Risk Management

 GRI: Disclosures: 102-15

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES						
Risk Assessment		Risk Management Strategies				
<ul style="list-style-type: none"> Changes in consumer perspectives and requirements Lowering of Threshold MRL causing regulatory barriers for entry Coalitions of suppliers to change market equilibrium Increase the demand for substitute products Competition from global suppliers Increase in rejects and claims 		<ul style="list-style-type: none"> Changes in buyer's buying capacities Close monitoring on agricultural practices and carry out regular laboratory testing to ensure product standards are complying with required parameters Focus on producing a 'quality tea' Change grade mix to cater to customer requirements Expand product range from black tea to other varieties of tea Monitor market trends and design strategies to meet future trends Strengthening food safety and quality management systems Be an ethical organisation with a commitment for global sustainability, hence, obtain international certifications such as Rainforest Alliance – Sustainable Farm, ISO 22000 Food Safety Management, Ethical Tea Partnership 				
4. Business Risk Failure to implement strategic plans, revenue enhancing and cost saving measures and initiatives on profitable investments.		Year	2018/19	2017/18	2016/17	2015/16
Risk Assessment		Risk Rating	Moderate	Moderate	Moderate	Moderate
<ul style="list-style-type: none"> Stifle future growth Reduce revenue, cash flow and profitability Drop of market share and dilution of corporate image 		<ul style="list-style-type: none"> An annual corporate plan with strategic and operational objectives and related actions is submitted to the Board of Directors for review The Board of Directors and the Management Committee hold regular meetings to formalise strategies and plans for the future Operations are monitored and controlled by the management information and budgetary control system and remedial action is taken including sector comparisons and monitoring performances of competitors Review meetings are held regularly to monitor strategic implementation 				
5. Ban of weedicides and other chemicals As a recent policy initiative, the Government has imposed a ban on chemical weedicide hindering best agricultural practices.		Year	2018/19	2017/18	2016/17	2015/16
Risk Assessment		Risk Rating	Moderate	High	High	Moderate
<ul style="list-style-type: none"> Deploying more labour for manual weeding increases the cost of production and impacts operational viability Deploying labour and allocating time for manual weeding will lower labour productivity and crop volumes Slackening on weeding practices will lead to safety issues of the workforce including poisonous snakes and insect bites Lack of weeding may destroy native plants and habitats 		<ul style="list-style-type: none"> Identify alternate solutions to ease out and manage the impact of the ban on chemical weeding at the management committee level Carry out research and development in collaboration with the Sri Lanka Tea Research Institute to find cost effective and alternative solutions to weeding Allocate resources to use expensive chemicals available in the market for weeding Conduct training programmes for the workforce to create awareness and develop skills in manual weeding Introduce new technology on plucking and invest in other agricultural practices to boost efficiency 				

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES**OPERATIONAL RISK: ARISING FROM REGULAR BUSINESS OPERATIONS**

6. Product Quality <div><div></div> Fluctuations in quality of products</div> <div><div></div> Buying volumes are lower due to quality issues</div> <div><div></div> Drop in market price and eroding market share</div> <div><div></div> Widening working capital deficiencies</div>	<table><tr><th>Year</th><th>2018/19</th><th>2017/18</th><th>2016/17</th><th>2015/16</th><th>2014/15</th></tr><tr><td>Risk Rating</td><td>Low</td><td>Low</td><td>Low</td><td>Low</td><td>Low</td></tr></table> <div><div></div> Adhere to a ‘Quality Policy’</div> <div><div></div> Adopt and implement quality assurance measures such as food hygiene standards and certification of factories under HACCP and ISO</div> <div><div></div> Carry out buyer feedback programmes and implement corrective strategies</div>	Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Low	Low	Low	Low	Low
Year	2018/19	2017/18	2016/17	2015/16	2014/15								
Risk Rating	Low	Low	Low	Low	Low								
7. Human Resource <div><div></div> Failure to recruit and retain skilled employees</div> <div><div></div> Immobility of labour within/between estates</div> <div><div></div> Failure to maintain appropriate working environment</div> <div><div></div> Reduction in resident manpower</div> <div><div></div> Migration of workforce to other sectors</div>	<table><tr><th>Year</th><th>2018/19</th><th>2017/18</th><th>2016/17</th><th>2015/16</th><th>2014/15</th></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>	Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
Year	2018/19	2017/18	2016/17	2015/16	2014/15								
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate								
Risk Assessment <div><div></div> Human resource management has a major impact on productivity</div> <div><div></div> Mishandling human resources can lead to labour unrest and damage to business properties</div>	Risk Management Strategies <div><div></div> Moving towards Block Management Strategy to improve productivity and resolve labor scarcity</div> <div><div></div> Ensure industrial peace through Collective Agreements entered into with the trade unions as a member of the Employers Federation</div> <div><div></div> Maintain a close relationship with employees</div> <div><div></div> Training and development programmes to improve performance</div> <div><div></div> Maintain healthy working environment through effective two-way communication system</div> <div><div></div> Determine remunerations in line with the industry and not on an ad-hoc basis</div> <div><div></div> Direct collective agreements towards the market</div>												
<table><tr><th>Employee Type</th><th>Cadre 31st March 2019</th></tr><tr><td>Manual</td><td>6189</td></tr><tr><td>Staff</td><td>386</td></tr><tr><td>Executive</td><td>75</td></tr><tr><td>Total</td><td>6,650</td></tr></table>	Employee Type	Cadre 31st March 2019	Manual	6189	Staff	386	Executive	75	Total	6,650			
Employee Type	Cadre 31st March 2019												
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Staff	386												
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Total	6,650												
8. Investments <div><div></div> Investments made without proper feasibility study and technical know-how.</div>	<table><tr><th>Year</th><th>2018/19</th><th>2017/18</th><th>2016/17</th><th>2015/16</th><th>2014/15</th></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>	Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
Year	2018/19	2017/18	2016/17	2015/16	2014/15								
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate								
Risk Assessment <div><div></div> Project failures</div> <div><div></div> May impact future profitability and sustainability</div> <div><div></div> Deficiencies in long-term replanting programme</div>	Risk Management Strategies <div><div></div> Investment plans are reviewed annually together with the corporate plan</div> <div><div></div> Carry out comprehensive feasibility studies with the support of external expertise</div> <div><div></div> Obtain Board approval and discuss at the Group Management Committee prior to embarking on proposed investments</div> <div><div></div> Closely monitor the progress to ensure project deliverables are achieved within given budgets and timelines</div>												
9. Information Systems & Cyber Security <div><div></div> Inability to generate accurate and timely information for management decision making</div> <div><div></div> Practice of ensuring the integrity, confidentiality and availability of information</div>	<table><tr><th>Year</th><th>2018/19</th><th>2017/18</th><th>2016/17</th><th>2015/16</th><th>2014/15</th></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>	Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
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Risk Management

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES																		
Risk Assessment		Risk Management Strategies																
<p>Malfunctions in the information system may lead to communication of incorrect information to the management and loss of important information.</p> <ul style="list-style-type: none">Loss of business opportunitiesBreach of system securityfinancial and non financial damages		<ul style="list-style-type: none">Proper usage of acceptable IT use policy of Hayleys PLCDisaster recovery plans and sound back-up system to gear for system failureA systems failure analysis is performed to identify non-conformance root causes and to recommend appropriate corrective actionsEnter into maintenance contracts for hardware and software with a well-established information technology companyUse of licensed software and registered security arrangements especially those of new ventures and investmentsStrengthen internal control systems and procedures to avoid fraud and malpracticesProvide continuous learning opportunities to employees and adhered to Cyber Hygiene																
10. Fraud Risk <ul style="list-style-type: none">Fraud is any intentional act or omission designed to deceive others, resulting in misappropriation of company assets or miscommunication to stakeholders.		<table><tr><th>Year</th><th>2018/19</th><th>2017/18</th><th>2016/17</th><th>2015/16</th><th>2014/15</th></tr><tr><td>Risk Rating</td><td>Low</td><td>Low</td><td>Low</td><td>Low</td><td>Low</td></tr></table>					Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Low	Low	Low	Low	Low
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Risk Assessment		Risk Management Strategies																
<ul style="list-style-type: none">Frauds may lead to the down fall of an entire organisation, massive investment losses, significant legal costs, incarceration of key individuals and erosion of confidence in capital marketsOperational and financial loss and dilution of corporate imageFraudulent financial reporting		<ul style="list-style-type: none">Stringent HR recruitment and performance monitoring systems and policies.Carry out internal audits regularly to monitor internal control systemContinuous monitoring of fraud preventive controlsFraud detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realised. A reporting process in place to solicit input on potential fraud.																
FINANCIAL RISK: ARISING FROM INADEQUACY OF CASH FLOW TO MEET FINANCIAL OBLIGATIONS AND MISREPRESENTATION OF FINANCIAL INFORMATION																		
11. Liquidity <ul style="list-style-type: none">Risk of not being able to meet financial commitments as an when they fall due.		<table><tr><th>Year</th><th>2018/19</th><th>2017/18</th><th>2016/17</th><th>2015/16</th><th>2014/15</th></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>					Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
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Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate													
Risk Assessment		Risk Management Strategies																
<ul style="list-style-type: none">Availability of sufficient funds is crucial as the industry is cyclical with long gestation periods for returnsReputational damage in risk of defaultRisk of widening working capital gapPotential financial losses will hinder prospects of future business expansion and development plans		<ul style="list-style-type: none">Structure borrowings appropriately to ensure maturity profile is not beyond the Company’s ability to repay or re-financeMonitor borrowing limits and gearing levels constantlyClosely monitor cash flow in every month and identify ways and means of managing funds.Maintain cash flow and budgetary controls systems for effective monitoring																
12. Interest rate risk <ul style="list-style-type: none">Risk from adverse interest rate fluctuations		<table><tr><th>Year</th><th>2018/19</th><th>2017/18</th><th>2016/17</th><th>2015/16</th><th>2014/15</th></tr><tr><td>Risk Rating</td><td>Low</td><td>Low</td><td>Low</td><td>Low</td><td>Moderate</td></tr></table>					Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Low	Low	Low	Low	Moderate
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STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES																		
Risk Assessment		Risk Management Strategies																
<ul style="list-style-type: none">Increases the cost of borrowingUnfavourable interest rates on investmentsDemotivate business expansionsCash deficitsReduce cash flow and profitability		<ul style="list-style-type: none">Negotiate with financial institutions for fixed debt servicing arrangementsFollow efficient treasury management proceduresMonitor debt levels constantly and maintain a balance between debt and equityShort-term assets to be financed with the short- term finance arrangements and long-term assets to be financed with the long-term arrangements.																
13. Financial Reporting Framework <ul style="list-style-type: none">A proper financial reporting framework provides credible information about the organisation to its stakeholders		<table><tr><td>Year</td><td>2018/19</td><td>2017/18</td><td>2016/17</td><td>2015/16</td><td>2014/15</td></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>					Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
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Risk Assessment		Risk Management Strategies																
<ul style="list-style-type: none">Misrepresentation and fraudulent financial reporting will reduce the credibility of the reporting systemLegal and financial implications		<ul style="list-style-type: none">Availability of good governance structure such as internal and external audits and the Audit CommitteeCompliance with regulatory requirements and Sri Lanka Financial Reporting Standards (SLFRS/LKAS)Existence, review and monitor of internal control system																
ENVIRONMENTAL & SOCIAL RISK: ACTUAL OR POTENTIAL THREAT ON LIVING ORGANISMS AND THE ENVIRONMENT ARISING FROM OPERATIONS																		
14. Climate Change <ul style="list-style-type: none">Extreme weather conditionsChanges in rainfall pattern and ambient temperature		<table><tr><td>Year</td><td>2018/19</td><td>2017/18</td><td>2016/17</td><td>2015/16</td><td>2014/15</td></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>					Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
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Risk Assessment		Risk Management Strategies																
<ul style="list-style-type: none">Landslides and land degradationAdverse impact on yields and quality of teaDifficulty in forecasting crop and quality of teaDrop in crop in-takes and profitabilityReduced employment opportunitiesAdverse impacts on biodiversity		<ul style="list-style-type: none">Plant tea, green manure/shade, native and fruit plant species to increase tree canopy coverHarvest rainwater in reservoirs and ponds to sustain the ground water table and regulate ambient temperaturesImplement sustainable agriculture practicesPlant drought resistant cultivars																
15. Water <ul style="list-style-type: none">Water scarcity due to climate change and high consumption by the expanding estate community		<table><tr><td>Year</td><td>2018/19</td><td>2017/18</td><td>2016/17</td><td>2015/16</td><td>2014/15</td></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>					Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
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Risk Assessment		Risk Management Strategies																
<ul style="list-style-type: none">Estate community may experience hardships due to water scarcityCrop in-takes and profitability may be adversely affected due to declining water tableAdverse impacts on biodiversity		<ul style="list-style-type: none">Protect all water sourcesHarvest rainwater in reservoirs and ponds to sustain the ground water tableImplement water conservation measuresTrain and educate operational teams and the estate community																
16. Soil Fertility <ul style="list-style-type: none">Depletion of soil organic matter and nutrients		<table><tr><td>Year</td><td>2018/19</td><td>2017/18</td><td>2016/17</td><td>2015/16</td><td>2014/15</td></tr><tr><td>Risk Rating</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td><td>Moderate</td></tr></table>					Year	2018/19	2017/18	2016/17	2015/16	2014/15	Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
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Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate													

Risk Management

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES							
Risk Assessment		Risk Management Strategies					
<div><div></div> Extreme rainy weather may cause loss of topsoil, soil fertility and soil nutrients</div> <div><div></div> Steep terrain in the tea fields may accelerate the soil erosion intensity</div>		<div><div></div> Plant green manure/shade trees</div> <div><div></div> Compost and bury pruning and weeds</div> <div><div></div> Recut contour and leader drains</div> <div><div></div> Establish stone and live terraces</div> <div><div></div> Establish ground cover crops</div> <div><div></div> Test the soil and follow rational application of Dolomite and chemical fertiliser</div>					
17. Green House Gas (GHG) Emissions							
<div><div></div> GHG emissions from operational activities and domestic consumption</div>							
		Year	2018/19	2017/18	2016/17	2015/16	2014/15
		Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
Risk Assessment		Risk Management Strategies					
<div><div></div> GHG emissions from fuel used in transport and supervisory vehicles</div> <div><div></div> GHG emissions from electricity usage in factories, staff quarters, offices and other buildings</div>		<div><div></div> Measure and monitor GHG emissions at each operational site</div> <div><div></div> Measure and monitor electricity and fuel consumption at each operational site</div> <div><div></div> Install energy saving machinery and lighting and implement other energy conservation measures</div> <div><div></div> Implement cleaner production technologies</div> <div><div></div> Plant trees and increase tree canopy cover for increased carbon sequestration</div> <div><div></div> Train and educate operational teams and the estate community</div>					
18. Solid Waste							
<div><div></div> Solid waste generated from operational activities and domestic consumption</div>							
		Year	2018/19	2017/18	2016/17	2015/16	2014/15
		Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate
Risk Assessment		Risk Management Strategies					
<div><div></div> Solid waste generated may cause land and water pollution</div> <div><div></div> Solid waste generated may cause spread of diseases</div> <div><div></div> Solid waste generated may adversely impact ecosystems and biodiversity</div>		<div><div></div> Implement an integrated solid waste management programme promoting ‘3-R’ concept</div> <div><div></div> Measure and monitor the quantity of different types of solid waste recycled</div> <div><div></div> Produce compost from biodegradable waste</div> <div><div></div> Train and educate operational teams and the estate community including school children</div>					

Corporate Governance Report

Dear Stakeholders,

I am pleased to present our corporate governance report for 2018/19 on behalf of my fellow Board members. This report sets out our corporate governance philosophy and how well the Board has applied principles of good governance in our day-to-day affairs.

Our approach to governance

Our approach to governance is predicated on the belief that there is a link between high-quality governance and the creation of long-term shareholder value. Thus, good corporate governance remains integral to the way TTE operates. We are committed to operating in a correct, principled and commercially astute manner and staying accountable to our stakeholders. We hold the view that transparency and accountability are essential for our Company to thrive and succeed in the short, medium and long term.

Nurturing governance through our culture

Both good governance and our values underpin our ability to deliver our vision and strategy. Therefore, sound corporate governance is implicit in our values, culture, processes, functions and organisational structure.

To this end our Group Code of Business Conduct and Ethics, "The Hayley's Way", which sets out the values of Hayleys Group; integrity, respect for people, teamwork enduring customer value, good citizenship, accountability and a 'will to win', continues to be the foundation of the dynamic culture and positive mindset of our organisation and

thus, remain integral to the way TTE operates.

We recognise that the Board must lead by example to ensure these values are embedded not just in the Boardroom, but are shared and understood throughout the business and form an integral part of interaction with all stakeholders.

Governance model

We subscribe to a governance system in which ethics and integrity set the standards for good governance. We constantly review and adapt our structures and processes to facilitate effective leadership, sustainability and corporate citizenship to support the Company strategy and to reflect national and international corporate governance standards, developments and best practices.

Our governance framework, which clearly defines roles and responsibilities, facilitates the Board to balance its role of providing risk oversight and guidance to the management in strategy implementation, risk management and meeting stakeholder expectations.

The governance framework provides for delegation of authority while enabling the Board to retain effective control. The Board committees facilitate the discharge of Board responsibilities and provide in-depth focus on specific areas.

Looking ahead

The Board continues to support good governance and believes that the application of sound corporate governance principles based on ethical

"Good corporate governance remains integral to the way TTE operates. We are committed to operating in a correct, principled and commercially astute manner and staying accountable to our stakeholders. We hold the view that transparency and accountability are essential for our Company to thrive and succeed in the short, medium and long term."

leadership ensures the TTE's success and its sustainability.

In conclusion, I together with the Board of Directors hereby confirm that, we are not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by any Director or any member of the corporate management team of TTE.



Chairman
Talawakelle Tea Estates PLC

Colombo, Sri Lanka
May, 08th 2019.

Corporate Governance Report

Statement of Compliance

The Board is committed to the highest standards of business integrity, ethical values and governance. It recognizes TTE's responsibility to conduct its affairs with prudence, transparency, accountability, fairness and social responsibility, thereby ensuring its sustainability while safeguarding the interests of all its stakeholders.

The Board of Directors of TTE wishes to confirm that TTE has complied throughout the year with the provisions of the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (Corporate Governance Code) and Corporate Governance Rules embedded in the Listing Rules of the Colombo Stock Exchange (CSE) in the manner hereinafter disclosed in this report.

The Board of Directors also wishes to confirm that, to the best of its knowledge and belief, TTE has complied with all requirements under the Companies Act No.7 of 2007 and satisfied all its statutory payment obligations to the Government and other statutory/regulatory bodies.

Institutional Governance

Governance Framework

 **GRI Disclosure:** 102-18, 19, 20

Sound governance principles remain one of the top priorities of the Board and executive management. The Board is satisfied that the governance framework of TTE which is anchored on competent leadership,

effective internal controls, a strong risk culture and accountability to shareholders provides clarity and contributes to the effective exercise of authority and responsibilities.

The Board plays a key role in setting TTE's governance standards to meet its stakeholders' expectations, and the company's leadership model ensures an appropriate balance of power, accountability and independence in decision-making across our various functional units.

TTE continues to review its governance framework to ensure that it supports effective decision-making, establish a corporate culture aligned with its purpose, foster sustainable growth and align to evolving best practice.

Corporate Governance Code And Governance

We support the governance outcomes, principles and practices in the Corporate Governance Code and apply all of the applicable principles of the Code. We view developments and governance trends as opportunities to continuously improve and entrench corporate governance practices.

Practices impacting the divisions and operations are identified, assessed and addressed through action plans and regular monitoring and reporting to the appropriate governance structures. Ongoing progress reports are presented, amongst others, to the Audit Committee.

Applicable Governing Frameworks

TTE complies with the CSE Listing Rules, applicable statutes, regulatory requirements and other authoritative directives regulating its conduct. The principal applicable frameworks are shown in the diagram below.





Corporate Governance Report

Board of Directors

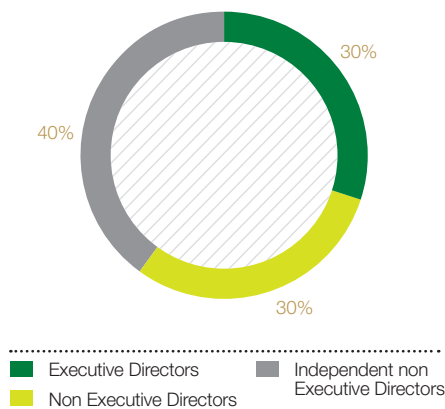
 GRI Disclosure: 102-24

The Board of Directors provides strategic direction and leadership, monitors the implementation of business and strategic plans and approves the capital funding for these plans to support a sustainable business.

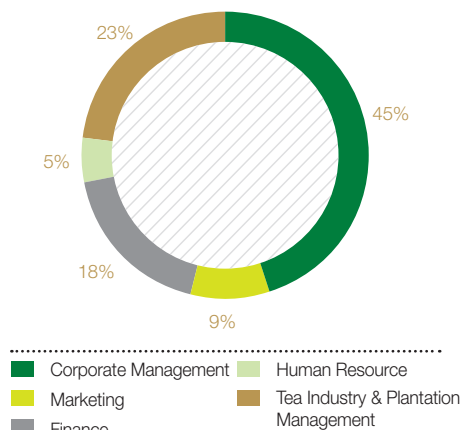
Independence

The Independent Non-executive Directors are highly experienced and have the skills, background and knowledge to fulfil their responsibilities. The Board believes that the Independent Non-executive Directors are of the appropriate calibre, diversity and number for their views to carry significant weight in the Board's deliberations and decisions.

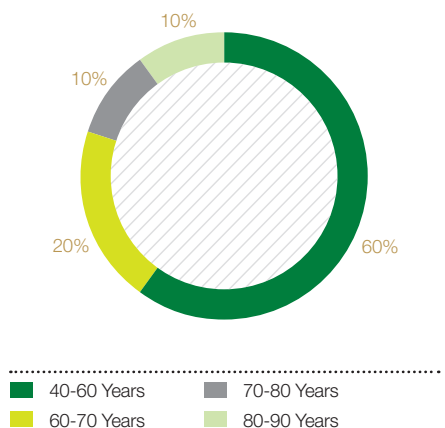
Independence



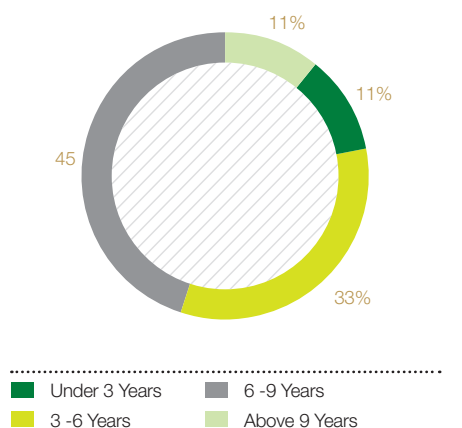
Experience & Skills



Age Distribution



Tenure on the Board



The classification of Independent Non-executive Directors is determined by the Board on the recommendation of the Nomination Committee. In determining the independence of the independent non-executive directors, and with due regard to the criteria for determining independence as set out the Corporate Governance Code and CSE Listing Rules, character and judgement are considered, together with any of their relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

Diversity

TTE recognises the benefits of a diverse Board. Thus, in selecting candidates due regard is given to the balance of the Board, and to the benefits of different backgrounds and experience.

The average tenure of Directors demonstrates a good balance between continuity and fresh perspectives. The size and composition of the Board is appropriate given the present geographic footprint of its operations.

The proportion of Independent Non-Executive Directors on the Board ensures that the Board is able to exercise objective judgment on corporate affairs and the performance of management against Key Performance Indicators.

Accordingly, Board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience, and diversity, and that appropriate measures are in place to ensure its independence.

Functions of the Board

Board's key areas of focus

The Board of Directors sets the fundamental principles of business conduct and is responsible for nurturing TTE's business and social culture. The Board performs its governance responsibilities within a framework of policies and controls,

which manage Company's economic, environmental and social performance and provides for effective risk assessment.

The scope of powers of the Board of Directors includes:

- setting priority goals and defining Company's development strategy;
- Monitoring the responsibilities delegated to the Board committees to ensure proper and effective oversight and control of Company's activities.
- approving the internal control system and procedures, identifying key risks associated with the Company's operation, and implementing risk management initiatives and procedures;
- reviewing management performance.
- determining Company's values and standards (including ethical standards) and ensuring that obligations to its stakeholders are understood and met.
- developing succession plans for the Board and the Management.
- considering sustainability issues (including environmental and social factors) as part of Company's strategy.

Performance assessment

 GRI Disclosure: 102-28

TTE is committed to transparency in assessing the performance of the Board, its Committees and individual directors as well as the governance processes that support Board activities. This assessment carried out annually through the Remuneration Committee of the parent, Hayleys PLC. In the year 2018/19, the assessment concluded that the performance of the Board and its committees, when evaluated against the relevant areas were considered effective.

Separation of responsibilities

 GRI Disclosure: 102-23, 26

The Board ensures that the appointment of and delegation to management contribute to role clarity and effective exercise of authority and responsibility. The roles of the Chairman and the Managing Director (MD) are separate and distinct, with their individual responsibilities clearly defined. Mr A M Pandithage is the Executive Chairman of the Company and not independent. He is responsible for leading the Board and ensuring its effectiveness. TTE is satisfied that the non-independence of the Executive Chairman is properly addressed by the composition of the Board.

Dr. Roshan Rajadurai, who is the MD of the Company, is responsible for the Company's strategy, and the day-to-day business of the Company.

Board Meetings

The Board meets at least quarterly to consider business philosophy and strategic issues, set risk parameters, approve financial results and budgets, and monitor the implementation of delegated responsibilities. Feedback from its committees, as well as a number of key performance indicators, variance reports and industry trends, are considered.

Agendas for Board meetings are prepared by the Company Secretary in consultation with the Executive Chairman and the Managing Director. Information provided to the Board is compiled from external sources, such as independent third-party reports, and internally from minutes and plans as well as reports relating to, for example, safety, health, sustainable development, risk, finance, governance and legal matters likely to affect TTE.

Conflicts of Interests

 GRI Disclosure: 102-25

The Hayleys Way', the Group Code of Business Conduct and Ethics casts a responsibility on each director to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters. Directors are also required timeously to inform the Board of conflicts, or potential conflicts, of interest that they may have impairing his or her independent judgement.

Further, Directors who have an interest in a matter under discussion at meetings of the Board refrain from engaging themselves in the deliberations on that matter and abstain from voting thereon.

The Board is aware of other commitments of its directors and is satisfied that all directors allocate sufficient time to enable them to discharge their responsibilities effectively.

Entrenching values and ethics

 GRI Disclosure: 102-16, 17

Hayleys Ggroup is a large and diverse business. To drive its growth cohesively, the group has agreed on a number of common guidelines, including the Group Code of Business Conduct and Ethics, The Hayleys Way' ("Code of Ethics"). These ensure that the Group does the right business in the right way, by complying with relevant laws and legislation.

The Code of Ethics is informed by the Group's core values – integrity, respect for people, teamwork, enduring customer value, good citizenship, accountability, and a 'will to win'; its ethical standards, as set out in anti-corruption and corporate

Corporate Governance Report

governance legislation; and globally recognized standards. The Code of Ethics applies to the Board, employees and all operations of the Group. It is aligned to Group standards, policies and procedures taking into consideration the economic social, political and operational environments in which the business conducts itself. "Hayleys Group whistle blower policy" is applicable to TTE and which is proactive and efficient mechanism to ensure group values and ethics

The Chairman and the Board set the ethical tone for the Company. The Executive Management is responsible for entrenching the Group's values and Code of Ethics across all levels of the organization.

Given that the employee conduct is governed by stringent policies described above and the close and strict monitoring thereof by the Board and the management, no material violations of the Code of Ethics or incidents of corruption have been reported during the year under review.

Board Continuity

Appointments and succession

 **GRI Disclosure:** GRI 102-24

The Board has a formal and transparent process in place for appointing directors. While the appointments are a matter for the Board as a whole, the responsibility to oversee the nomination process and recommend candidates has been delegated to the Nomination Committee of the parent, Hayleys PLC.

To enhance the effectiveness of the Board and strengthen Board dynamics, Directors are selected not just for their experience and competencies but also for their fit with the Group.

Access to advice and information

No restriction is placed on a Director's access to Company information, records,

documents and property. Non-executive Directors have access to management and regular interaction is encouraged. All Directors are entitled to seek, at the Company's expense, independent professional advice concerning the affairs of the Company.

Education and induction

 **GRI Disclosure:** 102-27

Directors receive a significant bespoke induction programme with a range of information about TTE when they first join the Board. The directors are kept abreast of applicable legislation and regulations, changes to rules, standards and codes, as well as relevant developments that could affect the Group and its operations covering a wide spectrum of topics including economic, social and environmental aspects. Ongoing support and resources are provided to Board members as required, to enable them to extend and refresh their skills, knowledge and understanding of the Group. Professional development and skills training are provided through regular updates on changes and proposed changes to laws and regulations affecting TTE or its businesses.

Board Committees

The Board has established the standing committees set out in the diagram below to promote independent judgement, to assist with the balance of power and to assist it with effectively fulfilling its responsibilities. Nonetheless, the Board acknowledges that the delegation of authority to its Committees does not detract from the Board's responsibility to discharge its duties.

Except for the Audit Committee, all other sub-committees are constituted at the Group Level and thus oversee the functions of TTE falling within their respective purview. Each Committee has its own terms of reference. These terms of reference set out the committees' roles and responsibilities, functions, scope of authority and composition. Committees report to the Board with recommendations in accordance with their terms of reference.

The assessment process for the year under reference concluded, among others, that each committee was satisfied that it had fulfilled its responsibilities in respect of its terms of reference.





The Composition of the Board and Sub-Committees and Meeting Attendance as at 31st March 2019

Name of Director	Independent	Non-executive	Executive	Board	Board Sub Committees								
					Board Audit Committee		Remuneration Committee		Nomination Committee		Related Party Transactions Review Committee		
				Position	Attendance	Position	Attendance	Position	Attendance	Position	Attendance	Position	Attendance
Mr. A. M. Pandithage	-	-	√	Chairman/Executive Director	4/4			-	-	Chairman		-	-
Mr W G R Rajadurai	-	-	√	Managing Director	4/4			-	-	-	-	-	-
Mr Merrill J Fernando	-	√	-	Director	0/4			-	-	-	-	-	-
Mr Malik J Fernando	-	√	-	Director	0/4			-	-	-	-	-	-
Mr. D. C. Fernando (alternate to Mr. Malik J Fernando)	-	√	-	Director	-			-	-	-	-	-	-
Dr S S S B D G Jayawardena*	√	√	-	Director	4/4		4/4	-	-	-	-	-	-
Dr K I M Ranasoma**	-	√	-	Director	1/4			-	-	-	-	-	-
Ms Minette D A Perera	-	√	-	Director	3/4		3/4	-	-	-	-	-	-
Dr N T Bogahalande	√	√	-	Director	4/4			-	-	-	-	-	-
Mr D S Seneviratne	-	√	√	Director/Chief Executive Officer	4/4			-	-	-	-	-	-
Mr S L Athukorala	√	√	-	Director	4/4		4/4	-	-	-	-	-	-
Mr M H Jamaldeen	√	√	-	Director	3/4			Member		-	-	-	-
Directors of Hayleys PLC who are on the sub-committees applicable to TTE													
Mr. K. D. D. Perera	-	√	-	Co-Chairman	-	-	-	Member		Member		-	-
Dr. H. Cabral	√	√	-	Director	-	-	-	Chairman		Member		Chairman	4/4
Mr. M. Y. A. Perera	√	√	-	Director	-	-	-	Member		-	-	Member	4/4
Mr. S. C. Ganegoda	-	-	√	Executive Director	-	-	-	-	-	-	-	Member	2/4

** Dr K I M Ranasoma resigned as a director with effect from 01.07.2018

Corporate Governance Report

Report of the Audit Committee

The role of the Committee with specific terms of reference is described in the Corporate Governance Report on page 204.

Composition of the Audit Committee

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors two of whom are independent. The Company Secretary acts as the secretary to the Audit Committee. The Managing Director, and the Chief Financial Officer (CFO) attend the meetings. The Chairman, Head of Management Audits and Systems Review Department and Director Plantations attend meetings by invitation.

The Chairman of the Audit Committee is a Senior Qualified Accountant.

The names of the members of the Committee are given below along with their brief profiles are given on page 205 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 of the Audit Committee

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

Mr. S.L.Athukorala 4/4
Dr. S S S B D G Jayawardena 4/4
Ms M D A Perera 3/4

Relevant members from the Senior Management, representative from the 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 Financial Reporting 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 Management Audit & Systems Review Department reports on key control elements and procedure in Group companies that are selected according to an annual plan. These reports were reviewed by the audit committee.

Internal Audits are outsourced to leading audit firms in line with an agreed annual audit plan. Follow up reviews are scheduled to ensure that audit recommendations are being acted upon.

The Committee obtained and reviewed statements from the management of the company identifying major business risks, mitigatory action taken or contemplated for the management of these risks.

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

External Audits

The Committee held meetings with the External Auditors to review the nature, approach, scope of the audit and the Audit Management Letters of Company. Actions taken by the management in

response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the heads of business unit. 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 committee has recommended to the Board of Directors that Messrs Ernst & Young continue as Auditors for the year ending 31st March 2020.

Support to the Committee

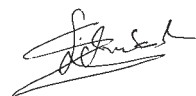
The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively.

Sri Lanka Accounting Standards

Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Company and made recommendation to the Board of Directors. The Committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board of Directors informed at regular intervals. The committee has pursued the support of Messrs Ernst and Young to assess and review the existing SLFRS policies and procedures adopted by the Company.

Conclusion

The Audit Committee is satisfied that the Company's accounting policies and operational controls provide reasonable assurance that the affairs of the Company are managed in accordance with the company policies and assets are properly accounted for and adequately safeguarded.



S.L. Athukorala
Chairman- Audit Committee

8 May 2019

Related Party Transactions Review Committee Report

GRI Disclosure: 102-25

The Related Party Transaction Review Committee of the parent Company, Hayleys PLC, functions as the Committee for the Company and is in line with the Section 9 of the Listing Rules of the Colombo Stock Exchange.

Composition of the Committee

The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors and one Executive Director. The Committee comprised of the Following members;

Dr. H. Cabral, PC (IND/NED) - Chairman
Mr. M.Y.A. Perera (IND/NED)
Mr. S. C. Ganegoda (ED)
(ED- Executive Director, IND- Independent Director, NED- Non-Executive Director)

The duties of the Committee

- ☛ To review in advance all proposed related party transactions of the group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.
- ☛ Seek any information the Committee requires from management, employees or external parties with regard to any transaction entered into with a related party.
- ☛ Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary, including obtaining appropriate professional and expert advice from suitably qualified persons.
- ☛ To recommend, where necessary, to the Board, and obtain their approval prior to the execution of any related party transaction.

- ☛ To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- ☛ Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties.
- ☛ To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged.
- ☛ To review the economic and commercial substance of both recurrent/non recurrent related party transactions
- ☛ To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.

Task of the Committee

The Committee reviewed the related party transactions and their compliance of Talawakelle Tea Estates PLC and communicated the same to the Board.

The Committee in its review process recognized the adequate content and quality of the information forwarded to its members by the management.

Meetings

The Committee Meetings were held four times during the year under review on 16th May 2018, 6th August 2018, 8th November 2018 and 6th February 2019. The attendance at the meetings is given in table on page 306 of the Annual Report.

Disclosures

A detailed disclosure of all the related party transactions including Recurrent and Non Recurrent related party transactions which are required to be disclosed under section 9.3.2 of the listing rules of the Colombo Stock Exchange has been made in Note 36 to the financial statements given in page 269 to this report.

Dr. Harsha Cabral, PC.

Chairman

Related Party Transactions Review Committee of Hayleys PLC

15th May 2019

Corporate Governance Report




Operational Governance

 **GRI Disclosure:** 102-29, 30

Risk Management

TTE continuously manages risks that affect its strategic and operational goals. These efforts include identification and assessment of external and internal risks in terms of their impact on key financial and non-financial metrics, including that relating to social, environmental and economic factors and their associated opportunities.

Risk management embraces all business areas and governance levels:

-  strategic risks are managed by the Board of Directors and the Company's Executive Management;
-  key operational risks are managed by the Company's Executive Management;
-  other material operational risks are managed by heads of business units and sub units.

The Audit Committee assists the Board in the discharge of its duties relating to oversight of risk management whilst the Executive Management is responsible for identifying risks and implementing appropriate mitigation processes and controls within their businesses. The risk-management processes also promote the ownership of risk areas and risk-management accountability within the Company.






Refer page 191 for the details of the Risk Management Framework.

Internal Controls

TTE has an internal control system in place intended to promote the achievement of the Company's goals and enhance investor confidence in its business and corporate bodies. The internal control system is aimed at improving the effectiveness and efficiency of activities, keeping reliable and accurate financial and management accounts, ensuring compliance with the requirements

of applicable laws and the Company's policies and procedures.

All internal control processes, principles, mechanisms, means, and procedures make up a system of elements:

-  control environment;
-  assessment of risks to business processes;
-  control procedures;
-  information and communications;
-  monitoring of the internal control system.

Information Technology

The Board takes responsibility for the governance of Information and Technology (IT), and reviews and approves related policies to set direction on the use of technology and information by the Company in line with the IT Governance Framework of the Hayleys Group. The management of IT has been delegated to the Head of Hayleys Group IT who ensures that appropriate governance structures, systems and controls are implemented.

The Board exercises ongoing oversight of IT management practices via the Audit Committee. The committee considers the efficiency of and developments in IT controls, policies and processes, as well as risk and resource optimisation. Prioritised IT systems and processes form part of the internal and external audit programme. The Board ensures that IT is used in an ethical and responsible way, and in compliance with relevant laws and regulation.

Compliance

TTE considers compliance with applicable laws, industry regulations, codes and its own ethical standards and internal policies to be an integral part of doing business. Thus, TTE promotes a robust compliance culture across the organisation and requires everyone, from the Board down to staff, to consistently comply with applicable laws, regulations and standards.

The responsibility for compliance is delegated by the Board to Executive Management who has adopted a sound mechanism to monitor reporting and compliance with all mandatory reporting requirements with the objective of establishing a fully compliant corporate governance and risk mitigating culture.

Legislative and regulatory developments are monitored on an ongoing basis and group leadership proactively engages with regulators through several industry bodies and business associations. This not only provides the opportunity to advocate for effective policies, but also to inform a common interpretation of requirements and therefore the controls needed to comply.

Sustainability Governance

 **GRI Disclosure:** 102-29, 31, 32, 33

Approach to Sustainability

TTE perceive sustainability as a critical factor to achieving Company's mission and ensuring its long-term competitiveness. Operating ethically and sustainably is not just a responsibility for TTE; it is a fundamental enabler of its commercial success.

Commitment to Sustainability

Sustainability considerations are firmly embedded into Hayleys Group's governance structures. The Group Management Committee oversees how TTE manages its most material sustainability matters, while the Audit Committee reviews the principal risks to TTE, including those related to sustainability.

Sustainability Framework

 **GRI Disclosure:** 102-26

The Company's Sustainability Framework highlights its economic impact while adhering to environmental, social and governance best practices. accordingly, the

Company performs its social responsibilities by taking management measures methodically and orderly, while considering the possible overall effects of its decisions and actions on the economy, society and environment at large.

To achieve this, the Company has established a social responsibility management system comprising joint actions of three levels, namely leadership level, organisation level and execution level. Such system enables us to fully implement social responsibility management as it effectively procures a deep involvement at the management level, a horizontal coordination between various business departments and estates at organisation level, as well as an implementation by subordinate units at the execution level.

Executive Involvement in Sustainability Governance

 GRI Disclosure: 102-26

The responsibility for the day-to-day management of economic, environmental and social topics rests with the Corporate Management Committee comprising the Managing Director, Chief Executive Officer, Director-Plantations and the Senior Management of the Company thereby making the formal and informal scanning of the environment in which the Company operates an everyday executive responsibility. TTE's Board is regularly apprised of developments that could have a bearing on the performance and sustainability of the Group.

The cross-functional committees formed at the management level ensure the conduct of Company's internal operations within ethical and governance parameters defined by the Board. Under the stewardship of the Board, these committees implement approved policies and strategies and manage the business and affairs to ensure that the Company creates sustainable growth for all its stakeholders.

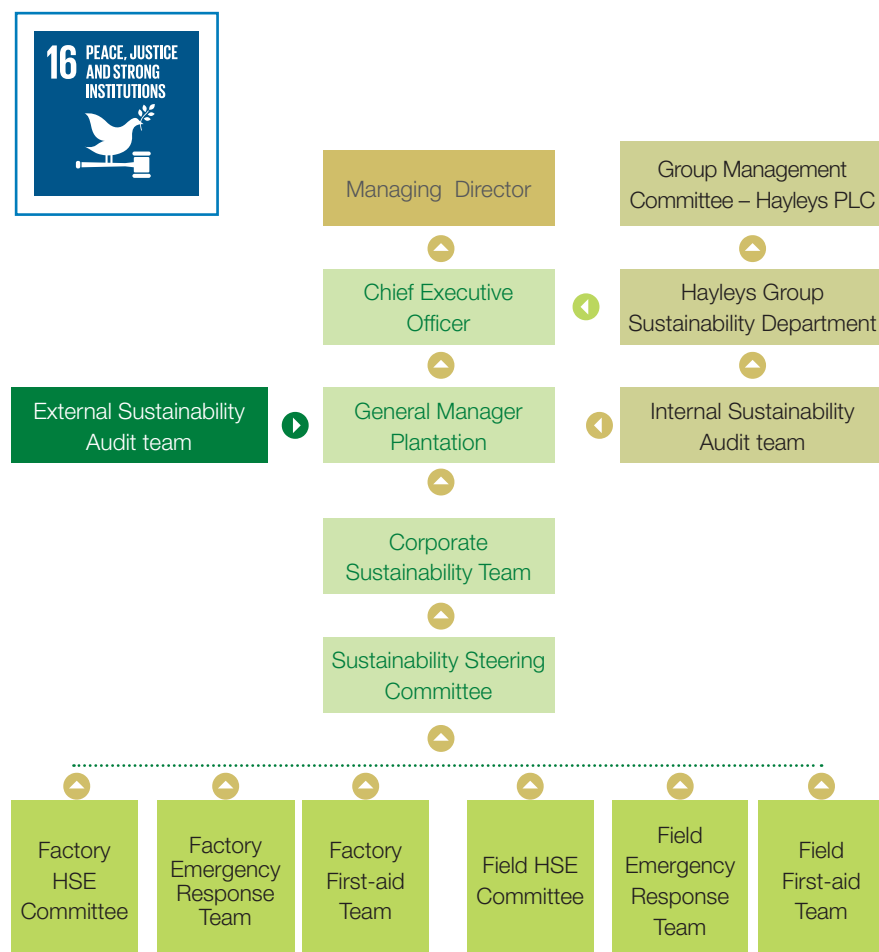
In addition, the committees formed at the group level namely, the Group Management Committee and Chief Financial Officer Forum provides a platform for the Group to review sector performance, formulate policies, share best practices and discuss risks and concerns impacting the business activities of their respective sectors, thus ensuring the sustainability of the Group as a whole.



Corporate Governance Report

Sustainability Governance Structure

 **GRI Disclosure:** 102-18, 19, 20, 21, 33



sustainability initiatives undertaken at various levels of the organisation to the Sustainability Department.

The Sustainability Department submits periodical updates to the Board through the Managing Director on Company's sustainability initiatives, risks and opportunities arising from economic, social and environmental factors impacting its business operations and stakeholder concerns thereon.

The Company's integrated annual report, which is approved by the Board prior to it being released, provides a detailed account to Company's stakeholders of its sustainability strategy and initiatives.

Stakeholder Engagement

 **GRI Disclosure:** 102-21, 31

TTE acknowledges that engaging with stakeholders is the basis of its licence to trade. Therefore understanding the Company's stakeholders' concerns, expectations and priorities and engaging with them on an ongoing basis through a structured, inclusive, transparent process is one of the key drivers in the continuous improvement of TTE's sustainability performance. To achieve this, TTE strives to be a leader in transparent, open and clear communication with all its stakeholders. In this regard, the Hayleys Group seeks to improve continuously upon its communication efforts through more detailed disclosure of relevant financial and other information.

Sustainability Reporting

 **GRI Disclosure:** 102-34

The Corporate Management Committee which is the hierarchy in the management level committees, review, from time to time, the vision, mission and values of the Company as well as the Company's strategies and policies relating to economic, social and environmental impacts and report all critical issues arising or discussed at their meetings to the Board through the Managing Director. Except for the matters

arising in the ordinary course of business no critical matters were reported to the Board during 2018/19.

The Sustainability Department of the Company which is headed by an executive level employee is charged with the responsibility of focusing on TTE's sustainability strategy. The Corporate Management Committee who is delegated with the authority for day-to-day management of economic, environmental and social topics, in turn delegates the co-ordination and monitoring of the

The Sustainability Department, who, in consultation with the Corporate Management Committee, engages with the Company's stakeholders in identifying economic, social and environmental factors that impact its business operations as well as risks and opportunities arising from the same.

Annual Report of the Board of Directors on the Affairs of the Company

The Directors of Talawakelle Tea Estates PLC (TTE PLC) has pleasure in presenting the Annual Report of the Board of Directors on the affairs of the Company and audited Consolidated Financial Statements of the Group for the year ended 31st March 2019.

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 accounting practices. The Financial statements were reviewed and approved by the Board of Directors on 08th May 2019.

Principal Activities

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

There were no significant changes in the nature of the principal activities of the Company or its subsidiaries during the year under review.

Group Structure

The Group Structure is given on page 22.

Vision, Mission and Corporate Conduct

The company vision and mission are given on page 7. The 'Group Code of Business Principles – Hayleys Way ' provides the frame work for our corporate conduct. The Group is committed to conduct its business operations with honesty, integrity, to comply the laws and regulations of the country and with respect to the rights and interests of all stakeholders.

Business Review/Future Development

A review of financial and operational performance and future business developments of the Group is contained in the Chairman's Statement (Pages 12 to 15) Managing Director's Review (Pages 16 to 20) and Management Discussion and Analysis (Pages 51 to 185) of the Annual Report.

These reports, together with the audited financial statements, reflect the state of affairs 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 prepared in conformity with the Sri Lanka Accounting Standards (SLFRS/LKAS) as required by Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and comply with the requirements of the Companies Act No. 07 of 2007.

The Financial Statements of the Company and the Group for the year ended, 31st March 2019, have been duly signed by the Chief Financial Officer and two directors of the Board are given on page 226.

Auditor's Report

The Company's Auditors Messrs. Ernst and Young, Chartered Accountants carried out an audit on the Financial Statements of the Company and the Group as at 31st March 2019, and their Report is given on pages 221 to 223.

Accounting Policies

The Significant Accounting Policies adopted in the preparation of the Financial Statements of the company and the group are given on pages 230 to 244.

There were no material changes in the Accounting Policies adopted with those of the last year.

Group Revenue

The revenue of the Group during the year was Rs. 4,025.9 Mn (2018-Rs. 4,061.3 Mn) An analysis of the Group's revenue, profits and asset allocation relating to different segments are given in Note 6 to the Financial Statements.

The contribution to revenue from tea decreased by Rs. 62.4 Mn (2018 – increased by Rs.745.1 Mn), whereas revenue from rubber decreased by Rs. 1.1 Mn (2018- Rs. 5.08Mn) Revenue contribution from hydro power increased by Rs. 15.9 Mn (2018- decreased by Rs. 19.8 Mn) during the year ended 31.03.2019.

Trade between Group Companies is conducted at fair market prices.

Operational Results and Dividends

The Group profit before taxation, amounted to Rs.483.6 Mn (2018-Rs. 616.8 Mn) during the period under review. After charging Rs. 70.9Mn (Rs. 2018 – Rs. 69.2 Mn) for taxation and a consolidation profit of Rs. 7.9 Mn (2018 – loss of Rs.0.87 Mn) for non-controlling interests, the Group profit attributable to equity holders of the Company from operating activities for the period was Rs.404.8 Mn (2018 – Rs.548.4 Mn). A Final dividend of Rs.2.50 per share for the financial year ended 31/03/2018 was paid on 05/07/2018 and an Interim dividend of Rs.6.00 per share for 2018/19 was paid on 18/04/2019.

Annual Report of the Board of Directors on the Affairs of the Company

The Directors have confirmed that the Company satisfied the solvency test requirement under Section 56 of the Companies Act No.07 of 2007 for the final dividend paid for the year 2017/18 and interim dividend paid for the year 2018/19. Solvency certificates were obtained from the Auditors in respect of the said dividends paid.

Group Investment

Total capital expenditure of the Group including investments in field development during the year amounted to Rs.168.9 Mn (2018 – Rs.168.7 Mn)

Property, Plant & Equipment

Group investment on property, plant & equipment and capital work in progress during the year amounted to Rs. 112.6 Mn (2018 - Rs. 104.3 Mn) whilst that of the Company was Rs. 112.1Mn (2018 - Rs. 100.3 Mn). The Company investment on replanting of tea, rubber and others (cinnamon & timber) during the year amounted to Rs. 38.1 Mn.(2018 – Rs. 48.1 Mn), Rs. 3.5 Mn (2018 – Rs. 4.7 Mn) and Rs. 14.6 Mn (2018- 11.4 Mn) respectively.

Information relating to movement in property, plant & equipment and replanting is given in Notes 12,13,14 A ,B,C 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 as at 31st March 2019 consists of 23,750,000 Ordinary Shares and one (01) Golden Share amounting to Rs. 350,000,010. There was no change in the stated capital during the year ended.

Total Group reserves at 31st March 2019 amounts to Rs. 2,291.9 Mn (2018 – Rs. 2,172.3 Mn) comprising retained earnings

of Rs. 2,097.1 Mn (2018– Rs.1,980.5 Mn), biological reserve of Rs.8.4 Mn (2018- Rs.12.1 Mn)and timber reserves of Rs.186.3 Mn (2018- Rs. 179.6 Mn). The movement in reserves during the period is shown in the Statement of Changes in Equity in the Financial Statements.

Provision for Taxation

The profit earned on agriculture and manufacturing of tea for the year is liable at 14%.

TTEL Hydro Power Company (Pvt) Ltd and TTEL Somerset Hydro Power (Pvt) Ltd are liable at 14%.

The Group has also provided deferred tax on all known temporary differences under the liability method.

Information on the income tax and deferred tax of the Company and the Group is given in note 10 to the Financial Statements.

Preferences Shares

As at 31st March 2019 the company holds 14% Redeemable Cumulative Preference Shares of TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power(Pvt) Ltd amounting to Rs. 53.1Mn (31.03.2018 – Rs. 53.1Mn) and Rs. 16 Mn (31.03.2018 – Rs. 16Mn) respectively. Information relating to the preference shares is given in Note 15 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 Interest Register. There were no changes in holdings during the year.

Directors` Interests in Shares

Directors of the Company who have shares in the Company have disclosed

their shareholdings 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.

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 34 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

Insurance & Indemnity

The Company is covered by Directors and officers (D & O) cover of the Parent Company, Hayleys PLC and premium of Rs. 8.3 Mn and the limit on liability of the cover is USD 5 Mn.

Payment of Remuneration to Directors:

 **GRI Disclosure: 102-35, 36, 37**

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 31st March 2019 is Rs.8.5 Mn (31.03.2018 -Rs 7.7 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 for the year ended 31.03.2019 is Rs 2.8 Mn (31.03.2018 – Rs.2.7 Mn) 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 ended 31.03.2019 (31.03.2018- 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 30 to 32.

Executive Directors

Mr. A M Pandithage (Chairman)
Dr. W G R Rajadurai (Managing Director)
Mr. D S Seneviratne (CEO)

Non- Executive Directors

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

Independent Non- Executive Directors

Dr. S S S B D G Jayawardena
Dr. N T Bogahalanda
Mr. S L Athukorala
Mr. M H Jamaldeen

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

Resignations, New Appointments and Re-Elections to the Board

Dr. K I M Ranasoma, a non-executive Director of the Company resigned from the Board with effect from 01.07.2018. Messrs. D S Seneviratne and S L Athukorala 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, who is 89 years old, notwithstanding the age limit of 70 years

stipulated by Section 210 of the Companies Act No. 07 of 2007.

Board Committees

The Board, while assuming the overall responsibility and accountability for the affairs in the management of the company, has appointed an Audit Committee, Remuneration Committee, Nomination Committee and Related Party Review Committee with specific terms of reference. Audit and Related Party Transactions Review Committee Reports are given on pages 206 and 207 of this report.

Management Fees

No management fees has been charged by Hayleys Plantation Services (Pvt) Ltd w.e.f. 01/04/2014 consequent to a board decision to waive off management fee hereafter.

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 199 to 210 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 authorized to determine their remuneration will be submitted at the Annual General Meeting.

The Auditors Messrs Ernst & Young Chartered Accountants were paid Rs. 5.0 Mn (31.03.2018 -Rs 4.9 Mn) as audit fees and audit related work of the Company and

Rs 0.506 Mn (31.03.18- Rs. 0.501 Mn) as audit fees by the two subsidiaries, TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited.

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 274 and 275.

Golden Shareholder

Rights of the Golden Shareholder as given in the Articles of Association of the Company are as follows;

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.

Annual Report of the Board of Directors on the Affairs of the Company

- The Golden Shareholder shall be entitled to call upon the Board of Directors of the Company once in every three months 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.
- 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 33 to the Financial Statements on page 266.

Human Resource

The number of persons employed by the Company at year end was 6,650 (31.03.2018 -7,136) of which 6,619 (31.03.2018 – 7,106) are engaged in employment outside the District of Colombo.

Shareholders

It is the Group's policy to endeavour to ensure equitable treatment to its shareholders.

Statutory Payments

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 216.

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 164 to 185.

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

Related Party Transactions

 **GRI Disclosure: 102-25**

The Board of Directors has given the following statement in respect of the related party transactions:

The related party transactions of the Company during the financial year have been reviewed by the Related Party Transactions Review Committee of Hayleys PLC and are in compliance with the Section 09 of the CSE Listing Rules.

The details of related party transactions of the Company and the Group are given in Note 34 into the Financial Statements.

Report of the Related Party Transaction Review Committee appears on page 207.

Internal Controls

The Directors acknowledge their responsibility for the Group's system of internal controls. 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. Accordingly, going concern basis has been adopted in preparation of the Financial Statements.

Ratios and Market Price Information

The ratios relating to equity and debt as required by the listing requirement of the Colombo Stock Exchange are given in pages 9,127 and 301 of this report.

Directors' Shareholdings

Directors' holdings of ordinary shares as at 31.03.2019 in the Company are given below.

Mr. Merrill J Fernando	1,184,700 (01.04.2018 -1,184,700). These shares are held through Merrill J Fernando & Sons (Private) Limited.
Mr. D S Seneviratne	600 (01.04.2018 – 600 shares)
Dr. W G R Rajadurai	1,000 (01.04.2018 –1,000 shares)

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

Shareholding

As at 31st March, 2019, there were 13,468 (31.03.2018 - 13,490) registered shareholders. The percentage of shares held by the public was 20.27 % (31.03.2018 - 20.27%) of the issued shares held by 13,464 shareholders (31.03.2018- 13,485).

The twenty major shareholders as at 31st March, 2019 and the number of shares held and their percentage share holdings are given on page 275 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 10.00 a.m. on 24th June, 2019. The Notice of the Annual General Meeting appears on page 306.

For and on behalf of the Board



Mohan Pandithage
Chairman



Dr. Roshan Rajadurai
Managing Director



Hayleys Group Services (Pvt) Ltd.
Secretaries

08th May 2019

Statement of Directors' Responsibility

The Directors are responsible under Sections 150 (1), 151, 152 (1) and 153 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein 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 and 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 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 judgments 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. 07 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 Group and, in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

The Directors have confirmed that the Company satisfied the solvency test requirement under Section 56 of the Companies Act No.07 of 2007 for the final dividend of Rs. 2.50 per share paid for the year 2017/18 and the interim dividend of Rs. 6.00 per share paid for the year 2018/19.

The external Auditors, Messrs Ernst & Young who were deemed reappointed in terms of Section 158 of the Companies Act No. 07 of 2007 were provided with every opportunity to undertake the inspections they considered appropriate to enable them to form their opinion on the Financial Statements. The Report of the Auditors, shown on pages 221 to 223 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

08th May, 2019

Managing Director's & Chief Financial Officer's Responsibility Statement

The Financial Statements of Talawakelle Tea Estates PLC and the Consolidated Financial Statements of the Group as at 31st March, 2019 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka;
- Companies Act No 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995;
- Listing rules of the Colombo Stock Exchange; and
- Code of Best Practice on Corporate Governance-2017 issued jointly by the institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Significant accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, as described in the Notes to the financial statements. The significant accounting policies estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and our External Auditors.

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be

designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees. Our internal auditors also conduct periodic reviews to ensure that the internal controls and procedures are consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the effectiveness of the audits, and to discuss auditing, internal control and financial reporting issues. The independent auditors and the internal auditors have

full and free access to the Audit Committee to discuss any matter of substance.

The Financial Statements were audited by Messrs.' Ernst & Young, Chartered Accountants, the Independent External Auditors. Their report is presented on pages 221 to 223 of this Report.

The Audit Committee approves the audit and non-audit services provided by the External Auditor, in order to ensure that the provision of such services does not impair their independence.

We confirm that the company and its subsidiaries have complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the company other than those arising in the normal course of conducting Plantation business.



Dr. Roshan Rajadurai
Managing Director



D. S. Seneviratne
Chief Financial Officer

08th May, 2019

Cultured

**in providing the best for
our consumers**

Nanu Oya Region

Spanning over 1,819.06 hectares with a total factory capacity of 3.21 million kilograms, our five estates in the Nanu Oya region specialise in producing high grown orthodox black tea and green tea varieties for key buyers in Russia, Japan and European Union With over 2,161 people employed from our resident communities; the cluster takes up the second largest share of our total tea production.

Financial Reports

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Financial Calendar - 2018/2019

Annual General Meeting (AGM) Calendar

	2018/2019	2019/2020
Annual Report and Accounts for the year signed/to be signed	On May 08, 2019	in May 2020
Annual General Meeting to be held	On June 24, 2019	in June 2020

Interim Financial Statements Calendar-Submission to the Colombo Stock Exchange (CSE) (In terms of Rule 7.4 of the Colombo stock exchange)

	2018/2019 Submitted on	2019/2020 To be submitted on or before
For the three months ended/ending June 30 (unaudited)	August 03, 2018	August 15, 2019
For the six months ended/ending September 30 (unaudited)	October 30, 2018	November 15, 2019
For the nine months ended/ending December 31 (unaudited)	January 18, 2019	February 15, 2020
For the year ended/ending March 31 (audited)	May 09, 2019	May 31, 2020

Dividend Calendar

Final dividend of Rs. 2.50 per share for the year 2017/18 was paid on 05 July 2018.
Interim dividend of Rs. 6.00 per share for the year 2018/19 was paid on 18 April 2019.

Independent Auditor's Report



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

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Fax Gen : +94 11 2697369
Tax : +94 11 5578180
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TALAWAKELLE TEA ESTATES PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Talawakelle Tea Estates PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at March 31, 2019, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as

at March 31, 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs).

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These

matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA 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 FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal: T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited



Independent Auditors' Report

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of Retirement Benefit Obligation</i>	
<p>The retirement benefit obligation of the Group is significant (Rs. 969 Mn) in the context of the total liabilities of the Group. Valuation of the Group's Retirement Benefit Obligation involves a complex calculation; the calculation requires the use of significant assumptions such as rate of increase in salary & discount rate. Small changes in those assumptions could have a significant effect on the financial performance and financial position of the Group. Accordingly, actuarial valuation of retirement benefit obligation is considered to be a key audit matter.</p>	<p>We evaluated the assumptions made in relation to the actuarial valuation of the retirement benefit obligation. In particular:</p> <ul style="list-style-type: none"> ▶ We assessed the assumption for salary increases against the group's historic trend and expected future outlook. ▶ We agreed the discount rate used, to our internally developed benchmarks. ▶ We validated the key data used by the actuary to the underlying data held by the Group. <p>We evaluated the adequacy of the related disclosures given in Note 24 in the financial statements</p>
<i>Bearer Biological Assets - Immature</i>	
<p>During the financial year Group capitalised an amount of Rs 48 Mn relating to immature plantations while transfers out to mature plantations amounted to Rs. 105 Mn. Due to the magnitude of the amounts involved and the significance of the management judgments required; in assessing if the indicators of impairment present and determining the points at which transfers to matured plantations should be made, we considered this area as a key audit matter for our audit.</p>	<p>Our audit procedures to address this area of focus included (amongst others) the following:</p> <ul style="list-style-type: none"> ▶ We assessed the processes and controls in place to ensure; proper capitalisation of the expenses incurred relating to immature plantations, timely transfer of matured plants to respective matured plantation categories and triggers of impairment (if any) are on a timely basis. ▶ We validated the significant amounts capitalised (including capitalized labor and other acceptable costs) by examining related invoices, capital expenditure authorizations and other corroborative evidences. ▶ We inspected the ageing profile of the immature biological assets as of the reporting date as well as at the points of transfers out to ensure appropriate and timely transfers are made to respective matured plantation. <p>We evaluated the adequacy of the related disclosures given in Notes 3.7.7.1 and 14B in the financial statements.</p>

Other information included in The Company's 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained

in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation

of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to

communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is M-2440.

Ernst & Young
Chartered Accountants

08 May 2019
Colombo

Statement of Profit or Loss

For the year ended 31 March	Notes	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Revenue	6.1	4,025,913	4,061,310	3,957,641	4,009,007
Cost of Sales		(3,431,906)	(3,307,226)	(3,394,668)	(3,269,090)
Gross Profit		594,007	754,084	562,973	739,917
Change in Fair Value of Biological Assets	14 C.1	7,457	9,091	7,457	9,091
Other Income And Gains	7	40,200	22,309	42,131	24,329
Administrative Expenses		(201,338)	(169,416)	(190,341)	(160,524)
Results from Operating Activities		440,326	616,067	422,220	612,813
Finance Income	8.1	90,915	52,099	90,730	52,099
Finance Expenses	8.2	(16,047)	(21,891)	(15,209)	(18,420)
Interest Paid to Government on Finance Lease	8.3	(31,512)	(29,446)	(31,512)	(29,446)
Net Finance Expense		43,356	761	44,009	4,233
Profit Before Tax	9	483,682	616,828	466,229	617,045
Income Tax Expense	10	(70,966)	(69,262)	(68,043)	(66,242)
Profit for the Year		412,716	547,566	398,186	550,803
Attributable To:					
Equity holders of the Parent		404,838	548,436	398,186	550,803
Non- Controlling Interest		7,878	(870)	-	-
		412,716	547,566	398,186	550,803
Basic/Diluted Earnings Per Share (Rs.)	11	17.05	23.09	16.77	23.19

The Accounting Policies and Notes on pages 230 to 272 form an integral part of the Financial Statements.

Statement of Comprehensive Income

For the year ended 31 March	Notes	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit for the Year		412,716	547,566	398,186	550,803
Other Comprehensive Income					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial Gain/(Loss) on Retirement Benefit Obligations	24	(96,899)	21,956	(96,927)	21,967
Income Tax Effect	10.2	13,566	(3,074)	13,570	(3,075)
Other Comprehensive Income For The Year, Net of Tax		(83,333)	18,882	(83,357)	18,892
Total comprehensive income for the year, net of tax		329,383	566,448	314,829	569,695
Attributable to:					
Equity holders of the Parent		321,493	567,323	314,829	569,695
Non- Controlling Interest		7,890	(875)	-	-
		329,383	566,448	314,829	569,695

The Accounting Policies and Notes on pages 230 to 272 form an integral part of the Financial Statements.

Statement of Financial Position

		31.03.2019	Group 31.03.2018	31.03.2019	Company 31.03.2018
As at	Notes	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS					
Non Current Assets					
Right-to-use of Land	12	154,735	160,619	154,735	160,619
Immovable estate assets on Finance Lease (other than Right to use of Land)	13	59,777	62,050	59,777	62,050
Tangible assets other than Immature/Mature Plantations	14A	1,074,021	1,053,389	758,718	722,236
Immature/Mature Plantations	14B	1,765,545	1,793,060	1,765,545	1,793,060
Consumable Biological Assets	14C	273,159	252,739	273,159	252,739
Development Cost		4,319	5,279	-	-
Investments in Subsidiaries	15	-	-	134,933	134,933
Deferred Tax Asset	10.4	11,236	13,740	-	-
		3,342,792	3,340,876	3,146,867	3,125,636
Current Assets					
Produce on Bearer Biological Assets	16	8,456	12,124	8,456	12,124
Inventories	17	452,416	454,884	450,302	452,541
Trade and Other Receivables	18	203,694	196,830	190,888	182,917
Amounts due from Related Companies	19	2,004	1,815	2,004	1,815
Short Term Investments	20	994,016	702,448	976,516	702,448
Cash and Bank Balances		19,122	16,169	17,728	12,646
		1,679,708	1,384,270	1,645,894	1,364,491
TOTAL ASSETS		5,022,500	4,725,146	4,792,761	4,490,127
EQUITY AND LIABILITIES					
Equity					
Stated Capital	21	350,000	350,000	350,000	350,000
Revenue Reserves		2,291,936	2,172,318	2,249,585	2,136,631
Equity attributable to equity holders of the parent		2,641,936	2,522,318	2,599,585	2,486,631
Non-Controlling Interests	22	176,828	170,793	-	-
Total Equity		2,818,764	2,693,111	2,599,585	2,486,631
Non Current Liabilities & Deferred Income					
Interest Bearing Loans & Borrowings	23	17,582	96,633	17,582	96,633
Retirement Benefit Obligations	24	969,573	811,824	967,294	809,992
Deferred Tax Liability	10.4	204,222	158,206	204,222	158,206
Deferred Income	25	144,826	150,126	144,826	150,126
Liability to make Lease Payment after one year	26	185,425	186,353	185,425	186,353
		1,521,628	1,403,142	1,519,349	1,401,310
Current Liabilities					
Trade and Other Payables	27	616,831	538,012	608,084	527,464
Interest Bearing Loans & Borrowings	23	22,443	65,366	22,443	49,242
Liability to make Lease Payment within one year	26	928	821	928	821
Amounts due to Related Companies	28	14,250	10,676	14,716	11,239
Bank Overdraft		27,656	14,018	27,656	13,419
		682,108	628,894	673,827	602,186
TOTAL LIABILITIES		2,203,736	2,032,036	2,193,176	2,003,496
TOTAL EQUITY AND LIABILITIES		5,022,500	4,725,146	4,792,761	4,490,127
Net Assets Per Share (Rs.)		111.24	106.20	109.46	104.70

The Accounting Policies and Notes on pages 230 to 272 form an integral part of the Financial Statements.

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



Dilantha Seneviratne
Director/Chief Executive Officer

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



Mohan Pandithage
Chairman/Director

08 May 2019
Colombo.



Dr. Roshan Rajadurai
Managing Director

Statement of Changes in Equity

For the year ended 31 March

Attributable to equity holders of the parent

Group	Revenue Reserves					Non Controlling Interest	Total Equity
	Stated Capital	Retained Earnings	Biological Crop Reserve	Timber Reserve	Total		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 April 2017	350,000	1,541,056	9,947	172,742	1,723,745	173,609	2,247,353
Profit for the Year	-	548,436	-	-	548,436	(870)	547,566
Other Comprehensive Income	-	18,888	-	-	18,888	(5)	18,883
Transferred to the Timber Reserve	-	(6,913)	-	6,913	-	-	-
Transferred to Biological Crop Reserve	-	(2,178)	2,178	-	-	-	-
Realised Gain on Timber Sales	-	-	-	-	-	-	-
Dividends	-	(118,750)	-	-	(118,750)	(1,941)	(120,691)
Balance as at 31 March 2018	350,000	1,980,539	12,125	179,655	2,172,318	170,793	2,693,111
Profit for the Year	-	404,838	-	-	404,838	7,878	412,716
Other Comprehensive Income	-	(83,345)	-	-	(83,345)	12	(83,333)
Transferred to the Timber Reserve	-	(11,125)	-	11,125	-	-	-
Transferred to Biological Crop Reserve	-	3,668	(3,668)	-	-	-	-
Realised Gain on Timber Sales	-	4,476	-	(4,476)	-	-	-
Dividends	-	(201,875)	-	-	(201,875)	(1,855)	(203,730)
Balance as at 31 March 2019	350,000	2,097,176	8,456	186,304	2,291,936	176,828	2,818,764

Company	Revenue Reserves				Total	Total Equity
	Stated Capital	Retained Earnings	Biological Crop Reserve	Timber Reserve		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 April 2017	350,000	1,502,998	9,947	172,742	1,685,686	2,035,686
Profit for the Year	-	550,803	-	-	550,803	550,803
Other Comprehensive Income	-	18,892	-	-	18,892	18,892
Transferred to the Timber Reserve	-	(6,913)	-	6,913	-	-
Transferred to Biological Crop Reserve	-	(2,178)	2,178	-	-	-
Realised Gain on Timber Sales	-	-	-	-	-	-
Dividends	-	(118,750)	-	-	(118,750)	(118,750)
Balance as at 31 March 2018	350,000	1,944,852	12,125	179,655	2,136,631	2,486,631
Profit for the year	-	398,186	-	-	398,186	398,186
Other Comprehensive Income	-	(83,357)	-	-	(83,357)	(83,357)
Transferred to the Timber Reserve	-	(11,125)	-	11,125	-	-
Transferred to Biological Crop Reserve	-	3,668	(3,668)	-	-	-
Realised Gain on Timber Sales	-	4,476	-	(4,476)	-	-
Dividends	-	(201,875)	-	-	(201,875)	(201,875)
Balance as at 31 March 2019	350,000	2,054,825	8,456	186,304	2,249,585	2,599,585

The Timber Reserve relates to change in fair value of managed trees which includes commercial timber plantations cultivated on estates.

The Biological Crop Reserve relates to change in fair value of harvestable produces growing on bearer biological assets.

The Accounting Policies and Notes on pages 230 to 272 form an integral part of the Financial Statements.

Statements of Cash Flow

For the year ended 31 March	Notes	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit Before Taxation		483,682	616,828	466,229	617,045
ADJUSTMENTS FOR					
Provision for Retirement Benefit Obligations	24	143,884	139,773	143,437	139,355
Depreciation/Amortisation	9	169,061	153,412	151,755	136,238
Amortisation of Grants	25	(5,300)	(5,300)	(5,300)	(5,300)
Dividend Income	7	-	-	(1,931)	(2,020)
Finance Costs	8.2	16,047	21,891	15,210	18,420
Government Lease Interest	8.3	31,512	29,446	31,512	29,446
Profit on disposal of Property, Plant & Equipments	7	(11,304)	(12,288)	(11,304)	(12,288)
Profit on Sale of Trees	7	(16,111)	(1,248)	(16,111)	(1,248)
Debtors/ Mature plantation write off		2,425	-	2,425	-
Gains on Fair Value of Biological Assets	14C.1	(7,457)	(9,091)	(7,457)	(9,091)
Operating Profit before Working Capital Changes		806,439	933,423	768,465	910,558
(Increase)/Decrease in Inventories		2,468	(80,156)	2,238	(80,233)
(Increase)/Decrease in Trade and Other Receivables		(5,738)	(25,582)	(6,846)	(25,689)
Increase/(Decrease) in Trade and Other Payables		(38,966)	133,366	(34,916)	132,272
(Increase)/Decrease in amounts due from Related Companies		(189)	567	(189)	567
Increase/(Decrease) in amounts due to Related Companies		3,574	3,559	3,476	2,690
Cash Generated from Operations		767,588	965,177	732,228	940,164
Finance Costs Paid	8.2	(16,047)	(21,891)	(15,210)	(18,420)
Payment of ESC/Income Tax		(39,080)	(20,500)	(39,080)	(20,500)
Retirement Benefit Obligations Paid	24	(83,062)	(107,095)	(83,062)	(107,095)
Net Cash from Operating Activities		629,399	815,691	594,876	794,149
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Trees		22,253	1,248	22,253	1,248
Proceeds from Disposal of Property, Plant & Equipments		12,480	14,129	12,480	14,129
Field Development Expenditure (Note A)	14B/ 14C	(56,337)	(64,365)	(56,337)	(64,365)
Purchase of Property, Plant & Equipment (Note B)		(112,604)	(104,366)	(112,109)	(100,347)
Dividend Income Received	7	-	-	1,931	2,020
Cost of Asset Return		-	125	-	125
Net Cash used in Investing Activities		(134,208)	(153,229)	(131,782)	(147,190)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend Paid		(59,375)	(120,691)	(59,375)	(118,750)
Payment of Government lease rentals		(32,957)	(30,459)	(32,957)	(30,459)
Proceeds from loans		-	73,648	-	73,648
Repayment of loans		(121,974)	(123,507)	(105,850)	(102,008)
Net Cash from Financing Activities		(214,306)	(201,010)	(198,182)	(177,570)
Net Increase in Cash & Cash Equivalents		280,885	461,454	264,912	469,389
Cash & Cash Equivalents at the beginning of the year (Note C)		704,599	243,145	701,676	232,287
Cash & Cash Equivalents at the end of the year (Note D)		985,484	704,599	966,588	701,676

The Accounting Policies and Notes on pages 230 to 272 form an integral part of the Financial Statements.

For the year ended 31 March	Tea Rs.'000	Rubber Rs.'000	Group Others Rs.'000	Hydro Rs.'000	Total Rs.'000
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NOTE A: Investment in Field Development Expenditure

Investment in Immature Plantations 2019	38,143	3,524	14,670	-	56,337
Investment in Immature Plantations 2018	48,148	4,751	11,465	-	64,364

NOTE B: Investment in Property, Plant & Equipment

Investment in Property, Plant & Equipment 2019	112,109	-	-	495	112,604
Investment in Property, Plant & Equipment 2018	100,348	-	-	4,018	104,366

For the year ended 31 March	Tea Rs.'000	Rubber Rs.'000	Company Others Rs.'000	Hydro Rs.'000	Total Rs.'000
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NOTE A: Investment in Field Development Expenditure

Investment in Immature Plantations 2019	38,143	3,524	14,670	-	56,337
Investment in Immature Plantations 2018	48,148	4,751	11,465	-	64,364

NOTE B: Investment in Property, Plant & Equipment

Investment in Property, Plant & Equipment 2019	112,109	-	-	-	112,109
Investment in Property, Plant & Equipment 2018	100,348	-	-	-	100,348

	2019 Rs.'000	Group 2018 Rs.'000	Company 2019 Rs.'000	2018 Rs.'000
NOTE C				
Cash & Cash Equivalents at the beginning of the year				
Cash & Bank Balances	16,169	29,850	12,646	18,916
Short Term Investments	702,448	226,760	702,449	226,760
Bank Overdrafts	(14,018)	(13,465)	(13,419)	(13,389)
	704,599	243,145	701,676	232,287

NOTE D

Cash & Cash Equivalents at the end of the year				
Cash & Bank Balances	19,123	16,169	17,728	12,646
Short Term Investments	994,017	702,448	976,516	702,448
Bank Overdrafts	(27,656)	(14,018)	(27,656)	(13,419)
	985,484	704,599	966,588	701,676

NOTE

During the Financial year, the Group & the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 112,604,058/= and Rs. 112,109,167/= in respectively. (2018-Group- Rs. 104,365,669/= , Company- Rs. 100,347,232/=).

The Accounting Policies and Notes on pages 230 to 272 form an integral part of the Financial Statements.

Notes to the Financial Statements

1. REPORTING ENTITY

Talawakelle Tea Estates PLC was incorporated on 22 June 1992 under the Companies Act No. 17 of 1982 (The Company was re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporation and Government-Owned Business Undertakings into Public Companies under 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. All companies in the Group are limited liability companies incorporated and domiciled in Sri Lanka.

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

The Consolidated Financial Statements of Talawakelle Tea Estates PLC comprises the Company and its Subsidiaries namely TTEL Hydro Power Co (Pvt) Ltd and TTEL Somerset Hydro Power (Pvt) Ltd (together referred to as the 'Group').

1.1 Principle Activities and nature of the operations

During the year, the principal activities of the company were the producing and processing of Tea and Rubber.

Principal activities of other companies in the Group are as follows.

Company	Nature of the business	Registered office
TTEL Hydro Power Co (Pvt) Ltd	Generating hydropower	No. 400, Deans Road, Colombo 10
TTEL Somerset Hydro Power (Pvt) Ltd	Generating hydropower	No. 400, Deans Road, Colombo 10

1.2 Holding Company

The Company is a subsidiary of Hayleys Plantation Services (Pvt) Ltd which is a subsidiary of Dipped Products PLC whose ultimate parent enterprise is Hayleys PLC.

1.3 Date of Authorization for issue

The financial statements of Talawakelle Tea Estates PLC for the year ended 31 March 2019 were authorized for issue by the Directors on 08 May 2019.

1.4 Responsibility for Financial Statements.

The responsibility of the Directors in relation to the Financial Statements is set out in the Statement of Directors' Responsibility Report in the Annual Report.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company and the Group comprise the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow together with Accounting Policies and Notes to the Financial Statements (the "Consolidated Financial Statements") have been prepared in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, which

requires compliance with the Sri Lanka Accounting Standards promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and with the requirements of the Companies Act No. 07 of 2007.

2.2 Basis of Measurement

These Consolidated Financial Statements have been prepared in accordance with the historical cost convention other than following items in the Financial Statements.

- ▶ Managed Consumable biological assets are measured at fair value.
- ▶ Harvestable Agricultural Produce growing on bearer biological assets are measured at fair value.

Where appropriate, the specific policies are explained in the succeeding Notes.

No adjustments have been made for inflationary factors in the Consolidated Financial Statements.

2.3 New accounting standards, interpretations and amendments adopted by the group

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group's annual financial statements in the previous financial year, except for the adoption of new standards effective as of 1st January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, SLFRS 15, Revenue from Contracts with Customers and SLFRS 9, Financial Instruments that require restatement of previous financial statements.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the financial statements of the Group.

2.3.1 SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 supersedes LKAS 11, Construction Contracts, LKAS 18, Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new Standard establishes a five-step model to account for revenue arising from contracts with customers. Under SLFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted SLFRS 15 using the full retrospective method of adoption. Based on the assessment performed, the Group concluded that SLFRS 15 does not have a material impact on the Group's financial statements. The revised policies as per SLFRS 15 are indicated in the note no. 3.21.

2.3.2 SLFRS 9 Financial Instruments

SLFRS 9 Financial Instruments replaces LKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted SLFRS 9 using the full retrospective method of adoption. Based on the assessment performed, the Group concluded that SLFRS 9 does not have a material impact on the Group's financial statements, except for following classification changes occurred.

Classification and measurement

Except for trade receivables, under SLFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under SLFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVTOCI). The classification is based on two criteria: The Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Group's business models was made as of the date of initial application, 1st January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1st January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The new classification and measurement of the Group's debt financial assets are as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables. (These financial assets were classified as loans and receivables under LKAS 39 in the previous financial statements).

No any other classification changes were identified due to the adoption of SLFRS 9.

The accounting for the Group's financial liabilities remains largely the same as it was under LKAS 39.

Impairment

The adoption of SLFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

SLFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses.

2.4 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (Rs.), which is the Group's functional and presentation currency. All financial information presented in Sri Lankan Rupees has been given to the nearest rupee, unless stated otherwise.

2.5 Materiality and Aggregation

Each material class of similar items is presented separately in the Consolidated Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Notes to the Financial Statements

3.1 Going Concern

The Consolidated Financial Statements have been prepared on the assumption that The Company is a going concern. The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future. Furthermore, board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as going concern and they do not intend either to liquidate or to cease operations of Group. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis.

3.2 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Group and its subsidiaries as at 31st March 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

At the Company level investments in subsidiaries are recognized at cost.

3.2.1 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount

of any Non-Controlling Interest in the acquiree. For each business combination, the Group elects whether it measures the Non-Controlling Interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition - related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3.3 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- ▶ Expected to be realised or intended to be sold or consumed in normal operating cycle
- ▶ Held primarily for the purpose of trading
- ▶ Expected to be realised within twelve months after the reporting period.

Or

- ▶ Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ▶ It is expected to be settled in normal operating cycle
- ▶ It is held primarily for the purpose of trading
- ▶ It is due to be settled within twelve months after the reporting period.

Or

- ▶ It does not have a right at the reporting date to defer the settlement of the liability for at least twelve months after the reporting date.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3.4 Fair Value Measurement

The Group measures financial instruments and non-financial assets at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- ▶ Managed Consumable Biological Assets Note 14C
- ▶ Produce Growing on Bearer Biological Assets Note 16

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or,
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- ▶ Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- ▶ Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as managed biological assets. Involvement of external valuers is decided upon annually by the Management Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Management Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

Notes to the Financial Statements

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.5 Foreign Currencies

The Group's consolidated financial statements are presented in Sri Lankan Rupees, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in

line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

3.6 Cash dividend and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

3.7 Property, Plant & Equipment

The group applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its assets which are held for and use in the provision of the services, for rental to other or for administration purpose and are expected to be used for more than one year.

3.7.1 Basis of Recognition.

Property Plant and Equipment is recognised if it is probable that future economic benefit associated with the assets will flow to the Group and cost of the asset can be reliably measured.

3.7.2 Measurement

Items of Property, Plant & Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses, if any.

3.7.2.1 Borrowing Cost

Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset, which takes a substantial period of time to get ready for its intended use or sale are capitalised as a part of the asset.

Borrowing costs that are not capitalised are recognised as expenses in the period in which they are incurred and charged to the Statement of profit or loss.

The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with LKAS 23 – 'Borrowing Costs'.

Borrowing costs incurred in respect of specific loans that are utilised for field development activities have been capitalised as a part of the cost of the relevant immature plantation. The capitalisation will cease when the crops are ready for commercial harvest.

3.7.3 Owned Assets

The cost of Property, Plant & Equipment includes expenditures that are directly attributable to the acquisition of the asset. Such costs includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials and direct labour, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalized as a part of that equipment.

When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognises such parts as individual assets (major

components) with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statements of profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Capital work-in-progress is transferred to the respective asset accounts at the time of first utilisation or at the time the asset is commissioned.

3.7.4 Leased Assets

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit or loss. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will

obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

3.7.5 Derecognition

An item of property, plant and equipment and any significant part initially recognized is derecognized 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 Statement of profit or loss when the asset is derecognized.

3.7.6 Land Development Cost

Permanent land development costs are those costs incurred in making major infrastructure development and building new access roads on leasehold lands.

These costs have been capitalised and amortised over the remaining lease period.

Permanent impairments to land development costs are charged to the Statement of Profit or Loss in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

3.7.7 Biological assets

Biological assets are classified in to mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specification. Tea, rubber, other plantations and nurseries are classified as biological assets.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological assets includes tea and rubber plants, those that

are not intended to be sold or harvested, however used to grow for harvesting agricultural produce from such biological assets. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.

The entity recognize the biological assets when, and only when, the entity controls the assets as a result of past events, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably.

3.7.7.1 Bearer Biological Assets

The bearer biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, in terms of LKAS 16 – “Property, Plant & Equipment”.

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, inter-planting and fertilizing, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct costs plus attributable overheads. The expenditure incurred on bearer biological assets (Tea, Rubber) which comes into bearing during the year, is transferred to mature plantations.

3.7.7.2 Infilling Cost on Bearer Biological Assets

The land development costs incurred in the form of infilling have been capitalised to the relevant mature field, only where the number of plants per hectare exceeded 3,000 plants and, also if it increases the expected future benefits from that field, beyond its pre-infilling performance assessment. Infilling costs so capitalised are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation, or the unexpired lease period, whichever is lower.

Notes to the Financial Statements

Infilling costs that are not capitalised have been charged to the Statement of profit or loss in the year in which they are incurred.

3.7.7.3 Consumable Biological Assets

Consumable biological assets include managed timber trees those that are to be harvested as agricultural produce or sold as biological assets. Expenditure incurred on consumable biological assets (managed timber trees) is measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants as the impact on biological transformation of such plants to price during this period is immaterial. The fair value of timber trees are measured using DCF method taking in to consideration the current market prices of timber, applied to expected timber content of a tree at the maturity by an independent professional valuer. All other assumptions and sensitivity analysis are given in Note 14C.

The main variables in DCF model concerns

Variable	Comment
Timber content	Estimate based on physical verification of girth, height and considering the growth of the each species in different geographical regions. Factor all the prevailing statutory regulations enforced against harvesting of timber coupled with forestry plan of the Company
Economic useful life	Estimated based on the normal life span of each species by factoring the forestry plan of the Company
Selling price	Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be fulfill in bringing the trees in to saleable condition.
Planting cost	Estimated costs for the further development of immature areas are deducted.

The gain or loss arising on initial recognition of consumable biological assets at fair value less cost to sell and from a change in fair value less cost to sell of consumable biological assets are included in profit or loss for the period in which it arises.

Permanent impairments to Biological Asset are charged to the Statement of profit or loss in full and reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

3.7.7.4 Nursery Plants

Nursery cost includes the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for overgrown plants.

3.7.8 Depreciation and Amortisation

(a) Depreciation

Depreciation is recognised in the Statement of profit or loss or on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the Group will have ownership by the end of the lease term. Lease

period of land acquired from SLSPC will be expired in year 2045. The estimated useful lives for the current and comparative periods are as follows:

	No. of Years
Buildings	27.3 (Over the remaining lease period)
Roads	5
Plant & Machinery	20
Electronic Machinery	13
Solar System	15
Hydro Power Plant	30
Motor Vehicles-Utility	10
Motor Vehicles-Supervisory	5
Equipment	4
Furniture & Fittings	10
Computer Accessories	4

Mature Plantations (Replanting and New Planting)

Mature Plantations	No. of Years
Tea	27.3 (Over the remaining lease period)
Rubber	20

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date on which the asset is classified as held for sale or is derecognised. Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted prospectively, if appropriate. Mature plantations are depreciated over their useful lives or unexpired lease period, whichever is less.

No depreciation is provided for immature plantations.

(b) Amortisation

The leasehold rights of assets taken over from SLSPC are amortised in equal amounts over the shorter of the remaining lease period and the useful lives as follows:

	No. of Years
Right to Use of Land	27.3 (Over the remaining lease period)
Improvements to land	27.3 (Over the remaining lease period)
Buildings	25
Machinery	20
Development Cost	15

3.7.9 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the Statement of profit or loss in the year in which the expenditure is incurred.

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

Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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 recognized in the statement of profit or loss when the asset is derecognized.

3.7.9.1 Research and Development

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- ▶ The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- ▶ Its intention to complete and its ability and intention to use or sell the asset
- ▶ How the asset will generate future economic benefits
- ▶ The availability of resources to complete the asset
- ▶ The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

A summary of the policy applied to the Group

Development Cost

Useful lives	Finite
Amortisation Method Used	Amortised Straight line over the right to generate hydro power.
Period of amortisation	15 Years
Internally generated or acquired	Acquired

3.8 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.8.1 Financial Assets

3.8.1.1 Initial Recognition & Measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, investments and trade and other receivables.

Notes to the Financial Statements

3. 8.1.2 Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- ▶ Financial assets at amortized cost (debt instruments)
- ▶ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- ▶ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- ▶ Financial assets at fair value through profit or loss

a) Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. Financial instruments at amortized cost comprise of trade receivables, amounts due from related parties, deposits, advances and other receivables.

b) Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss. The Group does not have any debt instruments at fair value through OCI.

c) Financial assets at fair value through OCI

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument- by instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

d) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

3.8.1.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired
- ▶ The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of

the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.8.1.4 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those

credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

3.8.2 Financial liabilities

3.8.2.1 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

3.8.2.2 Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

(b) Financial liabilities at amortized cost

After initial recognition, interest bearing loans and borrowings are subsequently

measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the Profit or Loss Statement when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Financial liabilities comprise interest bearing loans and borrowings, trade payables, other payables, income tax payables and amounts due to related parties.

3.8.2.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

3.8.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Financial risk management objectives and policies have been disclosed under Note 37.

3.9 Harvestable agricultural produce on bearer biological assets

In accordance with LKAS 41, company recognise agricultural produce growing on bearer plants at fair value less cost to sell. Change in the fair value of such agricultural produce recognized in profit or loss at the end of each reporting period.

Notes to the Financial Statements

For this purpose, quantities of harvestable agricultural produce ascertained based on harvesting cycle of each crop category by limiting to one harvesting cycle based on last day of the harvest in the immediately preceding cycle. Further 50% of the crop in that harvesting cycle considered for the valuation.

For the valuation of the harvestable agricultural produce, the company uses the following price formulas.

- ▶ Tea – Bought Leaf rate (current month) less cost of harvesting & transport
- ▶ Rubber – latex Price (95% of current RSS1 Price) less cost of tapping & transport

3.10 Inventories

Finished Goods Manufactured from Agricultural Produce of Biological Assets.

These are valued at the lower of cost and estimated net realisable value. Net realisable value is the estimated selling price at which stocks can be sold in the ordinary course of business after allowing for cost of realisation and/or cost of conversion from their existing state to saleable condition.

Input Material, Spares and Consumables

At actual cost on weighted average basis.

Agricultural produce harvested from biological assets

Agricultural produce harvested from biological asset are measured at their fair value less cost to sell at the point of harvest. The finished and semi-finished inventories from agricultural produce are valued by adding the cost of conversion to the fair value of the agricultural produce.

3.11 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flow.

3.12 Impairment of Non-Financial Assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount 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. When the carrying amount of an asset or CGU 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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with

the function of the impaired asset, except for properties previously revalued with the revaluation taken to Other Comprehensive Income. For such properties, the impairment is recognised in Other Comprehensive Income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31st March 2019 and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. Intangible assets with indefinite useful lives are tested for impairment annually as at 31st March at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

3.14 Employees Benefits

(a) Defined Contribution Plans - Provident Funds and Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

The Company contributes 12% on consolidated salary of the employees to Ceylon Planters' Provident Society (CPPS)/ Estate Staff Provident Society (ESPS)/ Employees' Provident Fund (EPF).

All the employees of the Company are members of the Employees' Trust Fund, to which the Company contributes 3% on the consolidated salary of such employees.

(b) Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plan is the present value of the defined benefit obligation at the Reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The present

value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as in retained earnings through other comprehensive income. Past service costs are recognised immediately in statement of profit or loss.

The provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19, Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The Liability is not externally funded.

The key assumptions used in determining the retirement benefit obligations are given in Note 24.

3.15 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the Group have been disclosed in the respective Notes to the Financial Statements.

3.16 Events Occurring after the Reporting Date

All material events after the Statement of Financial Position Date have been considered where appropriate; either adjustments have been made or adequately disclosed in the Financial Statements.

3.17 Earnings per Share

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.18 Deferred Income

3.18.1 Grants and Subsidies

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the Statement of profit or loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as additional government grant. Assets are amortised over their useful lives as follows.

Grants related to Property, Plant & Equipment other than grants received for forestry are initially deferred and allocated to income on a systematic basis over the useful life of the related Property, Plant & Equipment as follows: Assets are amortised over their useful lives or unexpired lease period, whichever is less.

	No of Years
Buildings	27.3 years (Over the remaining lease period)
Roads	5 Years

Notes to the Financial Statements

Grants received for forestry are initially deferred and credited to income once when the related blocks of trees are harvested.

3.19 Statements of Profit or Loss

For the purpose of presentation of statement of profit or loss, the function of expenses method is adopted, as it represents fairly the elements of the Group's performance.

3.19.1 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Under SLFRS 15, revenue is recognised upon satisfaction of performance obligation.

The Group is in the business of cultivation, manufacture and sale of black tea, rubber and other crops (Plantation Produce). Revenue from contracts with customers are recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods before transferring them to customer.

3.19.1.1 Revenue from contracts with customers

► Sale of Plantation produce

Revenue from sale of plantation produce is recognized at the point in time when the control of the goods are transferred to the customer. Black tea and Rubber produce are sold at the Colombo tea/rubber Auction and the highest bidder whose offer is accepted shall be the buyer, and a sale shall be completed at the fall of the hammer, at which point control is transferred to the

customer. Revenue from sale of other crops are recognized at the point in time when the control of the goods has been transferred to the customer generally upon delivery of the goods to the location specified by the customer and the acceptance of the goods by the customer.

There is no element of financing present as the Group's sale of plantation produce are either on cash terms (Immediate payment or advance payment not exceeding 30 days) or on credit terms ranging from 7 to 15 days.

Rendering of services

Service income from Group comprised with sale of hydro energy to the Ceylon Electricity Board (CEB). Revenue from sale of hydro energy recognized at the point of hydro energy releases to the national grid at a pre-determined unit price.

► Fee from Management Services

Fee from management services are recognized as revenue over the time during the period in which the services are rendered.

3.19.1.2 Other Sources of Income

Revenue recognition criteria for the other sources of income as follows;

► Rental Income

Rental income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

► Dividend Income

Dividend income is recognized when the right to receive payment is established.

► Interest Income

Interest income is recognized based on effective interest method.

Interest income on financial assets at FVTPL is recognized as part of net gains or losses on these financial instruments.

Interest income of financial assets at amortized cost is calculated by using the

effective interest method and is recognized as other income.

3.19.2 Expenses

All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency is charged to revenue in arriving at the profit or loss for the period.

3.19.2.1 Finance Income and Finance Cost

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.19.2.2 Taxes

3.19.2.2.1 Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates

positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3.19.2.2.2 *Deferred Tax*

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- ▶ When the deferred tax liability arises from the initial recognition of goodwill or 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.
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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 credits and unused tax losses can be utilised, except:

- ▶ When the deferred 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.

- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction

in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

3.20 **Statement of Cash Flows**

The Statement of Cash Flow has been prepared using the 'indirect method'. Interest paid is classified as operating cash flows, while dividends paid and Government grants received are classified as financing and investing cash flows, for the purpose of presenting the Statement of Cash Flow.

3.21 **Segment Reporting**

Segmental information is provided for the different business segments of the Group. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Since the individual segments are located close to each other and operate in the same industrial environment, the need for geographical segmentation has no material impact.

The activities of the segments are described on Note 6.2 in the Notes to the Financial Statements. The Group transfers products from one industry segment for use in another. Inter-segment transfers are based on fair market prices.

Revenue and expenses directly attributable to each segment are allocated to the respective segments. Revenue and expenses not directly attributable to a segment are allocated on the basis of their resource utilisation, wherever possible.

Assets and liabilities directly attributable to each segment are allocated to the respective segments. Assets and liabilities, which are not directly attributable to a segment, are allocated on a reasonable basis wherever possible. Unallocated items comprise mainly interest bearing loans, borrowings, and expenses.

Notes to the Financial Statements

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

All operating segments' operating results are reviewed regularly to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period and any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

4.1 Taxation

Deferred tax assets are recognised for 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 judgement is required to determine the amount of deferred tax assets that can be recognised,

based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As per the Inland Revenue Act No 24 of 2017 (ACT), in the case of a company predominantly conducting an agricultural business, the applicable income tax rate is 14%. As per the above ACT "Predominantly" is defined as 80% or more calculated based on gross income. The "Agriculture business" is defined in section 195 (1) as business of producing agricultural, horticultural or any animal produce and includes an undertaking for the purpose of rearing livestock or poultry. Based on the legal expert opinion obtained, the management is of the view that the company is predominantly engaged in agricultural business.

4.2 Measurement of Retirement Benefit Obligation

The present value of the retirement benefit obligation determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate; future salary increases and mortality rates. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting period.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rate and expected future salary increase rates of the Company.

Further details about Retirement benefit obligations are provided in Note 24.

4.3 Biological Assets

The fair value of managed timber depends on number of factors that are determined on a discounted method using various financial and non-financial assumptions. The growth of the trees is determined by various biological factors that are highly unpredictable. Any change to the assumptions will impact to the fair value of biological assets. Key assumptions and sensitivity analysis of the biological assets are given in the Note 14C.

Judgement is also required in relation to bearer biological assets in assessing immature plantations for indication of impairment and determining the point at which transfers to mature plantations are to be made.

5. STANDARD ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

SLFRS 16 –Leases

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases, under LKAS 17 except for few exemptions for leases for "low value" assets and short-term leases with a lease term of 12 months or less. This standard is effective for the annual periods beginning on or after 01 January 2019.

Pending the detailed review of such standards and interpretations, the extent of the impact has not been determined by the management.

6. REVENUE

6.1 Summary

For the year ended 31 March	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Sale of Goods				
Tea	3,886,357	3,948,714	3,886,357	3,948,714
Rubber	13,453	14,564	13,453	14,564
Mini Hydro Power	68,272	52,303	-	-
Others	57,831	45,729	57,831	45,729
	4,025,913	4,061,310	3,957,641	4,009,007

6.2 Segment Information

a) Segment Revenue

Tea				
Revenue	3,886,357	3,948,714	3,886,357	3,948,714
Revenue Expenditure	(3,073,149)	(2,969,176)	(3,073,149)	(2,969,176)
Depreciation	(147,160)	(132,190)	(147,160)	(132,190)
Other Non Cash Expenditure	(143,437)	(139,355)	(143,437)	(139,355)
Segment Results	522,612	707,994	522,612	707,994
Rubber				
Revenue	13,453	14,564	13,453	14,564
Revenue Expenditure	(26,328)	(24,323)	(26,328)	(24,323)
Depreciation	(4,595)	(4,047)	(4,595)	(4,047)
Other Non Cash Expenditure	-	-	-	-
Segment Results	(17,470)	(13,806)	(17,470)	(13,806)
Mini Hydro Power				
Revenue	68,272	52,303	-	-
Revenue Expenditure	(19,486)	(20,542)	-	-
Depreciation	(17,305)	(17,174)	-	-
Other Non Cash Expenditure	(447)	(419)	-	-
Segment Results	31,034	14,167	-	-
Others				
Revenue	57,831	45,729	57,831	45,729
Revenue Expenditure	-	-	-	-
Depreciation	-	-	-	-
Other Non Cash Expenditure	-	-	-	-
Segment Results	57,831	45,729	57,831	45,729
Total				
Revenue	4,025,913	4,061,310	3,957,641	4,009,007
Revenue Expenditure	(3,118,962)	(3,014,040)	(3,099,476)	(2,993,498)
Depreciation	(169,060)	(153,412)	(151,755)	(136,238)
Other Non Cash Expenditure	(143,884)	(139,773)	(143,437)	(139,355)
Segment Results	594,007	754,084	562,973	739,917

Notes to the Financial Statements

6.2 Segment Information contd.

For the year ended 31 March	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Change in Fair Value of Biological Assets	7,457	9,091	7,457	9,091
Other Income & Gains	40,200	22,309	42,130	24,329
Administrative Expenses	(201,338)	(169,416)	(190,340)	(160,524)
Finance Income	90,915	52,099	90,730	52,099
Finance Expense	(16,047)	(21,891)	(15,210)	(18,420)
Interest Paid to Government on Finance Lease	(31,512)	(29,446)	(31,512)	(29,446)
Profit Before Tax	483,682	616,828	466,228	617,045
b) Segment Assets				
Non Current Assets				
Tea	2,633,407	2,630,971	2,633,407	2,630,971
Rubber	105,367	106,993	105,367	106,993
Mini Hydro Power	330,857	350,174	-	-
Investment	-	-	134,933	134,933
Consumable Biological Asset	273,159	252,739	273,159	252,739
	3,342,791	3,340,876	3,146,867	3,125,636
Current Assets				
Tea	1,644,533	1,363,678	1,644,533	1,363,678
Rubber	1,361	804	1,361	804
Mini Hydro Power	33,814	19,779	-	-
	1,679,708	1,384,261	1,645,894	1,364,491
Total Assets	5,022,499	4,725,137	4,792,761	4,490,127
c) Segment Liabilities				
Non Current Liabilities and Deferred Income				
Tea	1,519,349	1,401,310	1,519,349	1,401,310
Mini Hydro Power	2,279	1,832	-	-
	1,521,628	1,403,142	1,519,349	1,401,310
Current Liabilities				
Tea	673,828	602,186	673,828	602,186
Mini Hydro Power	8,280	26,708	-	-
	682,108	628,894	673,828	602,186
Total Liabilities	2,203,736	2,032,036	2,193,177	2,003,496
d) Segment Capital Expenditure				
Cost				
Tea	150,252	150,973	150,252	150,973
Rubber	3,524	4,751	3,524	4,751
Others	14,670	8,988	14,670	8,988
Mini Hydro Power	495	4,018	-	-
	168,942	168,731	168,447	164,712

7. OTHER INCOME AND GAINS

Year ended	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit on Sale of Trees	16,111	1,248	16,111	1,248
Amortisation of Capital Grants	5,300	5,300	5,300	5,300
Profit on Disposal of Property, Plant & Equipments	11,304	12,288	11,304	12,288
Dividend Income	-	-	1,931	2,020
Lease of land for towers	4,716	2,510	4,716	2,510
Sale of Cinnamon	825	207	825	207
Solar Income	1,944	756	1,944	756
	40,200	22,309	42,131	24,329

8. FINANCE INCOME/ EXPENSE

8.1 Finance Income

Year ended	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Interest Income	90,915	52,099	90,730	52,099
	90,915	52,099	90,730	52,099

8.2 Finance Expenses

Overdraft Interest	(3,320)	(2,288)	(3,318)	(2,285)
Term Loan Interest	(12,727)	(19,604)	(11,891)	(16,135)
	(16,047)	(21,891)	(15,209)	(18,420)

8.3 Interest Paid To Government on Finance Lease

	(31,512)	(29,446)	(31,512)	(29,446)
Net Finance Expense	43,356	761	44,009	4,233

9. PROFIT BEFORE TAX IS STATED AFTER CHARGING

Year ended	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Directors Emoluments	8,580	7,728	8,580	7,728
Key Management Compensation	9,600	7,800	9,600	7,800
Auditors Fees	4,886	4,207	4,546	3,911
Depreciation/Amortisation	169,061	153,412	151,755	136,238
Defined Benefit Plan Costs	143,884	139,773	143,437	139,355
Defined Contributions Plan Costs - EPF & ETF	175,529	181,481	174,570	180,595
Others - Staff Costs	1,749,104	1,841,574	1,738,694	1,831,812

Notes to the Financial Statements

10. INCOME TAX EXPENSE

The major component of income tax expenses for the period are as follows :

10.1. INCOME STATEMENT

Year ended	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Current Tax Expenses				
Current Income Tax Charges	14,085	41,066	13,662	39,010
Under/(over) provision in respect of previous years	(5,205)	(120)	(5,205)	-
	8,880	40,946	8,457	39,010
Deferred Tax Expense				
Deferred Taxation Charge/(Reversal)	62,086	28,316	59,586	27,232
	62,086	28,316	59,586	27,232
Total Tax Expense	70,966	69,262	68,043	66,242
10.2. STATEMENT OF COMPREHENSIVE INCOME				
Deferred tax related to items charged or credited directly to OCI during the year;				
Net (gain)/loss on actuarial benefit obligation	13,566	(3,074)	13,570	(3,075)
Income tax charged directly to other comprehensive income	13,566	(3,074)	13,570	(3,075)

10.3. Reconciliation between tax expenses and the product of accounting

Profit multiplied by the statutory effective tax rates are as follows:

Year ended	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit before Tax	483,681	616,828	466,228	617,045
Effective Rate	14.00%	10.08%	14.00%	10.00%
Tax effect on Accounting Profit Before Tax	67,716	62,167	65,272	61,705
Tax effect on Aggregate disallowed items	49,700	33,477	47,047	31,103
Tax effect on Aggregate allowable items	(49,882)	(33,437)	(49,674)	(32,793)
	67,534	62,206	62,645	60,015
Tax effect on Non Tax Receipt	-	-	-	-
Tax effect on Tax Loss B/F & Utilised	(66,793)	(21,684)	(61,684)	(21,005)
	741	40,522	961	39,010
Other Income	12,728	-	12,702	-
Dividend Tax @ 10%	616	544	-	-
Income Tax Charge/(Reversal)	14,085	41,066	13,663	39,010
Income Tax Provided in Accounts	14,085	41,066	13,663	39,010

10.4. Deferred Tax (Assets) and Liabilities

Group	2019		2018	
	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000
As at 1 April	1,014,624	144,465	717,840	113,076
Amount originating during the year	363,823	48,521	296,784	31,390
As at 31 March	1,378,447	192,986	1,014,624	144,466
Temporary difference of Property, Plant and Equipment	528,275	73,958	478,349	67,008
Temporary difference of Immature/Mature	1,765,545	247,176	1,793,060	251,028
Temporary difference of Biological Asset	281,615	39,430	264,864	37,081
Temporary difference of Retirement Benefit Obligation	(969,573)	(135,740)	(811,824)	(113,618)
Temporary difference of Deferred Income	(144,826)	(20,276)	(150,126)	(21,018)
Carried Forward Tax Losses	(82,589)	(11,562)	(559,699)	(76,015)
As at 31 March	1,378,447	192,986	1,014,624	144,466
Company				
As at 1 April	1,130,042	158,206	844,926	127,898
Amount originating during the year	328,661	46,016	285,116	30,308
As at 31 March	1,458,703	204,222	1,130,042	158,206
Temporary difference of Property, Plant and Equipment	523,663	73,313	474,817	66,474
Temporary difference of Immature/Mature	1,765,545	247,176	1,793,060	251,029
Temporary difference of Biological Asset	281,615	39,430	264,863	37,081
Temporary difference of Retirement Benefit Obligation	(967,294)	(135,421)	(809,992)	(113,399)
Temporary difference of Deferred Income	(114,826)	(20,276)	(150,126)	(21,018)
Carried Forward Tax Losses	-	-	(442,580)	(61,961)
As at 31 March	1,488,703	204,222	1,130,042	158,206
	Group		Company	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deferred Tax Assets	(11,236)	(13,740)	-	-
Deferred Tax Liabilities	204,222	158,206	204,222	158,206
	192,986	144,466	204,222	158,206

Notes to the Financial Statements

11. EARNINGS PER SHARE

11.1 Basic Earnings Per Share

The calculation of the basic earnings per share is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares outstanding during the year.

11.2 Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares.

There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

Basic/diluted earning per share calculated as follows.

	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Amounts used as the Numerator :				
Net profit attributable to equity holders of the parent	404,837	548,436	398,185	550,803
Amounts used as the Denominator :				
Weighted average number of ordinary shares of the parent	23,750,000	23,750,000	23,750,000	23,750,000
Basic/Diluted Earnings Per Share (Rs.)	17.05	23.09	16.77	23.19

12. RIGHT-TO-USE OF LAND

"Right-To-Use of Land on Lease" as above was previously titled "Leasehold Right to Bare land". The change is in order to comply with Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka dated 21 August 2013. Such leases have been executed for all estates for a period of 53 years.

This right-to-use of land is amortized over the remaining lease term or useful life of the right whichever is shorter and is disclosed under non-current assets. The Statement of Alternative Treatment (SoAT) for right-to-use of land does not permit further revaluation of right-to-use of land. However, an adjustment to the "Right-To-Use of Land" could be made to the extent that the change relate to the future period on the reassessment of liability to make the lease payment. The values taken into the 18th June 1992, Statement of Financial Position Date and amortisation of the right to use of land up to 31 March 2019 are as follows.

	Group/Company	
	2019 Rs.'000	2018 Rs.'000
Capitalised Value		
As at 1st April	200,927	200,927
As at 31st March	200,927	200,927
Amortisation		
As at 1st April	40,309	34,641
Amortisation charge for the year	5,883	5,668
As at 31st March	46,192	40,309
Carrying amount	154,735	160,619

13. IMMOVABLE ESTATE ASSETS ON FINANCE LEASE (OTHER THAN RIGHT-TO-USE OF LAND)

In terms of the ruling of the UITF of the Institute of Chartered Accountants of Sri Lanka prevailed at the time of privatisation of Plantation Estates, all immovable assets in these estates under finance leases have been taken into the books of the Company retroactive to 22 June 1992. For this purpose the Board decided at its meeting on 8 March 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 22 June 1992, Statement of Financial Position and the amortisation of immovable estate assets to 31 March 2019 as follows.

	Group/Company				2019	2018
	Improvement to Land Rs.'000	Mature Plantations Rs.'000	Buildings Rs.'000	Plant & Machinery Rs.'000	Total Rs.'000	Total Rs.'000
Cost/ Revaluation						
*Revaluation as at 22.06.1992	9,084	243,838	63,826	12,007	328,755	328,755
As at 31 March	9,084	243,838	63,826	12,007	328,755	328,755
Accumulated Amortisation						
As at 1st April	7,402	183,470	63,826	12,007	266,705	262,517
Amortisation charge for the year	62	2,211	-	-	2,273	4,188
As at 31 March	7,464	185,681	63,826	12,007	268,978	266,705
Written down value						
As at 31 March	1,620	58,157	-	-	59,777	62,050

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

Notes to the Financial Statements

14. A. TANGIBLE ASSETS OTHER THAN IMMATURE / MATURE PLANTATIONS

	Group				Company			
	Balance as at 01.04.2018 Rs.'000	Additions for the Year Rs.'000	Disposals during the Year Rs.'000	Balance as at 31.03.2019 Rs.'000	Balance as at 01.04.2018 Rs.'000	Additions for the Year Rs.'000	Disposals during the Year Rs.'000	Balance as at 31.03.2019 Rs.'000
Cost								
Buildings	503,639	171	-	503,810	503,639	171	-	503,810
Motor Vehicles	209,929	60,098	(5,570)	264,457	209,929	60,098	(5,570)	264,457
Plant & Machinery	1,120,553	27,349	-	1,147,902	635,194	27,349	-	662,543
Furniture & Fittings	12,172	177	-	12,349	12,172	177	-	12,349
Equipment & Tools	120,938	26,993	-	147,931	120,291	26,840	-	147,131
	1,967,231	114,788	(5,570)	2,076,449	1,481,225	114,635	(5,570)	1,590,290
	Balance as at 01.04.2018 Rs.'000	Charge for the Year Rs.'000	Accumulated depreciation on disposals Rs.'000	Balance as at 31.03.2019 Rs.'000	Balance as at 01.04.2018 Rs.'000	Charge for the Year Rs.'000	Accumulated depreciation on disposals Rs.'000	Balance as at 31.03.2019 Rs.'000
Accumulated Depreciation								
Buildings	142,508	13,232	-	155,740	142,508	13,232	-	155,740
Motor Vehicles	132,451	25,703	(5,570)	152,584	132,451	25,703	(5,570)	152,584
Plant & Machinery	552,055	38,039	-	590,094	397,518	21,860	-	419,378
Furniture & Fittings	8,686	649	-	9,335	8,686	649	-	9,335
Equipment & Tools	89,117	14,349	-	103,466	88,801	14,183	-	102,984
	924,817	91,972	(5,570)	1,011,219	769,964	75,627	(5,570)	840,021
Written Down Value	1,042,414			1,065,230	711,261			750,269
	Balance as at 01.04.2018 Rs.'000	Additions for the Year Rs.'000	Capitalised during the Year Rs.'000	Balance as at 31.03.2019 Rs.'000	Balance as at 01.04.2018 Rs.'000	Additions for the Year Rs.'000	Capitalised during the Year Rs.'000	Balance as at 31.03.2019 Rs.'000
Capital Work-in-Progress	10,975	8,791	(10,975)	8,791	10,975	8,449	(10,975)	8,449
Total Written Down Value	1,053,389			1,074,021	722,236			758,718

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 in tangible assets by the Company since its formation. The assets taken over by way of estate leases are set out in Notes 12 and 13.

No borrowing costs have been capitalised into Capital Work-in-Progress.

The cost of fully depreciated Property, Plant & Equipment of the Company which are still in use as at the date of the Statement of Financial Position is Rs.483.4 Mn (2017/18-Rs. 456.8 Mn).

14. B. IMMATURE / MATURE PLANTATIONS - (BEARER BIOLOGICAL ASSET)

	Group/Company				2019 Total	2018 Total
	Permanent Land Development Cost	Roads	Immature Plantations	Mature Plantations		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost						
*As at 1st April	23,172	83,025	281,556	2,115,755	2,503,508	2,448,132
Additions	-	-	48,452	-	48,452	55,377
Transfers to consumable	-	-	(5,885)	-	(5,885)	-
Adjustments	-	-	-	(2,834)	(2,834)	-
Transfers	-	-	(104,732)	104,732	-	-
As at 31st March	23,172	83,025	219,391	2,217,653	2,543,241	2,503,508
Accumulated Depreciation						
As at 1st April	11,718	81,714	-	617,016	710,448	646,217
Amortisation charge for the year	420	360	-	67,192	67,972	64,231
Adjustments	-	-	-	(724)	(724)	-
As at 31st March	12,138	82,074	-	683,484	777,696	710,448
Written Down Value						
As at 31st March	11,034	951	219,391	1,534,169	1,765,545	1,793,060

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

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 12 and 13. 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 initial investment to bring them to maturity, will be moved from immature to mature under this note.

The Company has decided to measure the bearer biological assets at cost using LKAS 16 – Property, Plant & Equipment. Specific borrowings have not been obtained to finance the planting expenditure. Hence, borrowing costs were not capitalized during the period under Immature Plantations (2017/18 - Nil).

14. C. CONSUMABLE BIOLOGICAL ASSETS**TIMBER PLANTATIONS - MANAGED TREES**

As at 31 March	Group/Company	
	2019 Rs.'000	2018 Rs.'000
As at 1 April	252,739	236,838
Increase due to development	7,885	8,988
Transfer From Immature Plantation	5,885	-
Gain/(loss) arising from changes in fair value less cost to sell attributable to physical change	11,125	6,913
Decrease due to harvest	(4,475)	-
As at 31 March	273,159	252,739

Notes to the Financial Statements

14. C. CONSUMABLE BIOLOGICAL ASSETS (Contd.)

Managed trees include commercial timber plantations cultivated on estates. The cost of immature trees is treated as approximate fair value particularly on the ground of little biological transformation has taken place and impact of the biological transformation on price is not material. When such Plantations become mature, the additional investments since taken over to bring them to maturity are transferred from Immature to Mature.

The fair value of matured managed trees were ascertained in accordance with SLFRS 13. The valuation was carried by Messer's Prathap Chartered Valuation & Consultancy (Pvt) Ltd, chartered valuation surveyors, using Discounted Cash Flow (DCF) methods. In ascertaining the fair value of timber, a physical verification was carried out covering all the estates.

14. C. 1. CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS

	Group/Company	
	2019	2018
	Rs.'000	Rs.'000
Change in fair value of consumable biological assets (Note 14 C)	11,125	6,913
Change in fair value of produce on bearer biological assets (Note 16)	(3,668)	2,178
	7,457	9,091

14. C. 2. INFORMATION ABOUT FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Non Financial Asset	Valuation Technique	Unobservable Inputs	Range of Unobservable Inputs (Probability weighted average.)		Relationship of Unobservable Inputs to Fair Value
			2019	2018	
Consumable Managed Biological Assets	DCF	Discounting Rate	17.50%	17.50%	The higher the discount rate, the lesser the fair value
		Optimum rotation (Maturity)	25-35 Years	25-35 Years	Lower the rotation period, the higher the fair value
		Volume at rotation	25-85 cu.ft	25-85 cu.ft	The higher the volume, the higher the fair value
		Price per cu.ft.	Rs.450/- to Rs. 9,000/-	Rs.450/- to Rs. 9,000/-	The higher the price per cu. ft., the higher the fair value

Other key assumptions used in valuation

1. The harvesting is approved by the PMMD and the Forest Department based on the Forestry Development Plan.
2. The prices adopted are net of expenditure
3. Though the replanting is a condition precedent for harvesting' yet the costs are not taken in to consideration.

The valuations, as presented in the external valuation models based on net present values, take into account the long term exploitation of the timber plantations. The Board of Directors retains their view that commodity markets are inherently volatile and that long term price projections are highly unpredictable. The Board of Directors is of the opinion that the sensitivity analysis regarding selling price and discount rate variations are as follows.

It does, nevertheless, concern the directors that no estimate of fair value can ever be completely accurate. Moreover, in the case of the group's biological assets, small differences in valuation assumptions can have a quite disproportionate effect on results. Another concern is that, as shown from an international benchmark, there is currently no uniform approach within the plantation sector when it comes to defining the major variables, such as selling price and/or discount rates, in the DCF models resulting in the LKAS 41 values.

The carrying amount of biological assets pledged as securities for liabilities as at the date of the statement of financial position is nil. (2017/18- nil).

14. C. 3. Sensitivity Analysis

Sensitivity variation sales price

Values as appearing in the Statement of Financial Position are very sensitive to price changes with regard to the average sales prices applied. Simulations made for timber show that a rise or decrease by 10% of the estimated future selling price has the following effect on the net present value of biological assets:

	Rs.'000	Rs.'000
Managed Timber	+10%	-10%
As at 31 March 2019	19,929	(20,348)
As at 31 March 2018	19,516	(19,516)

Sensitivity variation discount rate

Values as appearing in the Statement of Financial Position are very sensitive to changes of the discount rate applied. Simulations made for timber trees show that a rise or decrease by 1.5% of the discount rate has the following effect on the net present value of biological assets:

	Rs.'000	Rs.'000
	+1.50%	-1.50%
As at 31 March 2019	(1,858)	1,735
As at 31 March 2018	(1,797)	1,647

15. INVESTMENTS IN SUBSIDIARIES

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 of TTEL Hydro Power Company (Pvt) Ltd. and TTEL Somerset Hydro Power (Pvt) Ltd. amounting to Rs. 53,108,300/= and Rs. 16,034,400/= respectively redeemable at the option of the investee.

As at 31 March	Company	
	2019 Rs.'000	2018 Rs.'000
Ordinary Shares		
TTEL Hydro Power Company (Pvt) Ltd	35,190	35,190
TTEL Somerset Hydro Power (Pvt) Ltd	30,600	30,600
	65,790	65,790
Preference Shares		
TTEL Hydro Power Company (Pvt) Ltd	53,108	53,108
TTEL Somerset Hydro Power (Pvt) Ltd	16,034	16,034
	69,143	69,143
Total Investment	134,933	134,933

Subsidiaries	Principle Activity
TTEL Hydro Power Company (Pvt) Ltd	Generates Hydro Power
TTEL Somerset Hydro Power (Pvt) Ltd	Generates Hydro Power

Notes to the Financial Statements

16. PRODUCE ON BEARER BIOLOGICAL ASSETS

As at 31 March	Group/Company	
	2019 Rs.'000	2018 Rs.'000
At the beginning of the year	12,124	9,947
Change in fair value less cost to sell	(3,668)	2,178
	8,456	12,124

Level 2 inputs were used when arriving above figures.

17. INVENTORIES

As at 31 March	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Biological Assets - Nurseries	11,334	9,168	11,334	9,168
Biological Assets -Harvested Crop	379,302	374,277	379,302	374,277
Input Stocks, Consumables & spares	63,123	71,439	61,010	69,095
	453,759	454,884	451,646	452,540
Less : Provision for Slow Moving Stocks	(1,344)	-	(1,344)	-
	452,416	454,884	450,302	452,541

18. TRADE AND OTHER RECEIVABLES

As at 31 March	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Produce Debtors	82,763	87,560	78,446	78,937
Advances & Prepayments	87,197	70,392	78,708	65,101
Other debtors	36,354	39,748	36,354	39,748
	206,314	197,700	193,508	183,786
Less: Provision for Doughtfull Debt	(2,620)	(870)	(2,620)	(870)
	203,694	196,830	190,888	182,917

19. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 March	Relationship	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Dipped Products PLC	Related Company	1,361	804	1,361	804
Martin Bauer Hayleys (Pvt) Ltd	Related Company	18	137	18	137
Horana Plantations PLC	Related Company	315	161	315	161
Kelani Valley Plantations PLC	Related Company	310	713	310	713
		2,004	1,815	2,004	1,815

20. SHORT TERM INVESTMENT

As at 31 March	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Unit Trust	37,864	484,990	37,864	484,990
Saving Accounts	19,870	82,468	19,870	82,468
Call Deposits	29,220	10,990	11,720	10,990
Fixed Deposits	907,062	124,000	907,062	124,000
	994,016	702,448	976,516	702,448

21. STATED CAPITAL

As at 31 March	Group/Company	
	2019 No. of Shares	2018 No. of Shares
Issued and Fully Paid Ordinary Shares		
Number of ordinary shares including one golden share held by the Treasury which has special rights	23,750,001	23,750,001
	Rs.'000	Rs.'000
Stated Capital including one Golden Share held by the Treasury which has special rights	350,000	350,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Special rights of the Golden share are given in the Annual Report to the Board of Directors on the Affairs of the Company.

22. NON-CONTROLLING INTEREST

	Group	
	2019 Rs.'000	2018 Rs.'000
TTEL Hydro Power Company (Pvt) Ltd	95,335	90,660
TTEL Somerset Hydro Power (Pvt) Ltd	81,493	80,133
	176,828	170,793

Notes to the Financial Statements

22.1 MATERIAL PARTLY OWNED SUBSIDIARIES

Summarised financial information of subsidiaries that have material non-controlling interest, reflecting amounts before inter-company eliminations, is set out below.

	TTEL Hydro Power Company (Pvt) Ltd		TTEL Somerset Hydro Power (Pvt) Ltd	
	2019	2018	2019	2018
Non Controlling Interests in %	49	49	49	49
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Accumulated Balance of Non Controlling Interest	95,335	90,660	81,493	80,133
Summarised statement of profit or loss for the year ended 31 March	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Revenue	35,846	25,607	32,426	26,696
Cost of sales	(20,924)	(22,180)	(17,314)	(16,955)
Administrative expenses	(3,711)	(2,453)	(7,286)	(6,439)
Finance cost	(838)	(3,471)	-	-
Finance Income	-	-	184	-
Profit/(loss) before tax	10,374	(2,497)	8,010	3,302
Income Tax	(835)	(985)	(1,472)	(1,594)
Profit/(loss) after tax	9,539	(3,482)	6,539	1,708
Attributable to owners	4,865	(1,776)	3,335	871
Attributable to non controlling interests	4,674	(1,706)	3,204	837
Total Comprehensive income	9,541	(3,526)	6,562	1,741
Dividend paid to non controlling interest	-	-	1,855	1,941
Summarised statement of financial position as at 31 March	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Current Assets	13,411	15,614	31,306	21,475
Non Current Assets	198,616	210,193	136,126	144,863
Current Liabilities	15,732	39,236	15,450	4,692
Non current Liabilities	1,250	978	1,029	854
Total Equity	195,044	185,503	150,953	160,793
Attributable to :				
Equity holders of parent	99,472	94,607	76,986	82,004
Non controlling interests	95,571	90,896	73,967	78,789

Summarised statement of cash flows for the year ended 31 March	TTEL Hydro Power Company (Pvt) Ltd		TTEL Somerset Hydro Power (Pvt) Ltd	
	2019	2018	2019	2018
Operating cash flows	15,112	23,223	21,879	(1,239)
Investing cash flows	(71)	(1,975)	(423)	(2,043)
Financing cash flows	(16,124)	(21,499)	(4,402)	(4,402)
Net increase/(decrease) in cash & cash equivalents	(1,083)	(251)	17,054	(7,684)

23. INTEREST BEARING LOANS AND BORROWINGS

Group	2019					2018				
	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 31.03.2019	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 31.03.2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
23.1 National Development										
Bank PLC	3,492	13,970	2,619	16,589	20,081	30,291	71,470	6,694	78,163	108,455
23.2 Sampath Bank PLC	-	-	-	-	-	16,124	-	-	-	16,124
23.3 Tea Board Loan	18,951	993	-	993	19,944	18,951	18,470	-	18,470	37,421
	22,443	14,963	2,619	17,582	40,025	65,366	89,939	6,694	96,633	161,999

Company	2019					2018				
	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 31.03.2019	Repayable within 1 year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 31.03.2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
23.1 National Development										
Bank PLC	3,492	13,970	2,619	16,589	20,081	30,291	71,470	6,694	78,163	108,455
23.2 Sampath Bank PLC	-	-	-	-	-	-	-	-	-	-
23.3 Tea Board Loan	18,951	993	-	993	19,944	18,951	18,470	-	18,470	37,421
	22,443	14,963	2,619	17,582	40,025	49,242	89,940	6,694	96,633	145,876

Notes to the Financial Statements

23. INTEREST BEARING LOANS AND BORROWINGS (CONTD.)

23.1 National Development Bank PLC

Group	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 2019	Total as at 2018	Rate of Interest	Terms of Repayment
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	%	
Solar Project	3,492	13,970	2,619	16,589	20,081	20,955	6.3	72 Monthly installments commencing from February 2019
Relief Package - Tea Sector	-	-	-	-	-	87,500	AWPLR+1.5	60 Monthly installments commencing from March 2016
	3,492	13,970	2,619	16,589	20,081	108,455		

Company	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 2019	Total as at 2018	Rate of Interest	Terms of Repayment
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	%	
Solar Project	3,492	13,970	2,619	16,589	20,081	20,955	6.3	72 Monthly installments commencing from February 2019
Relief Package - Tea Sector	-	-	-	-	-	87,500	AWPLR+1.5	60 Monthly installments commencing from March 2016
	3,492	13,970	2,619	16,589	20,081	108,455		

23.2 Sampath Bank PLC

Group	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 2019	Total as at 2018	Rate of Interest	Terms of Repayment
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	%	
Mini Hydro-TTEL Hydro	-	-	-	-	-	16,124	8.75	108 monthly instalments commencing from January 2010
	-	-	-	-	-	16,124		

23.3 Tea Board Loan

Group	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total over one year	Total as at 2019	Total as at 2018	Rate of Interest	Terms of Repayment
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	%	
Distress Loan	18,951	993	-	993	19,944	37,421	5.00	36 monthly installments commencing from May 2017
	18,951	993	-	993	19,944	37,421		

Company

Distress Loan	18,951	993	-	993	19,944	37,421	5.00	36 monthly installments commencing from May 2017
	18,951	993	-	993	19,944	37,421		

Notes to the Financial Statements

24. RETIREMENT BENEFIT OBLIGATIONS

As at 31 March	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Provision for Retirement Benefit Obligations				
At the beginning of the year	811,824	801,101	809,992	799,699
Interest Cost	84,732	89,706	84,531	89,538
Current Service Cost	59,180	50,067	58,906	49,816
Gratuity Payments for the year	(83,062)	(107,095)	(83,062)	(107,095)
Actuarial (Gain) / Loss due to changes in financial assumptions	-	47,550	-	47,550
Actuarial (Gain) / Loss due to changes in experience	96,899	(69,506)	96,927	(69,517)
At the end of the year	969,573	811,824	967,294	809,992

According to the actuarial valuation report issued by the Actuarial & Management Consultants (Pvt) Ltd as at 31 March 2019, the actuarial present value of promised retirement benefits amounted to Rs.967,294,105 /=. 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. 1,147,075,578 /=. Hence, there is a contingent liability of Rs. 179,781,473/= , which would crystallise only if the company ceases to be a going concern.

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit that employees have earned in return for their service in the current and prior periods using the Projected Unit Credit Method and discount that benefit in order to determine the present value of the retirement benefit obligation and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit. The following key assumptions were made in arriving at the above figure.

The key assumptions used by actuary include the following.

	2019	2018
(i) Rate of Discount	11% (per annum)	11% (per annum)
(ii) Rate of Salary Increase		
Workers	20% (every two years)	20% (every two years)
Staff	10% (per annum)	10% (per annum)
(iii) Retirement Age		
Workers	60 years	60 years
Staff	60 years	60 years

The actuarial Present Value of Retirement Benefit Obligation is carried on annual basis.

The weighted average duration of the Retirement Benefit Obligation at the end of the reporting period is 5.57 years and 6.38 years for staff and workers respectively.

The following payments are expected from the Retirement Benefit Obligation in future years.

	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Within the next 12 months	141,751	115,898	141,202	115,530
Between 1-5 years	363,182	310,537	362,244	309,744
Between 5-10 years	250,680	218,958	250,263	218,585
Beyond 10 years	213,959	166,430	213,585	166,133
Total	969,573	811,824	967,294	809,992

Sensitivity Analysis - Salary/ Wage Escalation Rate

Values appearing in the financial statements are very sensitive to the changes of financial and non financial assumptions used. The sensitivity was carried for both the rate of wage increment and the salary increment. Simulation made for retirement benefit obligation show that a rise or decrease by 1% of the rate of wage and salary has the following effect on the retirement benefit obligation.

Company	Workers		Staff	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rate of wage/salary increment in every two years / per annum	-1%	+1%	-1%	+1%
As at 31 March 2019	(21,159)	22,028	(6,567)	7,151
As at 31 March 2018	(20,562)	21,421	(6,196)	6,756

Sensitivity Analysis - Discount Rate

Values appearing in the financial statements are very sensitive to the changes of financial and non financial assumptions used. The sensitivity was carried for the discount rate. Simulation made for retirement benefit obligation show that a rise or decrease by 1% of the rate of the discount rate has the following effect on the retirement benefit obligation.

Company	Workers		Staff	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rate of discount	-1%	+1%	-1%	+1%
As at 31 March 2019	52,579	(46,931)	6,573	(5,937)
As at 31 March 2018	43,614	(38,924)	6,239	(5,631)

25. DEFERRED INCOME

As at 31st March	Group/Company	
	2019 Rs.'000	2018 Rs.'000
Deferred Grants and Subsidies		
Balance at the beginning of the year	150,126	155,426
Less : Amortisation for the year	(5,300)	(5,300)
Balance at the end of the year	144,826	150,126

The Company has not received any funding during the year and received fundings in prior years 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.

Notes to the Financial Statements

26. LIABILITY TO MAKE LEASE PAYMENT

As at 31 March	Group/Company	
	2019 Rs.'000	2018 Rs.'000
Gross Liability		
As at 31st March	679,152	704,305
Finance cost allocated to future periods	(492,799)	(517,131)
Net Liability	186,353	187,174
Payable within one year		
Gross liability	25,154	25,154
Finance cost allocated to future periods	(24,226)	(24,333)
Net liability transferred to current liabilities	928	821
Payable within two to five years		
Gross liability	100,615	100,615
Finance cost allocated to future periods	(95,530)	(96,115)
Net liability	5,085	4,500
Payable after five years		
Gross liability	553,383	578,537
Finance cost allocated to future periods	(373,043)	(396,683)
Net liability	180,340	181,853
Net liability payable after one year	185,425	186,353

According to the reassessment, the base rental payable per year has increased from Rs. 7,225,074/= to Rs. 32,957,036/=.

The Statement of Recommended Practice (SoRP) for Right-to-use of Land on Lease was approved by the Council of the Institute of Chartered Accountants of Sri Lanka on 19th December 2012. Subsequently, the amendments to the SoRP along with the modification to the title as Statement of Alternative Treatment (SoAT) were approved by the Council on 21st August 2013. The Company has reassessed the liability up to Financial Year 2013 and not reassessed after that as this was not mandatory requirement. However, if the liability is reassessed according to the alternative treatment (SoAT) on the assumption that the lease rent is increased constantly by GDP Deflator of 4% and discounted at a rate of 13%, liability would be as follows.

	Rs.'000
Gross Liability	1,615,583
Finance Charge	(547,377)
Net Liability	1,068,206

27. TRADE AND OTHER PAYABLES

As at 31st March	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Trade Creditors	39,617	61,992	39,617	61,992
Dividend Payable	142,809	306	142,809	306
Accrued Expenses	183,951	201,363	175,205	190,814
Income Tax Payable	2,277	31,628	2,277	31,628
Others	248,177	242,724	248,177	242,724
	616,830	538,012	608,084	527,464

28. AMOUNTS DUE TO RELATED COMPANIES

As at 31 March	Relationship	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Hayleys PLC	Ultimate Parent	11,920	7,859	11,139	7,859
TTEL Hydro Power Co. (Pvt) Ltd	Subsidiary Company	-	-	3,474	3,299
Hayleys Power Ltd	Related Company	2,207	2,735	-	-
Hayleys Business Solutions International (Pvt) Ltd	Related Company	101	81	81	81
Mabroc Teas (Pvt) Ltd	Related Company	22	-	22	-
		14,250	10,676	14,716	11,239

29. DIVIDENDS PAID

	Company	
	2019 Rs.'000	2018 Rs.'000
Dividend paid during the year		
Final Dividend for 2017/18-Rs. 2.50 per share	59,375	-
(Final Dividend for 2016/17-Rs. 1.00 per share & Interim Dividend for 2017/18 - Rs. 4.00 per share)	-	118,750
	59,375	118,750
Dividend payable for the year 2018/19		
Interim Dividend for 2018/19 - Rs. 6.00 per share (Paid on 18 April 2019)	142,500	-
	142,500	-
Number of Ordinary Shares	23,750,000	23,750,000
Dividend per share (Rs.)	8.50	5.00

30. ASSETS PLEDGED

Following assets have been pledged as security for liabilities.

Bank	Nature of Assets	Nature of Liability	2018/19	
			Facility Amount Rs. Mn	Outstanding Amount Rs. Mn
Sampath Bank PLC	Mortgage bond over stock for Rs. 45 Mn	Over Draft	40	16.8
National Development Bank PLC	Primary mortgage over lease hold rights of Somerset, Great Western, Holyrood, and Dessford Estates.	Solar Loan	21	20.1
The HongKong & Shanghai Banking Co.Ltd	Concurrent mortgage over stocks and debtors for Rs. 65 Mn.	Over Draft	50	4.9
Sri Lanka Tea Board	Tea Sales Proceeds	Term Loan	53	19.9

Notes to the Financial Statements

31. CAPITAL COMMITMENTS

Followings are the capital commitments as at the Statement of Financial Position date	Company	
	2019 Rs. (Mn)	2018 Rs. (Mn)
Approved by the Board & Contracted for	7	12
Approved by the Board & not Contracted for	377	209
	384	221

32. COMMITMENTS AND CONTINGENCIES

No known contingent liabilities exist as at the date of financial position other than the matter disclosed in Note 24 to the financial statements.

33. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the statement of financial position date that require adjustments or disclosure in the Financial Statements.

34. RELATED PARTY DISCLOSURES

Transactions with related parties were made on relevant commercial terms with the respective parties. Details of Significant Related Party Disclosures are as follows.

34.1. Recurrent Transactions with the parent and ultimate parent company

Name of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000)	
				2019	2018
Hayleys PLC	Ultimate Parent	Mr. A. M. Pandithage Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018)	Data Processing Services Secretarial Services , Office Rent & Management Salaries	55,050	46,211
Hayleys Plantation Services (Pvt) Limited	Parent	Mr. A. M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Dr. W. G. R. Rajadurai Mr. D. S. Senaviratne Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018)	Managing Agent's Fee (5% from Earnings before Interest, Tax, Depreciation and Amortisation.)		

The managing agent Hayleys Plantation Services (Pvt) Limited has waived the management fee hereafter with effect from 01/04/2014.

34.2. Transactions with the subsidiaries

Name of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000)	
				2019	2018
TTEL Hydro Power Company (Pvt) Limited	Subsidiary	Mr. A. M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Dr. W. G. R. Rajadurai Mr. A. R. De Silva Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018) Dr. A. Sivagananathan (Resigned w.e.f 17/12/2018) Mr. J. A. W. M. Jayasekera (Appointed w.e.f. 01/01/2019)	Preference Share Dividends	-	-
TTEL Somerset Hydro Power (Pvt) Ltd	Subsidiary	Mr. A. M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Mr. A. R. De Silva Dr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018) Dr. A. Sivagananathan (Resigned w.e.f 17/12/2018) Mr. J. A. W. M. Jayasekera (Appointed w.e.f. 01/01/2019)	Preference and Ordinary Share Dividends	1,931	2,020

34.3 Recurrent Transactions with other related companies

Name of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000)	
				2019	2018
Dipped Products PLC	Intermediary Ultimate Parent	Mr. A. M. Pandithage Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018)	Proceeds on latex supplies	12,884	14,564
Hayleys Travels (Pvt) Ltd	Affiliate	Mr. A. M. Pandithage	Providing of Air Ticketing Services	398	292
Hayleys Agriculture Holdings Limited.	Affiliate	Mr. A. M. Pandithage	Purchase of Equipment & Chemicals	8,473	19,016
Hayleys Agro Fertilizers (Pvt) Limited.	Affiliate	Mr. A. M. Pandithage	Purchase of Fertilizer	98,253	126,663
Mabroc Teas (Pvt) Ltd.	Affiliate	Mr. A. M. Pandithage Dr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018)	Sale of Teas	181,597	111,329

Notes to the Financial Statements

34. RELATED PARTY DISCLOSURES (CONTD.)

34.3 Recurrent Transactions with other related companies (Contd.)

Name of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000)	
				2019	2018
Kelani Valley Plantations PLC	Affiliate	Mr. A.M. Pandithage Dr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018)	Head office maintenance cost Payments Receipts Green Leaf Supplies - Payments - Receipts	3,888 3,467 - -	5,642 3,491 1,044 -
Hayleys Business Solutions International (Pvt) Ltd.	Affiliate	Mr. A. M. Pandithage	Payroll processing cost	490	502
Logiwiz Ltd	Affiliate	Mr. A. M. Pandithage	Providing of document Storing Service	650	484
Hayleys Agro Farms (Pvt) Ltd	Affiliate	Mr. A. M. Pandithage	Purchase of Chemicals	168	1,346
Hayleys Consumer Products (Pvt) Ltd	Affiliate	Mr. A. M. Pandithage	Purchase of Accessories	25	18
Hayleys Global Beverages (Pvt) Ltd	Affiliate	Mr. A. M. Pandithage Dr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma (Resigned w.e.f 01/07/2018)	Reimbursement of Administration Expenses - Receipts	2,111	2673
Martin Bauer Hayleys (Pvt) Ltd	Affiliate	Mr. A. M. Pandithage	Reimbursement of Administration Expenses - Receipts	1,483	-
Dilmah Ceylon Tea Co.(MJF)	Affiliate	Mr. Merrill J Fernando Mr. Malik J Fernando Ms. M. D. A. Perera	Sales of tea at auction	113,796	190,663
Horana Plantations PLC	Affiliate	Mr. A. M. Pandithage Dr. W. G. R. Rajadurai	Reimbursement of Administration Expenses - Payments - Receipts	7 127	172 -
Hayleys Aventura (Pvt) Ltd	Affiliate	Mr. A.M. Pandithage	Purchase of VSD	1,195	1,353
Agro Technica Limited	Affiliate	Mr. A.M. Pandithage	Purchase of Chemical	58	-
Hayleys Advantis Limited	Affiliate	Mr. A.M. Pandithage	Payment of Freight Cost	67	-
Hayleys Lifescience (Pvt) Ltd	Affiliate	Mr. A.M. Pandithage	Purchase of ID Cards	30	-
Energynet (Pvt) Ltd	Affiliate	Mr. A.M. Pandithage	Purchase of Solar Panels	7,725	-
Singer (Sri Lanka) PLC	Affiliate	Mr. A.M. Pandithage Mr. M. H. Jamaldeen	Purchase of Computer Item	5,156	-
Uni-Dil Packaging Solutions Ltd	Affiliate	Mr. A.M. Pandithage	Purchase of Packing Materials	15,728	14,087
The Kingsbury PLC	Affiliate	Mr. A.M. Pandithage	AGM Expenses	125	139

34.4 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 9 & 34.1 to the Financial Statements.

Details of Directors and their spouses share holdings are given in the Annual Report of the Board of Directors of the Affairs of the Company.

35. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 9, 15, 19, 28 & 34 to the financial statements.

There are no Non-recurrent Related Party Transactions where aggregate value exceeds 10% of the equity or 5% of the Total Assets and Recurrent Related Party Transactions where aggregate value exceeds 10% Gross revenue/income.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations. Accordingly the Group has exposure to namely Credit Risk, Liquidity Risk, Currency Risk and Market Risks from its use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

36.1. FINANCIAL RISK MANAGEMENT FRAMEWORK

The Board of Directors has the overall responsibility for the establishment and oversight of the group's financial risk management framework which includes developing and monitoring the Group's financial risk management policies.

The Group financial risk management policies are established to identify, quantify and analyze the financial risks faced by the Group, to set appropriate risk limits and controls and to monitor financial risks and adherence to limits. Financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The TTE PLC Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group.

36.2. CREDIT RISK

Credit Risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Group's receivable from customers and from its financing activities including deposits with banks and financial institutions foreign exchange transactions and other financial instruments.

36.2.1 Trade and Other Receivables

The Group's exposure to credit risk is influenced by the individual characteristics of each customer. The Group's credit policy is monitored at the Board level. The new customers are analysed individually for credit worthiness before Group's standard payment and delivery terms and conditions are offered. Group review includes external ratings, when available and in some cases, bank references, purchases limit etc. which also subject to under review on quarterly basis. The past experience of the Management is considered when revisions are made to terms and conditions.

TTE PLC has a minimal credit risk of its trade receivables as the repayment is guaranteed within seven days by the Tea and Rubber auction systems.

Notes to the Financial Statements

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The maximum exposure to credit risk for trade and other receivables at the reporting date is Rs. 82.7 Mn (2018 – Rs. 87.6 Mn).

36.2.2 Investments

Credit risks from invested balance with the financial institutions are managed by the Board of Directors. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to them. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

The Group held short term investments of Rs. 994.0 Mn as at 31st March 2019 (2018 – Rs. 702.4 Mn) which represents the maximum credit exposure on these assets.

36.2.3 Cash and Cash Equivalents

The Group held cash at bank and in hand of Rs. 19.1 Mn as at 31st March 2019 (2018 – Rs. 16.2 Mn) which represents its maximum credit exposure on these assets.

- ▶ Sampath Bank PLC – A+(lka)
- ▶ Hatton National Bank PLC –AA – (lka)
- ▶ Bank of Ceylon – AA+ (lka)
- ▶ Hong Kong and Shanghai Banking Corporation Ltd – AAA(lka)
- ▶ Union Bank – BB+ (lka)
- ▶ Seylan Bank PLC – A- (lka)
- ▶ DFCC Bank PLC - AA-(lka)
- ▶ National Development Bank PLC - A+ (lka)
- ▶ Commercial Bank PLC - AA(lka)

36.3. LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group does not concentrate on a single financial institution, thereby minimizing the exposure to liquidity risk through diversification of funding sources. The Group aims to fund investment activities of the individual and Group level by funding the long-term investment with long term financial sources and short term investment with short term financing. Where necessary the Group consults the Treasury Department and Strategic Business Development Unit in Parent Company for scrutinizing the funding decisions.

The Table below summarizes the maturity profile of the Groups financial liabilities based on contractual undiscounted payments.

As at 31st March 2019	On Demand	Less than 3 Months	3 to 12 Months	2 to 5 years	>5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group						
Interest Bearing Loans & Borrowing	-	6,153	18,032	20,114	-	44,299
Bank Overdraft	27,656	-	-	-	-	27,656
Trade & Other Payables	-	354,677	262,153	-	-	616,830
	27,656	360,830	280,185	20,114	-	688,785
Company						
Interest Bearing Loans & Borrowing	-	6,153	18,032	20,114	-	44,299
Bank Overdraft	27,656	-	-	-	-	27,656
Trade & Other Payables	-	349,649	258,435	-	-	608,084
	27,656	355,802	276,467	20,114	-	680,039

As at 31st March 2018	On Demand	Less than 3 Months	3 to 12 Months	2 to 5 years	>5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group						
Interest Bearing Loans & Borrowing	-	20,201	53,158	106,122	-	179,481
Bank Overdraft	14,018	-	-	-	-	14,018
Trade & Other Payables	-	430,410	107,602	-	-	538,012
	14,018	450,611	160,760	106,122	-	731,511
Company						
Interest Bearing Loans & Borrowing	-	14,826	42,409	106,122	-	163,357
Bank Overdraft	13,419	-	-	-	-	13,419
Trade & Other Payables	-	421,971	105,493	-	-	527,464
	13,419	436,797	147,902	106,122	-	704,240

36.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk & other price risk such as equity price risk. Financial instrument affected by market risk include loans & borrowings, deposits, available for sale investment & derivative financial instruments.

36.4.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group has not engaged in any interest rate swap agreements.

The Group held long term borrowings with floating interest rates of Rs. Nil (2018– Rs. 87.5 Mn) which represents its maximum credit exposure on these liabilities.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the group's Profit Before Tax is affected through the impact on floating rate borrowings as follows:

	Increase/ decrease in Interest rate	Effect on profit before tax Rs.'000
Company		
2019	+1%	-
	-1%	-
2018	+1%	(118)
	-1%	118
Group		
2019	+1%	-
	-1%	-
2018	+1%	(118)
	-1%	118

Notes to the Financial Statements

36.4.2 Equity Price Risk

The Group's listed & unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Management of the Group monitors the mix of debt & equity securities in its investment portfolio based on market indices. Material investment within the portfolio are Managed on an individual basis and all buy and sell decision are approved by the Board. Equity price risk is not material to the financial statements. However, company does not hold any quoted shares as at the reporting date.

36.4.3 Capital Management

The Group's policy is to retain a strong capital base so as to maintain investor, creditor & market confidence and to sustain future development of the business. Capital consists of share capital, reserves, retain earning & non-controlling interest of the Group. The Board of Directors monitors the return on capital, interest covering ratio, dividend to ordinary shareholders.

The gearing ratio at the reporting date is as follows.

	Group		Company	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest bearing loans & borrowings				
Current portion	22,443	65,366	22,443	49,242
Payable After one year	17,582	96,633	17,582	96,633
Liability to make Lease Payment				
Current portion	928	821	928	821
Payable After one year	185,425	186,353	185,425	186,353
Bank Overdraft	27,656	14,018	27,656	13,419
	254,034	363,191	254,034	346,468
Equity	2,641,935	2,522,318	2,599,583	2,486,631
Equity & debts	2,895,969	2,885,509	2,853,617	2,833,099
Gearing ratio	9%	13%	9%	12%

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31st March 2019 are disclosed below.

The funds borrowed by the Company and the Group are given in Note 23.

	Group	Company
	Interest-Bearing	Interest-Bearing
	Borrowings	Borrowings
	Rs.'000	Rs.'000
Balance as at 01 April 2018	161,999	145,875
Net Cash flows from Financing Activities	(121,974)	(105,850)
Balance as at 31 March 2019	40,025	40,025

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APPENDICES I

Investor Information

1. STOCK EXCHANGE

Interim Financial Statements of the 4th Quarter, for the year ended 31st March 2019, have been submitted to the Colombo Stock Exchange as required by the Listing Rules.

2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST MARCH 2019

Number of shareholders as at 31st March 2019 is 13,468 (31st March 2018-13,490)

NO. OF SHARES HELD	RESIDENTS			NON-RESIDENTS			TOTAL		
	No.of Shareholders	No.of Shares	%	No.of Shareholders	No.of Shares	%	No.of Shareholders	No.of Shares	%
1 - 1,000	13,300	2,084,609	8.7772	6	1,703	0.0072	13,306	2,086,312	8.7844
1,001 - 10,000	123	381,823	1.6077	3	10,472	0.0441	126	392,295	1.6518
10,001 - 100,000	27	722,392	3.0417	1	25,000	0.1053	28	747,392	3.1470
100,001- 1,000,000	5	1,167,221	4.9146	1	422,080	1.7772	6	1,589,301	6.6918
Over 1,000,000	2	18,934,700	79.7250				2	18,934,700	79.7250
	13,457	23,290,745	98.0662	11	459,255	1.9338	13,468	23,750,000	100.0000

CATEGORY

Individuals	13,391	3,306,763	13.9231	9	12,175	0.0514	13,400	3,318,938	13.9745
Institutions	66	19,983,982	84.1431	2	447,080	1.8824	68	20,431,062	86.0255
	13,457	23,290,745	98.0662	11	459,255	1.9338	13,468	23,750,000	100.0000

Of the issued ordinary share capital, 98.06%, is held by residents of Sri Lanka.

3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27% (2018-20.27%) held by 13,464 ordinary shareholders (2018-13,485).

4. MARKET VALUE

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

	12 months ended 31.03.2019 Rs.	12 months ended 31.03.2018 Rs.	12 months ended 31.03.2017 Rs.
Highest	59.90 (16th May 2018)	61.20 (01st November 2017)	39.30 (12th April 2016)
Lowest	42.50 (26th November 2018)	31.30 (24th April 2017)	29.50 (18th January 2017)
Year end	48.70	54.50	32.00

Float - adjusted market capitalization - Rs. 234,447,887.50.

The Company complies with option 5 of the Listing Rules 7.13.1 (a) which requires a minimum public holding of 20% for a company having a float adjusted market capitalization of Less than Rs. 2.5 Bn.

APPENDICES I

5. DIVIDEND PAYMENT

Final dividend 2017/18 – Rs. 2.50 per share was paid on 05th July 2018.

Interim dividend 2018/19 – Rs. 6.00 per share was paid on 18th April 2019.

6. SHARE TRADING

	12 months ended 31 March 2019	12 months ended 31 March 2018	12 months ended 31 March 2017
No. of transactions	919	2358	479
No. of shares traded	717,864	2,436,347	363,435
Value of shares traded (Rs.)	36,928,261	129,214,524	13,011,990

7. TWENTY MAJOR SHAREHOLDERS

	Name of the Shareholder	No. of Shares as at 31.03.2019	%	No. of Shares as at 31.03.2018	%
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	449,573	1.89	449,573	1.89
4.	SEZEKA LIMITED	422,080	1.78	422,080	1.78
5.	MR. G.M. WEERAKOON	285,747	1.20	109,396	0.46
6.	CAPITAL TRUST HOLDINGS LIMITED	212,694	0.90	190,799	0.80
7.	MR. N.A. WITHANA	112,100	0.47	112,100	0.47
8.	COCOSHELL ACTIVATED CARBON COMPANY LIMITED	107,107	0.45	101,007	0.43
9.	MRS.U.D.D.N. PERERA	72,119	0.30	57,777	0.24
10.	VINGROWS BUSINESS SOLUTIONS (PVT) LTD	60,000	0.25		
11.	MR. P.A.D. SAMARASEKERA	53,400	0.22	53,400	0.22
12.	MR.K.D.GUNARATNE	50,000	0.21	24,500	0.10
13.	MR. K.C. VIGNARAJAH	48,800	0.21	48,800	0.21
14.	HATTON NATIONAL BANK PLC/CAPITAL TRUST HOLDINGS LTD	38,366	0.16		
15.	ASSETLINE LEASING COMPANY LTD/MR.L.K.N.K. KULAWARDENA	34,000	0.14	34,000	0.14
16.	MR.K.K. SHUJEEWAN	31,976	0.13		
17.	MR.H.G.BALASURIYA	30,000	0.13		
18.	SECRETARY TO THE TREASURY	28,444	0.12	28,444	0.12
19.	MR.A.V. EMMANUEL	28,000	0.12	28,000	0.12
20.	HARNAM HOLDING SDN BHD	25,000	0.11	25,000	0.11

APPENDICES II

Code of Best Practice on Corporate Governance and Listing Rules

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE 2017 (THE CODE) ISSUED BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA)

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
<i>Section 1 – The Company</i>			
A. Directors			
<i>Principle A.1 - The Board</i>			
<p>The Company to be headed by an effective Board that directs, leads and controls it.</p> <p>As at 31.03.2019, the Board comprised 10 directors including the Chairman and the Managing Director who represent a broad spectrum of demographic attributes and characteristics. The diverse perspectives of directors allow for proper strategic oversight as well as robust deliberation during board meetings. The profiles of the directors are given on pages 30 to 32.</p> <p>The Board is principally responsible for directing and overseeing the affairs of the Company, balancing the interests of shareholders and stakeholders, and ensuring the Company's long-term economic, social and environmental sustainability</p>			
A.1.1	Regular Board Meetings	Compliant	<p>Unless the business exigencies demand the convening of additional special meetings, the Board meets at least on a quarterly basis. The frequency of Board meetings and the structure and process of submitting the information to the Board at these meetings have been agreed. The details of meetings of the Board and attendance of the members thereof are given on page 205.</p> <p>During the year, 4 Board meetings were held at which the Board devoted a substantial time in evaluating the information provided to it, including the Company's strategy, performance, risk profile, compliance with governance and other information required to be reported under this Section A.1.1</p>
A.1.2	Role and responsibilities of the Board	Compliant	The Board is the highest decision-making body in the Company and is responsible for the adoption of strategic plans, the monitoring of operational performance and management, and the development of appropriate and effective risk management policies and processes. The responsibilities and duties of the Board, which include those listed in this Section A.1.2, are documented and communicated to the Directors at the time of their appointment. The role of the Board is described on Page 202.
A.1.3	Compliance with laws and access to independent professional advice	Compliant	<p>The Group Code of Business Conduct and Ethics emphasises the importance of compliance with all laws and regulations that are applicable to the Company and its operations.</p> <p>In order to preserve the independence of the Board and to strengthen the decision making process, the Directors are permitted to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of the Company</p>
A.1.4	Access to advice and services of Company Secretary and insurance cover for the directors and key management personnel	Compliant	<p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed and all Directors have access to the Company Secretary.</p> <p>The appointment or removal of the Company Secretary is a matter to be considered by the Board as a whole.</p> <p>The Directors and Officers liability insurance obtained by the ultimate parent of the Company, Hayleys PLC provides worldwide cover to indemnify all past, present and future Directors and Officers of the group.</p>

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
A.1.5	Independent Judgement	Compliant	Thus, all Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business. Details of Directors deliberations are contained in the minutes maintained by the Company Secretary.
A.1.6	Dedicate Adequate Time and Effort to Matters of the Board and the Company	Compliant	<p>The Directors are committed to provide the required amount of time and attention towards the accomplishment of their duties for the duration of their tenure.</p> <p>Dates of regular Board meetings and regular Board Sub Committee meetings are scheduled well in advance and the relevant papers are circulated ensuring that the Directors are given adequate time to review the same and seek additional information or clarifications, if required.</p> <p>The details of meetings of the Board and sub-committees and attendance of the members thereat are given on page 205.</p>
A.1.7	Director's right to call for resolutions	Compliant	The Directors are entitled to include matters and proposals in the agenda for Board meetings whenever they deem it is in the interest of the Company. However, no such instance occurred during the period under review.
A.1.8	Training for new and existing Directors	Compliant	<p>Directors receive a significant bespoke induction programme with a range of information relating to the general aspects of directorship and matters specific to the industry when they first join the Board.</p> <p>Ongoing support and resources are provided to Board members as required, to enable them to extend and refresh their skills, knowledge and understanding of the Group. Professional development and skills training are provided through regular updates on changes and proposed changes to laws and regulations affecting Company or its business.</p>
Principle A.2 - Chairman and the Chief Executive Officer (CEO)			
The roles of the Chairman and the Chief Executive Officer of the Company are to be distinct and separate, ensuring the balance of power and authority.			
A.2.1	Divisions of Responsibilities between the Chairman and CEO	Compliant	The Board ensures that the appointment of and delegation to management contribute to role clarity and effective exercise of authority and responsibility. Thus, roles of the Chairman and the Managing Director are clearly defined and are separated in line with best practices in order to maintain a balance of power and authority.
Principle A.3 - Chairman's Role			
The Chairman is responsible for providing leadership to the Board and preserving order and facilitating the effective discharge of duties of the Board.			
A.3.1.	Role of the Chairman	Compliant	The Chairman is responsible for leading the Board in discharging its duties effectively, and enhancing the Company's standards of corporate governance. The Chairman provides clear leadership to the Board with respect to the Company's long-term growth and strategy. . The Board members are of the view that the strong leadership of the Chairman is a key contributing factor to the effectiveness of the Board. The Chairman approved the agenda for each meeting in consultation with the Managing Director and the Company Secretary and ensured that all Board proceedings were conducted in a proper manner.

APPENDICES II

Code of Best Practice on Corporate Governance and Listing Rules

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
Principle A.4 - Financial Acumen			
The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
A.4.1	Availability of sufficient financial acumen and knowledge	Compliant	<p>Three Directors of the Board, including the Chairman of the Audit Committee, are Fellow Members of CA Sri Lanka ensuring sufficient financial acumen within the Board on matters of finance.</p> <p>In addition, all members of the Board possess experience in various aspects of financial management.</p>
Principle A.5 - Board Balance			
Board to have a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the Board's decision-making.			
A.5.1	Presence of Non-Executive Directors of sufficient calibre and number	Compliant	<p>Seven out of the ten Directors on the Board are non-executive directors facilitating an appropriate balance within the Board, which has been maintained throughout the financial year.</p> <p>The proportion of Non-Executive Directors on the Board ensures that the Board is able to exercise objective judgement on corporate affairs and the performance of management against Key Performance Indicators.</p>
A.5.2	Presence of Independent Non-Executive Directors	Compliant	Four out of the Seven non-executive directors are independent thus complying with the requirement of this Section A.5.1. that two or one-third of the non-executive directors should be independent.
A.5.3	Independence of Non-Executive Directors	Compliant	Three Independent Non-Executive Directors met the criteria for independence as set out in the applicable rules and regulations, including the Code and are deemed to be independent of management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment. The Board is of the view that Dr. S.S.S.B.D.G.Jayawardena is not compromised by him being a board member for more than nine years as the objectivity of his role is not affected by this period.
A.5.4	Annual declarations by Non-Executive Directors of their independence or non-independence	Compliant	Annual self-declarations were submitted by each non-executive director for 2018/19 declaring his/her status of independence in terms of the applicable rules and regulations.
A.5.5	Determination of the independence or non-independence of Non-Executive Directors	Compliant	<p>Based on the self- declarations submitted by the directors of their independence, the Board determined that the following directors who were in office during 2018/19 were independent,</p> <p>(i) Dr S S S B D G Jayawardena (ii) Dr N T Bogahalande (iii) Mr S L Athukorala (iv) Mr M H Jamaldeen</p>

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
A.5.6	Alternate Directors	Compliant	<p>Alternate Director appointed by Non-Executive Director is not an executive of the Company.</p> <p>Further, none of the Independent Director's have appointed an alternate as at the reporting date.</p>
A.5.7 & A.5.8	Senior Independent Director	Compliant	The Managing Director and Chairman are not one and the same person. As such, there is no requirement to appoint a Senior Independent Director.
A.5.9	Chairman to hold meetings with the Non-Executive Directors without the presence of Executive Directors	Compliant	As and when the need arises and at least once every year Chairman holds meetings with the Non Executive Directors without the presence of the Executive Directors.
A.5.10	Recording of Directors' concerns in Board Minutes	Compliant	<p>The Directors' concerns pertaining to unresolved matters are discussed and recorded by the Company Secretary in the Board Minutes in sufficient detail. Further discussions on these matters are pursued at the next Board meeting with a view to resolving them.</p> <p>However, no such issues arose during the year under review.</p>
Principle A.6 - Supply of Information			
The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.			
A.6.1	Management's obligation to provide the Board with appropriate and timely information	Compliant	<p>The Management ensures that the Board is provided with timely, accurate, relevant and comprehensive information before the Board meeting every month, with adequate time for them to review the same and prepare for discussions.</p> <p>The members of the Executive Management make presentations to Directors on important issues relating to financial performance, strategy, risk management, investment proposals, systems and procedures, where necessary.</p> <p>The Directors also have access to management to obtain further information or clarify any concerns they may have.</p>
A.6.2	Board Papers and Agenda to be circulated seven days prior to meetings	Compliant	<p>In order to ensure that the Directors have adequate time to study the papers and prepare themselves for constructive discussions at Board meetings, the Agenda and Board Papers are circulated at least seven days prior to Board meetings.</p> <p>Directors who are unable to attend a meeting is apprised of the proceedings of such meeting through formally documented minutes, which are also discussed at the next meeting and minutes of a meeting is ordinarily provided to Directors at least within two weeks after the meeting date.</p>
Principle A.7 - Appointments to the Board			
There should be a formal and transparent procedure for the appointment of new Directors to the Board.			
A.7.1	Availability of a formal and transparent procedure for new appointments through an established Nomination Committee	Compliant	The Nomination Committee of the parent company, Hayleys PLC acts as the Nomination Committee of the Company and makes recommendations to the Board on all new appointments of Directors. The composition of the Nomination Committee is given on Page 205.

APPENDICES II

Code of Best Practice on Corporate Governance and Listing Rules

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
A.7.2	Annual assessment of the Board-composition by the Nomination Committee	Compliant	During the annual self-evaluation process, the Board as a whole assesses its own composition to ascertain whether the experience and the exposure of the Board members are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken in to consideration in the appointment of new Directors.
A.7.3	Disclosure of information to Shareholders upon appointment of new Directors	Compliant	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange and subsequently through the Company's Annual Report.
Principle A.8- Re-election			
All Directors should submit themselves for re-election at regular intervals.			
A.8.1	Non Executive Directors are appointed for specified terms subject to re-election	Compliant	Non-Executive Directors are appointed for a specified term subject to re-election and to the provisions of the Companies Act relating to the removal of a director and their re-appointment is not automatic.
A.8.2	All Directors including Chairman to be subject to re-election at first opportunity after appointment and re-election at least every three years thereafter	Compliant	<p>In terms of the Articles of Association of the Company, all Directors, including the Chairman, are subject to re-election by shareholders at the first opportunity after their appointment and to retirement by rotation thereafter at intervals of no more than three years. However, the Managing Director is not subject to retirement by rotation.</p> <p>The names of directors submitted for election or re-election are accompanied by a resume to enable shareholders to make informed decisions on such elections/ re-elections.</p>
A.8.3.	Reasons for resignations of Directors	Compliant	<p>If and when a Director is resigning prior to the completion of his term of appointment, he/she provides the Board with a written communication thereon indicating his/her reasons for the resignation.</p> <p>Dr. K I M Ranasoma who resigned from the office of Director during the year under review submitted a written communication in compliance with the above.</p>
Principle A.9 - Appraisal of Board Performance			
Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.			
A.9.1	Annual appraisal of Board Performance	Compliant	The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill a Performance Evaluation Questionnaire in line with the provisions of the Code.
A.9.2	Annual appraisal of the Board Committees	Compliant	The self-evaluation that is carried out by the Board includes an evaluation of the performance of the Board as a whole as well as of its committees.
A.9.3.	Review of Directors' contribution to and engagement with the Company at the time of their re-election	Compliant	The Nomination Committee of the parent company, Hayleys PLC which is responsible for making recommendations to the Board on all appointments of Directors, takes into account the overall contribution, participation and engagement of the individual directors when considering their re-appointments.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
A.9.4	Disclosure of the method of appraisal of the Board and Board Sub Committee performance	Compliant	The Board evaluation process is carried out by the Remuneration Committee and other sub-committees of the parent company, Hayleys PLC in accordance with its mandate.
Principle A.10- Disclosure of Information in respect of Directors			
Shareholders should be kept advised of relevant details in respect of Directors.			
A.10.1	Annual Report to disclose specified information regarding Directors	Compliant	<p>Name, qualifications, expertise, brief profiles material business interests and key appointments are given on pages 30 to 32.</p> <p>Details of whether a Director is Executive, Non Executive / or Independent, Non Independent are given on page 205.</p> <p>Related Party Transactions are given on pages 266 to 269.</p> <p>Membership of Board Sub Committees and attendance at Board Meetings and Board Sub Committee meetings are given on page 205.</p>
Principle A.1 - Appraisal of Chief Executive Officer (CEO)			
The Board should be required, at least annually to assess the performance of the CEO.			
A.11.1	Set reasonable financial and non-financial targets to be met by the CEO (Managing Director in the case of the Company)	Compliant	The Board discusses and sets financial and non-financial targets to be achieved during the year by the Managing Director with reference to the short, medium and long term objectives of the Bank.
A.11.2	Evaluate performance of the CEO (Managing Director in the case of the Company) with reference to targets	Compliant	The performance of the Managing director is evaluated by the Board quarterly and at the end of each financial year to ascertain if the financial and non-financial targets set at the beginning of the financial year have been achieved and if not, the reasons and circumstances justifies the failure to achieve same.
B. DIRECTORS 'S REMUNERATION			
Principle B.1 - Remuneration Procedure			
The Company should establish a formal and transparent procedure for developing policy on both Executive and Non-Executive directors remuneration			
B.1.1	Appointment of a Remuneration Committee	Compliant	<p>The Remuneration Committee of Hayleys PLC, the parent company, acts as the remuneration committee of the Company and is responsible for the oversight of remuneration related policies and practices of the Company.</p> <p>The Committee makes recommendations to the Board within agreed Terms of Reference, on the Company's framework of remunerating the executive Directors.</p>
B.1.2	Remuneration Committee to comprise exclusively Non Executive Directors	Compliant	The Remuneration Committee comprises four Non-Executive Directors three of whom including the Chairman are Independent Directors.

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Code of Best Practice on Corporate Governance and Listing Rules

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
B.1.3	Requirement to list the Chairman and members of the Remuneration Committee in the Annual Report	Compliant	The composition of the Remuneration Committee is given on page 205.
B.1.4	Remuneration for Non Executive Directors	Compliant	Within the limits set out in the Articles of Association, the Board of the parent company, Hayleys PLC collectively decides the remuneration of the Non-Executive Directors, including the members of the Remuneration and Nomination Committee. The Non-Executive Directors receive a fee for attending meetings of the Board and Board Committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable.
B.1.5	Remuneration of Executive Directors	Compliant	The Remuneration Committee consults the Chairman on its proposals relating to the remuneration of other Executive Directors and is empowered to seek appropriate professional advice inside and outside the Company as and when it is deemed necessary by the Committee.
Principle B.2 - The level and make up of Remuneration			
The remuneration of executive and non-executive directors should be sufficient to attract and retain the services of Directors.			
B.2.1& B.2.2	Remuneration for Executive Directors should attract, retain and motivate	Compliant	As determined by the Remuneration Committee within appropriate limits, the remuneration for Executive Directors are structured in a manner that reflect the market expectations and is sufficient enough to attract and retain the quality of personnel needed to run the Company.
B.2.3	Positioning Company remuneration levels relative to other companies	Compliant	The Remuneration Committee seeks to provide fair and equitable policies geared towards attracting, retaining and motivating employees which is a key element in the efficient operation of the Company's business. Such policies also capture sound personnel administration practice and maintenance of competitive remuneration and welfare packages to employees. Therefore, the remuneration structure of the Company is reviewed from time to time with comparison to that of peers in the industry.
B.2.4	Positioning Company remuneration levels relative to the Group	Compliant	The remuneration Committee is sensitive to remuneration and employment conditions of other companies within the Hayleys Group.
B.2.5	Performance related elements of remuneration for Executive Directors	Compliant	A performance related element of remuneration for Executive Directors has been implemented.
B.2.6	Executive share options	Not applicable	The Company does not have any executive share option schemes at present.
B.2.7	Designing schemes of performance related remuneration	Compliant	The Remuneration Committee follows the provisions set out in Schedule E to the Code in designing schemes of performance related remuneration.
B.2.7 & B.2.8	Compensation for early termination of employment of Directors	Not applicable	Special early termination clauses are not 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.
B.2.10	Levels of remuneration for Non-Executive Directors	Compliant	Non-Executive Directors are remunerated in line with market practices also taking into account the commitment and responsibilities of their role. However, they are not entitled to receive any performance based remuneration share options.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
Principle B.3 - Disclosure of Remuneration			
The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole..			
B.3.1	Composition of the Remuneration Committee, Remuneration Policy and Disclosure of Aggregate Remuneration Paid to Directors	Compliant	<p>The composition of the Remuneration Committee is given on page 205.</p> <p>The aggregate remuneration paid to Executive and Non Executive Directors are given in Note 9 to the Financial Statements on page 247.</p>
C. RELATIONS WITH SHAREHOLDERS			
Principle C.1 Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings			
The Board should use the AGM to communicate with shareholders.			
C.1.1	Notice of Meeting	Compliant	<p>The Company understands the importance of communicating effectively with shareholders and are committed to the constructive use of the AGM for the Board, Chairman and Directors to meet with shareholders, hear their views and to answer their questions. Therefore, the Annual Report including financial statements and the notice of the meeting are sent to shareholders at least 15 working days prior to the date of the AGM in compliance with the applicable statutes.</p> <p>The Annual Report for the year 2017/18 was submitted to the Colombo Stock Exchange on 30th May 2018 and was dispatched to all shareholders on the same day. The AGM was held on 25th June 2018.</p>
C.1.2	Separate resolutions for each substantially separate Issue	Compliant	<p>Separate resolutions are proposed on each substantially separate issue giving shareholders the opportunity to vote on each such issue separately.</p> <p>The adoption of the Annual Report of the Board of Directors, the Financial Statements of the Company and the Report of the Auditors thereon are considered as a separate resolution.</p>
C.1.3	Count proxy votes lodged	Compliant	The Bank has in place an effective mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against each resolution. As a matter of practice, proxy votes together with the votes of the shareholders present at the AGM are considered by the Company for each resolution.
C.1.4	Availability of Board Sub Committee Chairperson at AGM	Compliant	<p>The Chairman of the Board ensures that the Chairmen of Board sub-committees are present at the AGM to answer any query by shareholders.</p> <p>The Chairmen of the Board Sub committees were present at the previous years' AGM held on 25th June 2018.</p>
C.1.5	Summary of procedures governing voting at the AGM	Compliant	<p>The notice of meeting and related documents are circulated to the Shareholders 15 working days prior to the AGM.</p> <p>A summary of the procedures governing voting at the AGM is provided in the Proxy Form, which is circulated to shareholders together with the notice of meeting as mentioned above.</p>

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
Principle C.2 - Communication with Shareholders			
The Board should implement effective communication with Shareholders.			
C.2.1	Channel to reach all Shareholders of the Company	Compliant	The Company has many channels to reach its shareholders in order to disseminate timely information of which the primary channels are the Company's website and the CSE.
C.2.2	Policy and methodology for communication with Shareholders	Compliant	Any information that the Board considered as price sensitive is disseminated to the shareholders as necessary.
C.2.3	Implementation of the policy and methodology for communication with Shareholders	Compliant	Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Group considers as its principal communication with them and other stakeholders and are published through the CSE.
C.2.4	Contact person in relation to Shareholder matters	Compliant	Shareholders may bring up their concerns on communication with the Company Secretary.
C.2.5	Process to make all Directors aware of major issues and concerns of Shareholders	Compliant	The Chairman ensures that all Directors are aware of major issues and concerns of shareholders.
C.2.6	Identification of a person to be contacted on shareholder matters	Compliant	Shareholders may bring up their concerns either with the Company Secretary or the Chairman as appropriate.
C.2.7	Process of responding to Shareholder matters	Compliant	The Chairman and the Directors answer all the queries raised by the shareholders at the AGM. The Company Secretary maintains a dialogue with the shareholders to answer and to attend to all the correspondences.
Principle C.3 - Major and Material Transactions			
Directors should disclose to Shareholders all proposed material transactions which would materially alter the net asset position of the Company and Group if entered into.			
C.3.1	Need to Disclose major and material transactions	Compliant	During the year, there were no major or material transactions engaged in or committed to by the Company as prescribed by the Code that required disclosure to the shareholders.
C.3.2	Compliance with disclosure and shareholder approval requirements under applicable rules and regulations	Compliant	The Company ensures compliance with all disclosure and shareholder approval requirements necessitated by various rules and regulations applicable to it if and when a major or material transaction is proposed to be entered into by the Company.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
D. ACCOUNTABILITY AND AUDIT			
<i>Principle D.1 - Financial Reporting</i>			
The Board is required to present a balanced and understandable assessment of the Company's financial position, performance and prospects.			
D.1.1 & D.1.2	Interim reports, price-sensitive public reports, regulatory reports and statutory information requirements	Compliant	<p>The Company has complied with the requirements of the Companies Act No.7 of 2007 in the preparation and presentation of its annual and interim financial statements in conformity with Sri Lanka Accounting Standards.</p> <p>During 2018/19, the interim accounts and annual financial statements were published on a timely basis and regulatory reports were filed by the due dates. Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year</p>
D.1.3	Declarations by CEO and CFO	Compliant	<p>Prior to approving the financial statements covering a particular financial period, the Board obtains the declaration of the Managing Director and the Chief Financial Officer on their responsibility in respect of financial reporting.</p> <p>Managing Director's and Chief Financial Officer's Statement of Responsibility is given on page 217.</p>
D.1.4	Declarations by Directors in the Directors' Report	Compliant	The declarations by the Directors as required by the Code are included in the Annual Report of the Board of Directors on the Affairs of the Company on Pages 211 to 215.
D.1.5	Responsibilities of the Board for the preparation and presentation of Financial Statements and Statement by the Auditors about their reporting responsibilities	Compliant	<p>Statement on Directors' Responsibility for Financial Reporting is set out on Page 216.</p> <p>Auditors' responsibility over Financial Statements is covered in the Independent Auditors' Report on Pages 221 to 223.</p> <p>Directors' Statement on Internal Controls over Financial Reporting is set out on Pages 221 to 223.</p>
D.1.6	Inclusion of a Management Discussion and Analysis in the Annual Report	Compliant	Management Discussion and Analysis is set out on Pages 51 to 185.
D.1.7	Notify Shareholders in case Net Assets of the Company fall below 50%	Not applicable	The situation has not arisen during the year 2018/19 and the likelihood of such a situation is remote. However, should such a situation arises, an EGM would be convened to keep the shareholders informed thereof.

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
D.1.8	Disclosure of Related Party Transactions in the Annual Report	Compliant	<p>each related party has submitted signed and dated quarterly declarations annually mentioning whether they have related party transactions with the Company as required under regulations applicable to the Company to comply with the disclosure requirements;</p> <p>The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly;</p> <p>A record on related party and related party transactions is maintained by the Company to capture information to comply with the respective related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations.</p> <p>Details of the Related Party Transactions Review Committee are disclosed in the Related Party Transactions Review Committee Report on Page 207.</p> <p>Details on related party transactions during 2018/19 are disclosed under Note 34 on Pages 266 to 269 in the Financial Statements.</p>
Principle D.2 - Internal Controls The Company should have a process of risk management and a sound system of internal control to safeguard Shareholders' investments and the Company's assets.			
D.2.1	Annual review of internal controls	Compliant	<p>The Board is responsible for formulating and implementing appropriate and adequate internal control systems and the Audit Committee has the responsibility to the Board to ensure that the system of internal controls are sufficient and effective.</p> <p>With the assistance of the Audit Committee, risks and controls are reviewed and monitored by the Board on quarterly basis to ensure relevance and effectiveness.</p>
D.2.2	Directors' assessment of the risks facing the Company	Compliant	Details of the risks facing the Company and the measures taken to mitigate same are explained in the Risk Management Section on page 190 to 198.
D.2.3	Need for an internal audit function	Compliant	<p>The Company has its own internal audit function over which the BAC has oversight and also employs independent professional accounting firms to complement the work done by them.</p> <p>Details on the internal audit function are set out in the Audit Committee Report on Page 206.</p>
D.2.4	Audit Committee to review the process and effectiveness of risk management and internal controls	Compliant	The Audit Committee carries out reviews of the process and the effectiveness of risk management and internal controls and document to the Board and the Board takes responsibility for the disclosure on the Company's system of internal controls.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
D.2.5	Responsibilities of Directors in maintaining a sound system of internal control and content of Statement of Internal Control	Compliant	Information on Directors' responsibility for maintaining a sound system of internal control is disclosed in the Directors Statement on Internal Controls over Financial Reporting on Page 216.
Principle D.3 - Audit Committee Board should establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles.			
D.3.1	Composition of the Audit Committee	Compliant	<p>Audit Committee consists of three Non-Executive Directors appointed by the Board of whom two including the Chairman of the Committee are Independent Directors.</p> <p>The Company Secretaries Hayleys Group Services (Pvt) Ltd serves as its Secretary.</p> <p>The Managing Director and the CFO attend meetings. The Chairman and other Executive Directors attend meetings by invitation.</p> <p>The input of the Statutory Auditors is obtained, where necessary. The Audit Committee supports the Group to achieve a balance between conformance and performance.</p> <p>The composition of the Audit Committee is disclosed on Page 205.</p>
D.3.2	Terms of Reference of the Audit Committee	Compliant	<p>The Audit Committee operates within clearly defined Terms of Reference approved by the Board. The duties and responsibilities of the Committee as set out in the said Terms of Reference are in line with the Code.</p> <p>The Terms of Reference of the Board Audit Committee is detailed in the Audit Committee Report on Page 206.</p>
D.3.3.	Disclosures relating to the Audit Committee	Compliant	The report of the Audit Committee covering the information referred to in this Section D.3.3. is given on page 206.
Principle D.4 – Related Party Transactions Review Committee Board should establish a procedure to ensure the proper management of related party transactions.			
D.4.1	Definition of related parties and related party transactions	Compliant	The Company follows the definition set out in LKAS 24 in determining the related parties and related party transactions.
D.4.2	Related Party Transactions Review Committee	Compliant	The Related Party Transactions Review Committee of the parent company, Hayleys PLC, oversees the related party transactions of the Company.

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
D.4.3.	Terms of Reference of the Related Party Transactions Review Committee	Compliant	The Related Party Transactions Review Committee operates within clearly defined Terms of Reference approved by the Board of the parent company. The duties and responsibilities of the Committee as set out in the said Terms of Reference, are in line with the Code.
Principle D.5 - Code of Business Conduct and Ethics Companies must adopt a Code of Business Conduct and Ethics for Directors and key management personnel and must promptly disclose any waivers of the Code for Directors or others.			
D.5.1	Disclosures on the presence of a Code of Business Conduct and Ethics	Compliant	The Company is governed by the Group Code of Business Conduct and Ethics, "The Hayleys Way" which is applicable to Directors, other KMPs, and all other employees.
D.5.2	Identification and reporting of price sensitive information	Compliant	The Company has in place an effective mechanism for identification of information that could be perceived as price sensitive information and prompt disclosure of same to the relevant regulatory authorities.
D.5.3	Policy governing dealing in shares	Compliant	The Group Code of Business Conduct and Ethics, "The Hayleys Way" entails as part of it a comprehensive policy and processes governing dealings by the Directors, KMPs and employees in the shares of the Company.
D.5.4	Chairman's affirmation on compliance with the Code of Business Conduct and Ethics	Compliant	The required affirmation is given in "Chairman's Statement on Corporate Governance" on page 199 of the Annual Report
Principle D.6 - Corporate Governance Disclosures The Directors should disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.			
D.6.1	Inclusion of a Corporate Governance Report in the Annual Report	Compliant	This report from page 199 sets out the manner in and the extent to which the Company has complied with the Code.
SECTION 2 – SHAREHOLDERS			
E. INSTITUTIONAL INVESTORS			
Principle E.1 - Shareholder Voting Institutional Shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.			
E.1.1	Regular and structured dialogue with shareholders	Compliant	<p>The Annual General Meeting (AGM) is used as an effective channel to create a dialogue between the Shareholders and the Board of Directors. Therefore, the Company encourages all Shareholders to participate at AGMs and cast their votes.</p> <p>Additionally, the Company has an ongoing structured dialogues and meetings with institutional shareholders, where a wide range of relevant issues is discussed.</p>

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
<i>Principle E.2 - Evaluation of Governance Disclosures</i>			
When evaluating the Company's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.			
E.2.	Encourage institutional investors to give due weight to relevant governance arrangements	Compliant	Sufficient attention has been given to the interests of institutional investors and they are at liberty to give due weight when exercising their voting rights on resolutions relating to the Board structure and the composition.
F. OTHER INVESTORS			
<i>Principle F.1 - Investing/Divesting Decisions</i>			
F.1	Encourage individual shareholders to seek independent advice in investing or divesting decisions	Compliant	Individual shareholders are at liberty to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions.
<i>Principle F.2 - Shareholder Voting</i>			
F.2	Encourage individual shareholders to participate in General Meetings and exercise voting rights	Compliant	Individual shareholders are encouraged to participate at general meetings and cast their votes. To achieve this purpose, the notices of meetings are dispatched to all shareholders within the prescribed time periods.
G. INTERNET OF THINGS AND CYBERSECURITY			
<i>Principle G.1 – Internet of Things</i>			
G.1	Process to identify connections to the Company's network and cybersecurity risks	Compliant	Hayleys Group's IT Usage Policy by which the Company is governed, comprehensively cover IT discipline, use of licensed software, closer monitoring of the usage of the internet, email and mail server and the use of antivirus and firewall servers and software.
<i>Principle G.2 - Chief Information Security Officer</i>			
G.2	Appointment of Chief Information Security Officer and cybersecurity risk management policy		The functions of the Chief Information Security Officer are delegated to the Head of Hayleys Group IT. The details relating to the policy on cybersecurity risk management can be found in Risk Management section from pages 190 to 198.
<i>Principle G.3 - Cybersecurity Risk Management</i>			
G.3	Board discussions on cybersecurity risk management		Risks relating to all IT matters including that arising from cybersecurity are discussed and assessed in detail by the Audit Committee and reported to the Board. Head of Hayleys Group IT also attends such discussions as and when required.

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
<i>Principle G.4 – Independent Reviews and Assurance</i>			
G.4	Independent reviews and assurances to be carried out to ensure effectiveness of cybersecurity risk management		Audit Committee engages the services of independent/outsourced. Information Technology Auditors whenever they deem that expert advice is required. Review of Information Security has been carried out by the External auditors at the yearend audit as well.
<i>Principle G.5 – Identification of Cybersecurity Risks</i>			
G.5	Disclosure in the Annual Report of the process of identifying cybersecurity risks		The manner in which cybersecurity risks are identified and mitigated are disclosed in Risk Management section from page 190 to 198 of this report.
H. SUSTAINABILITY REPORTING			
<i>Principle H.1 – Environment, Society and Governance (ESG)</i>			
The Company's Annual Report should contain sufficient information on ESG risks and opportunities.			
H.1.1	Reporting on ESG relevance to business model and risks and opportunities	Compliant	<p>The Company is one of the first few entities to champion ESG and ESG reporting. ESG principles are embedded in our business operations and considered in formulating our business and operational strategy and reported with a holistic view. Information required by this Section of the Code is given in the following sections:</p> <p>Management Discussion and Analysis on Pages 51 to 185.</p> <p>Governance and Risk Management on Pages 190 to 210.</p>
<i>Principle H.1.2– Environmental Factors</i>			
H.1.2.1	Reporting on Environmental Governance	Compliant	Details on environmental governance measures are given on Pages 208 to 210 of this Report.
<i>Principle H.1.3 – Social Factors</i>			
H.1.3.1	Reporting on Social Governance	Compliant	Details on Social Governance practices of the Company are given on Pages 208 to 210 of this Report.
<i>Principle H.1.4 – Governance</i>			
H.1.4.1	Reporting on Governance Structures	Compliant	Details on governance structures of the Company are given on Pages 200 to 201 of this Report.
<i>Principle H.1.5 – Governance</i>			
H.1.5.1	Board's Role on ESG Factors	Compliant	Details Board's role on ESG factors are given on Pages 200 to 201 of this Report.

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GRI Content Index

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 101: Foundation 2016					
General Disclosures					
Organizational profile					
GRI 102: General Disclosures 2016	102-1 Name of the organization	305			
	102-2 Activities, brands, products, and services	82, 83, 305			
	102-3 Location of headquarters	305			
	102-4 Location of operations	22			
	102-5 Ownership and legal form	22, 305			
	102-6 Markets served	22, 68			
	102-7 Scale of the organization	10, 82			
	102-8 Information on employees and other workers	144			
	102-9 Supply chain	120,122			
	102-10 Significant changes to the organization and its supply chain	4			
	102-11 Precautionary Principle or approach	190-198			
	102-12 External initiatives	4			
	102-13 Membership of associations	137			
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	102-14 Statement from senior decision-maker	12-15			
	102-15 Key impacts, risks, and opportunities	52, 53, 90, 97,102, 113, 121, 126, 131, 142, 166, 194			
Ethics and integrity					
	102-16 Values, principles, standards, and norms of behavior	7, 203-204			
	102-17 Mechanisms for advice and concerns about ethics	203-204			
Governance					
	102-18 Governance structure	200-201, 210			
	102-19 Delegating authority	200-201, 210			
	102-20 Executive-level responsibility for economic, environmental, and social topics	200-201, 210			
	102-21 Consulting stakeholders on economic, environmental, and social topics	210			
	102-22 Composition of the highest governance body and its committees	30-32, 205			
	102-23 Chair of the highest governance body	203			
	102-24 Nominating and selecting the highest governance body	202, 204			
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	102-26 Role of highest governance body in setting purpose, values, and strategy	203, 208, 209			

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GRI 102: General Disclosures 2016	102-27 Collective knowledge of highest governance body	204				
	102-28 Evaluating the highest governance body's performance	203				
	102-29 Identifying and managing economic, environmental, and social impacts	208				
	102-30 Effectiveness of risk management processes	208				
	102-31 Review of economic, environmental, and social topics	208, 210				
	102-32 Highest governance body's role in sustainability reporting	208				
	102-33 Communicating critical concerns	208, 210				
	102-34 Nature and total number of critical concerns	210				
	102-35 Remuneration policies	212				
	102-36 Process for determining remuneration	212				
	102-37 Stakeholders involvement in remuneration	212				
	102-38 Annual total compensation ratio		102-38	Confidential	Due to Company Confidential Data	
	102-39 Percentage increase in annual total compensation ratio		102-39			
	Stakeholder engagement					
	102-40 List of stakeholder groups	41				
	102-41 Collective bargaining agreements	162-163				
	102-42 Identifying and selecting stakeholders	41				
	102-43 Approach to stakeholder engagement	42-44				
	102-44 Key topics and concerns raised	42-44				
	Reporting practice					
	102-45 Entities included in the consolidated financial statements	4, 36				
	102-46 Defining report content and topic Boundaries	4, 45-49				
	102-47 List of material topics	45-49				
	102-48 Restatements of information	8				
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	102-51 Date of most recent report	4				
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	102-54 Claims of reporting in accordance with the GRI Standards	5				
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GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
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GRI 200 Economic Standard Series					
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	70			
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GRI 201: Economic Performance 2016	201-1 Direct economic value generated and distributed	71			
	201-2 Financial implications and other risks and opportunities due to climate change	74			
	201-3 Defined benefit plan obligations and other retirement plans	149			
	201-4 Financial assistance received from government	94			
Market Presence					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	70			
	103-3 Evaluation of the management approach	70			
GRI 202: Market Presence 2016	202-1 Ratios of standard entry level wage by gender compared to local minimum wage	149			
	202-2 Proportion of senior management hired from the local community	72			
Indirect Economic Impacts					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	97			
	103-3 Evaluation of the management approach	97			
GRI 203: Indirect Economic Impacts 2016	203-1 Infrastructure investments and services supported	99-100, 132-136			
	203-2 Significant indirect economic impacts	132-136			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
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GRI 204: Procurement Practices 2016	204-1 Proportion of spending on local suppliers	122			

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GRI 301: Materials 2016	301-1 Materials used by weight or volume	168-169			
	301-2 Recycled input materials used	168			
	301-3 Reclaimed products and their packaging materials	168			
Energy					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	166			
	103-3 Evaluation of the management approach	166			
GRI 302: Energy 2016	302-1 Energy consumption within the organization	171-173			
	302-2 Energy consumption outside of the organization	171-173			
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	302-5 Reductions in energy requirements of products and services	172			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	166			
	103-3 Evaluation of the management approach	166			
GRI 303: Water 2016	303-1 Water withdrawal by source	179			
	303-2 Water sources significantly affected by withdrawal of water	179			
	303-3 Water recycled and reused	179			
Biodiversity					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	166			
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GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 304: Biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	180-181			
	304-2 Significant impacts of activities, products, and services on biodiversity	180-181			
	304-3 Habitats protected or restored	180-183			
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	180-183			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	166			
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GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	175-177			
	305-2 Energy indirect (Scope 2) GHG emissions	175-177			
	305-3 Other indirect (Scope 3) GHG emissions	175-177			
	305-4 GHG emissions intensity	177			
	305-5 Reduction of GHG emissions	175-177			
	305-6 Emissions of ozone-depleting substances (ODS)	175			
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	175			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	166			
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GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	179			
	306-2 Waste by type and disposal method	169-171			
	306-3 Significant spills	171			
	306-4 Transport of hazardous waste	171			
	306-5 Water bodies affected by water discharges and/or runoff	179			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	120			
	103-3 Evaluation of the management approach	120			
GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	123			
	308-2 Negative environmental impacts in the supply chain and actions taken	123			
GRI 400 Social Standards Series					
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	142			
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GRI 401: Employment 2016	401-1 New employee hires and employee turnover	155-156			
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	149-150			
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GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	162			
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	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	154			
	403-3 Workers with high incidence or high risk of diseases related to their occupation	152			
	403-4 Health and safety topics covered in formal agreements with trade unions	151			
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	103-2 The management approach and its components	142			
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GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	154			
	404-2 Programs for upgrading employee skills and transition assistance programs	154			
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GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	144-145			
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GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
Freedom of Association and Collective Bargaining					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	120			
	103-3 Evaluation of the management approach	142			
GRI 407: Freedom of Association and Collective Bargaining 2016	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	123, 163			
Child Labor					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	120			
	103-3 Evaluation of the management approach	142			
GRI 408: Child Labor 2016	408-1 Operations and suppliers at significant risk for incidents of child labor	123, 147			
Forced or Compulsory Labor					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	120			
	103-3 Evaluation of the management approach	142			
GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	123, 148			
Local Communities					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	130			
	103-3 Evaluation of the management approach	130			
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	132-136			
	413-2 Operations with significant actual and potential negative impacts on local communities	138-139			
Supplier Social Assessment					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	120			
	103-3 Evaluation of the management approach	120			

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	123			
	414-2 Negative social impacts in the supply chain and actions taken	123			
Public Policy					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	130			
	103-3 Evaluation of the management approach	130			
GRI 415: Public Policy 2016	415-1 Political contributions	137			
Customer Health and Safety					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	112			
	103-3 Evaluation of the management approach	112			
GRI 416: Customer Health and Safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	115-117			
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	117			
Marketing and Labeling					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	112			
	103-3 Evaluation of the management approach	112			
GRI 417: Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	115			
	417-2 Incidents of non-compliance concerning product and service information and labeling	115			
	417-3 Incidents of non-compliance concerning marketing communications	117			
Socioeconomic Compliance					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	47			
	103-2 The management approach and its components	130			
	103-3 Evaluation of the management approach	130			
GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	139			

APPENDICES IV**Index for ISO 26000, SDG, UNGC & NGRS**

ISO 26000:2010	SDG	UNGC	NGRS	Reference
Organizational governance	12, 13, 16, 17	Not applicable	SOCL 12	Pages 199 to 210
Fair operating practices	5, 8, 10, 12, 16	Principle 10	ECON 1 to 6	Pages 70 to 74
Labor practices	3, 4, 5, 6, 7, 8, 10, 11	Principle 3, Principle 4, Principle 5 & Principle 6	SOCL 1 to 9	Pages 140 to 163
Human rights	5, 6, 8, 10	Principle 1, Principle 2	Not applicable	Pages 129 to 139
Environment	4, 6, 7, 12, 13, 14, 15	Principle 7, Principle 8 & Principle 9	ENVT 1 to 24	Pages 164 to 185
Consumer issues	2, 9, 12	Not applicable	SOCL 13 to 20	Pages 111 to 118
Community involvement and development	1, 3, 4, 5, 6, 11, 17	Not applicable	SOCL 10 & 11	Pages 129 to 139

- ▶ ISO 26000 : 2010
- ▶ United Nations Sustainable Development Goals (SDG)
- ▶ United Nations Global Compact
- ▶ National Green Reporting System - Sri Lanka

APPENDICES V

10 Year Summary

	2019 Rs.'000	2018 Rs.'000	2017 Rs.'000	**2016 Rs.'000	*2015 Rs.'000	2013 Rs.'000	2012 Rs.'000	**2011 Rs.'000	***2010 Rs.'000	2009 Rs.'000
Trading Summary										
Group revenue	4,025,913	4,061,310	3,334,494	3,434,579	4,761,101	3,646,837	3,318,149	2,744,505	3,002,624	2,772,125
Profit/(loss) before taxation	483,681	616,828	266,388	186,546	286,380	236,786	231,283	(22,198)	169,200	(27,887)
Taxation	(70,966)	(69,262)	(24,906)	(42,696)	(18,919)	(37,215)	(4,585)	(10,532)	(4,691)	(2,514)
Profit/(loss) after taxation	412,715	547,567	241,482	143,850	267,461	199,571	226,698	(32,730)	164,509	(30,401)
Non-controlling Interest	7,878	(870)	(7,713)	(28,122)	(28,165)	(26,038)	(10,748)	18,690	(17,071)	(8,118)
Profit/(loss) attributable to owners of the parent	404,837	548,437	233,769	115,728	239,296	173,533	215,950	(51,420)	147,438	(22,283)
Funds Employed										
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Revenue reserve	2,291,935	2,172,318	1,723,744	1,330,415	1,336,757	1,148,363	1,005,405	782,115	892,909	660,904
Equity attributable to equity holders of the parent	2,641,935	2,522,318	2,073,744	1,680,415	1,686,757	1,498,363	1,355,405	1,132,115	1,242,909	1,010,904
Non-controlling Interest	176,828	170,793	173,609	179,798	167,338	152,855	136,921	128,329	122,623	54,376
Liability to make lease payment	186,353	187,174	187,901	188,361	188,971	189,617	171,503	171,873	172,176	135,688
Interest Bearing Borrowings (short and long-term)	67,681	176,018	225,322	364,201	501,556	666,006	724,417	920,554	764,400	1,121,792
Assets Employed										
Non-current assets	3,342,791	3,340,876	3,321,693	3,340,891	3,347,168	3,248,131	3,237,928	3,197,861	3,138,780	2,923,602
Current assets	1,679,708	1,384,270	814,914	581,541	718,037	798,662	620,040	532,418	482,681	717,923
Current liabilities net of borrowings	(631,080)	(548,688)	(391,605)	(285,346)	(368,452)	(394,373)	(358,488)	(297,388)	(317,746)	(411,043)
Retirement benefit obligation	(969,573)	(811,824)	(801,101)	(980,734)	(922,369)	(912,752)	(888,170)	(826,914)	(730,622)	(664,524)
Deferred tax liability	(204,222)	(158,206)	(127,898)	(92,475)	(63,145)	(41,869)	(12,772)	(26,574)	(20,511)	(21,262)
Deferred income	(144,826)	(150,126)	(155,426)	(151,102)	(166,617)	(190,958)	(210,292)	(226,532)	(250,474)	(221,936)
Capital Employed	3,072,798	3,056,303	2,660,576	2,412,775	2,544,622	2,506,841	2,388,246	2,352,871	2,302,108	2,322,760
Cash Flows										
Net Cash inflow/(outflow) from operating activities	629,339	815,693	485,370	393,444	532,290	301,099	336,133	108,711	321,845	315,964
Net Cash inflow/(outflow) from investing activities	(134,208)	(153,229)	(103,204)	(94,286)	(259,610)	(126,460)	(131,654)	(165,069)	(170,378)	(231,723)
Net Cash inflow/(outflow) from finance activities	(214,306)	(201,010)	(115,128)	(209,166)	(327,359)	(168,629)	(66,040)	(164,130)	(249,640)	176,655
Increase/(decrease) in cash cashequivalents	280,885	461,454	267,038	89,991	(54,680)	6,010	138,439	(220,488)	(98,173)	260,896
Key Indicators										
EPS (basic) (Rs.)	17.05	23.09	9.84	4.87	10.08	7.31	9.09	-2.17	6.21	-0.94
Net assets per share (Rs.)	111.24	106.20	87.32	70.75	71.02	63.09	57.07	47.67	52.33	42.56
Market price per share (Rs.)	48.70	54.50	32	32.5	35.1	24	24	29.7	46.4	25.25
Price earning ratio (times)	2.85	2.36	3.25	6.67	3.49	3.28	2.64	-13.72	7.47	-26.86
Current ratio (times)	2.46	2.20	1.7	1.23	1.16	1.28	1.16	0.88	1.17	1.17
Quick ratio (times)	1.51	1.48	0.92	0.54	0.46	0.31	0.25	0.25	0.38	0.60
Return on equity (%)	15.32	21.74	11.27	6.89	14.19	11.58	15.93	-4.14	12.73	-2.2
Debt to equity (%)	9.01	13.49	18.39	29.7	37.3	51.8	60	86.7	65.8	124.39
Dividend per share (Rs.) - Company	6.00	6.50	2	-	3	3	2.5	-	2.5	-
Dividend payout ratio (times) - Company	0.35	0.28	0.2	-	0.31	0.41	0.27	-	0.4	-

* 15Month results, Restated - Statement of Financial Position

**Restated - Statement of Profit or Loss

*** Restated - Statement of Financial Position

APPENDICES VI

Glossary

FINANCIAL TERMS

Accounting Policies

Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

Agricultural Activity

Is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

Agricultural Produce

The harvested product of the entity's biological assets.

Harvest

Detachment of produce from a Biological Asset or the cessation of Biological Assets life processes.

Amortisation

The systematic allocation of depreciable amount of an intangible asset over its useful life.

Bearer Biological Assets

Biological assets those are not to be harvested as agricultural produce or sold as biological assets. The biological assets other than the consumable biological assets.

Consumable Biological Assets

Includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.

Borrowings/Debt

Bank loans, overdrafts, long term loans, debentures, finance lease obligations and interest bearing liabilities.

Capital Employed

Shareholder's funds plus non controlling interests and debts.

Shareholders' Funds

Total of stated capital, capital reserves and revenue reserves.

Cash Equivalents

High liquid investments that are readily convertible to know amounts of cash and which are subject to an insignificant risk of change in value.

Contingent Liability

A condition or situation existing at the balance sheet date due to past events, where the financial effect is not recognised because:

1. The obligation is crystallised by the occurrence or non occurrence of one or more future events or,
2. a probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability

Current Ratio

Current assets divided by current liabilities.

Debt/ Equity Ratio

Debt as a percentage of shareholders funds and non controlling interests.

Deferred Taxation

The net tax effect on items which have been included in the Income Statement, which would only qualify for inclusion on a tax return at a future date.

Dividends

Distribution of profits to holders of equity investments.

Dividend Pay Out

Dividend per share divided by Earnings per share.

EBIT

Abbreviation for Earnings Before Interest and Tax.

EBITDA

Abbreviation for Earnings Before Interest Tax Depreciation & Amortisation.

EBITDA Margin

EBITDA divided by Revenue.

Earnings per Share

Profit attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period.

COP

Cost of Production. This generally refers to the cost of producing a kilo of produce (Tea/ Rubber).

COS

Cost of Sale. The cost incurred on preparation to salable condition of the goods sold.

Crop

The total produce harvested over a given period of time. (Usually during a financial year).

Interest Cover

Consolidated profit before interest and tax over finance expenses.

IFRS

International Financial Reporting Standards.

SLFRS

Sri Lanka Financial Reporting Standards.

LKAS

Sri Lanka Accounting Standards.

SoRP

Statement of Recommended Practices.

Market Capitalisation

Number of shares in issue at the end of the period multiplied by the market price at the end of period.

Net Assets

Total assets less current liabilities less long term liabilities less non - controlling interests.

Net Assets per Share

Net assets as at a particular financial year end divided by the number of shares in issue as at the current financial year end.

Non Controlling Interest

Part of the net results of operations and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through Subsidiaries, by the Parent Company.

Price Earnings Ratio

Market price of a share divided by earnings per share.

Related Parties

Parties who could control or significantly influence the financial and operating policies of the business.

Return on Equity (ROE)

Profits attributable to shareholders as a percentage of average shareholders' funds.

RETIREMENT BENEFITS**Present value of a retirement benefit obligation**

Is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Current service cost

Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost

Is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Actuarial gains and losses

Is the effects of difference between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

Revenue Reserves

Reserves considered as being available for distributions and investments.

Segment

Constituent business units grouped in terms of nature and similarity of operations.

Working Capital

Capital required financing day-to-day operations (Current Assets less Current Liabilities).

UITF

Urgent Issue Tasks Force of The Institute of Chartered Accountants of Sri Lanka

NON-FINANCIAL TERMS**Biodiversity**

The variability among living organisms from all sources including, among others, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.

Carbon Dioxide Sequestration

The capture of atmospheric carbon dioxide (CO₂) in a solid material such as growing trees, other vegetation and soils or a carbon sink through biological or physical processes, such as photosynthesis.

Extent in bearing

The extent of land from which crop is being harvested. Also see "Mature Plantation".

Ethical Tea Partnership (ETP)

ETP is a non-competitive alliance of 20 international tea packers who share a vision for a thriving industry that is socially just and environmentally sustainable.

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.

NSA

The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting Brokerage fees. etc (Also see GSA).

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.

ISO

International Organisation for Standardisation. A worldwide federation of national standard bodies.

ISO 22000

International Standard for Food Safety Management Systems (FSMS) released by ISO in September 2005.

Mature Plantation

The extent of plantation from which crop is being harvested. Also see "Extent in Bearing".

Rainforest Alliance (RA)

The Rainforest Alliance functions as the Secretariat of the SAN and administers its certification scheme; RA works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviors.

APPENDICES VI

Glossary

Sustainable Agriculture Network (SAN)

SAN is a coalition of independent non-profit conservation organisations that promote the social and environmental sustainability of agricultural activities by developing standards. SAN promotes efficient agriculture, biodiversity conservation and sustainable community development by creating social and environmental standards.

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.

SDG

United Nations Sustainable Development Goals

Seedling Tea

Tea grown from a seed. (Also see VP Tea).

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 kgs per hectare per year).

UNGC

United Nation Global Compact

UTZ

Means ‘good’ in Mayan Language Quiche. UTZ certified is a sustainability program for Coffee, Cocoa and tea. It trains farmers how to produce sustainably improving their quality of life, environment and products. UTZ certified is working towards making tea sector sustainable.

PHDT

Plantation Human Development Trust

NIPM

National Institute of Plantation Management

TRI

Tea Research Institution.

NGRS

National Green Reporting System - Sri Lanka.

ISO 26000 : 2010

Social Responsibility Standard

Corporate Information

 GRI Disclosure: 102-1, 2, 3, 5

NAME OF COMPANY

Talawakelle Tea Estates PLC

LEGAL FORM

Public Limited company
Incorporated in Sri Lanka on 22nd June 1992

COMPANY NUMBER

PQ 36

FINANCIAL YEAR END

31st March

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.

DIRECTORS

Mr. A M Pandithage - Chairman
Dr. W G R Rajadurai - Managing Director
Mr. D S Seneviratne - Chief Executive Officer
Mr. Merrill J Fernando
Mr. Malik J Fernando
(Alternate - Mr. D C Fernando)
Dr. S S S B D G Jayawardena
Dr. K I M Ranasoma
(Resigned w.e.f 01/07/2018)
Ms. M D A Perera
Dr. N T Bogahalande
Mr. S L Athukorala
Mr. M H Jamaldeen

MANAGING AGENT

Hayleys Plantation Services (Private) Limited,
400, Deans Road, Colombo 10, Sri Lanka.

REGISTERED OFFICE

400, Deans Road, Colombo 10, Sri Lanka.

HEAD OFFICE

400, Deans Road, Colombo 10, Sri Lanka.
Telephone: (94-11) -2627754-5, 2697203
Fax : (94-11) -2627782
e-mail: tpl.tea@ttl.hayleys.com
website: www.talawakelleteas.com

SECRETARIES

Hayleys Group Services (Private) Limited
No.400, Deans Road, Colombo 10, Sri Lanka.

SUBSIDIARIES

TTEL Hydro Power Company (Pvt) Ltd
TTEL Somerset Hydro Power (Pvt) Ltd

SUBSIDIARIES- REGISTERED OFFICE

400, Deans Road, Colombo 10, Sri Lanka.

SUBSIDIARIES- HEAD OFFICE

27-2 East Tower, World Trade Center,
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
Indian Bank
Union Bank of Colombo PLC
DFCC Bank PLC
Seylan Bank PLC

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

M/s Ernst & Young
Chartered Accountants
201, De Saram Place, Colombo 10,
Sri Lanka.

Notice of Meeting

Talawakelle Tea Estates PLC
Company No. PQ 36

NOTICE IS HEREBY GIVEN that the Twenty Seventh Annual General Meeting of Talawakelle Tea Estates PLC will be held at the Registered Office of the Company, No.400, Deans Road, Colombo 10, Sri Lanka, on Monday, 24th June 2019 at 10.00 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 March 2019, with the Report of the Auditors thereon.
- (2) To re-elect Mr.D.S.Seneviratne, who retires by rotation at the Annual General Meeting, a Director.
- (3) To re-elect Mr. S.L.Athukorala, who retires by rotation at the Annual General Meeting, a Director.
- (4) To re-appoint Mr. Merrill J Fernando, who retires having attained the age of Eighty Nine years and the Company has received special notice of the undernoted ordinary resolution in compliance with section 211 of the Companies Act No.07 of 2007 in relation to his re-appointment.

Ordinary Resolution

That, Merrill Joseph Fernando a retiring Director, who has attained the age of Eighty Nine years be and is hereby re-appointed a Director in terms of Section 211 of the Companies Act No. 07 of 2007 and it is hereby declared that the age limit of Seventy years referred to in section 210 of the Companies Act No.07 of 2007 shall not apply to the appointment of the said Director.

- (5) To authorise the Directors to determine contributions to charities for the year 2019/20.
- (6) To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young , who are deemed to have been reappointed as Auditors for the financial year 2019/20 in terms of Section 158 of the Companies Act No.07 of 2007.
- (7) To consider any other business of which due notice has been given.

Note :

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 at 10.00a.m. on 22nd June 2019.

By Order of the Board

TALAWAKELLE TEA ESTATES PLC

Hayleys Group Services (Private) Limited
Secretaries

Colombo
22nd May, 2019

[illegible]

[illegible]

