

**“The race is not  
always to the  
swift, but to  
those who keep  
on running.”**

## Who are we?

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***Our Company, Talawakelle Tea Estates PLC produces high-quality tea in seventeen tea gardens situated in the best tea country of the land.*** Twelve of these estates, nestled in the Dimbulla Valley produce speciality Dimbula Teas while the rest, situated on the verdant planes of the South bring forth the Ruhuna Teas to satisfy every tea aficionado in countless homes, offices, restaurants, hotels...from the grandest to the most humble, all over the world.

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**“The race is not  
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on running.”**

A testing year followed by a turnaround based on commitment and quality, we at Talawakelle Tea Estates PLC are proud to have overcome the challenges that were set before us. Through our dedication to always providing the best and delivering on quality, even during the toughest times, we have proven our worth and shown our true potential. This year we look back on the progress we have made and the perseverance we have exemplified by being true to our word of consistently delivering and truly great taste.

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## Vision

To be the most admired plantation company in Sri Lanka

## Mission

- \* Produce and market quality teas that delight our customers
- \* Drive sustainable growth
- \* Enhance shareholder value

## Business philosophy

We Believe in...

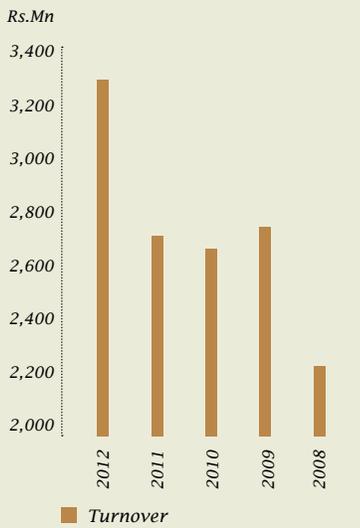
- \* Manufacturing Quality Tea that fetch Premium Prices
  - \* Increasing Shareholder Value
  - \* The Spirit of Entrepreneurship
  - \* Making Profit without loss of Honour
  - \* Motivating and Training our people to reach their full potential
  - \* Rewarding Performance
  - \* Being a “Learning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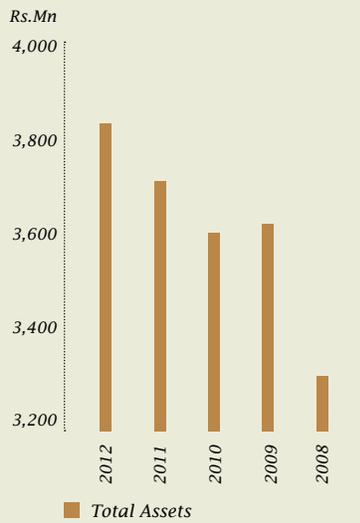
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## Financial Highlights

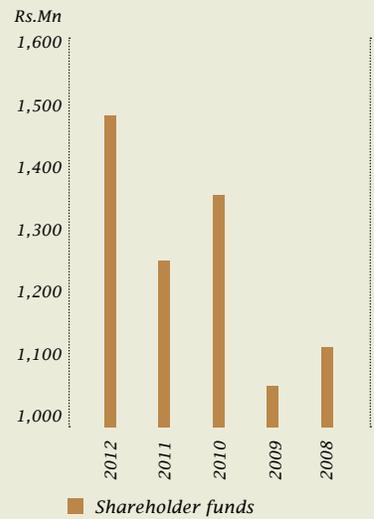
Turnover



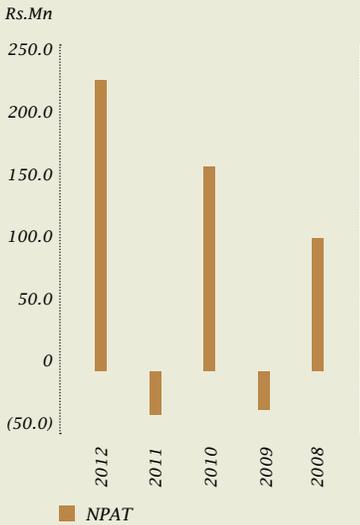
Total Assets



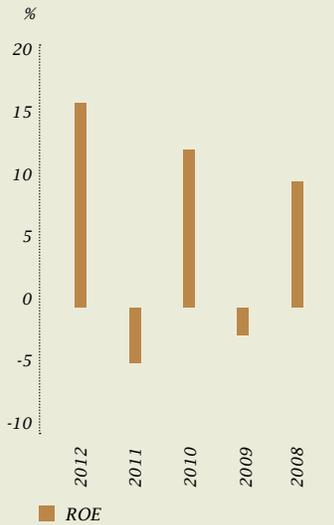
Shareholder funds



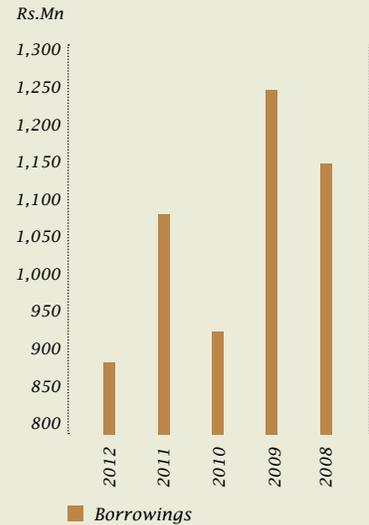
Net Profit After Tax



Return on Equity



Borrowings



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**Rs 234.0 Mn***Group Net Profit after tax***Highest on Record**

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**Rs 3.3 Bn***Group Turnover***A milestone**

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**60%***Group debts equity***Reduced by 30.2%**

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**16.4%***Return on Equity***Highest on Record**

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**1.2 Times***Working Capital Ratio at 1.2***Improved from 0.9 times**

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**2.5 Times***PE Ratio***Improved from a negative**

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**Rs.184.7 Mn***Free cashflow***Improved from a negative of Rs.62.3**

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**Rs. 1.3 Bn***Share Holders funds***Improvement of 19.7%**

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## Chairman's Statement

**"A healthy tea market and focused strategy enabled to overcome challenges and make a commendable turnaround from a loss in 2012 to post a NPBT of Rs.239.9 M, the highest on record."**

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Dear Shareholder,

I welcome you to the 21st Annual General Meeting of Talawakelle Tea Estates PLC and have pleasure in presenting the Annual Report and Audited Financial Statements of the Company for the year ended 31 December 2012. It is with great pleasure, I am announcing that in the financial year 2012 your Company recorded its highest ever earnings. This was achieved despite challenging operating conditions locally and globally.

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Drought conditions impacted Sri Lankan tea production and tea prices stayed low until the second half of the year. The economies of the US, Japan and EU were in stagnation and the Middle East, especially Syria and Iran - two large markets for Sri Lankan tea were affected by widespread civil unrest and US sanctions on Iran. However, a change in the global demand/supply equilibrium in tea combined with the depreciation of the Sri Lankan Rupee positively impacted tea prices at the Colombo Auctions. This resulted in a buoyant market from the second half onwards to record a healthy increase in national tea prices over the previous year. Tea exports declined in volumes compared to 2011, but recorded higher earnings at Rs.180.4 B vs Rs.164.8 B for the same period ending December 2011.

#### **CORPORATE RESULTS**

The Company's turnover for the year under review increased by Rs.624.1 M to record its highest

turnover of Rs.3.2 B and Net Profit After Tax of Rs.214.3 M as against a Net Loss after Tax of Rs.58.0 M in 2011.

The consolidated turnover of the Group was Rs.3,318.1 M an increase of 20.8% over the previous year. The Group's Net Profit after Tax amounted to Rs.234.0 M. The year's reported results and their comparatives in 2011 were impacted by the adoption of SLFRS 16 and 41 with effect from 1 January 2012 which are more fully explained in the notes on pages 182 to 189. The resultant impact on the current year was Rs.24.6 M.

An increase in turnover attributable to higher crop at better prices compared to the previous year and several strategies adopted to contain costs contributed to the exceptional results recorded for the year. Focus on quality and the strong brand image of our

teas maximised market pricing opportunities. Relatively favourable weather for tea crops in the second half of the year and receipt of other income also contributed to the overall results. However, higher finance cost due to an increase in interest rates (AWPLR) despite a significant reduction in borrowing levels had a negative impact.

Tea production in the year was 7.65 M kg compared to 6.89 M kg in 2011. Whilst the estate crops remained more or less at last year's levels, substantial growth in bought leaf volumes contributed to the overall increase. The estate profitability up to the end of the second quarter was modest but improved significantly from the third quarter on the back of higher crop volumes and favourable prices. The high grown estates posted noteworthy profits as against large losses recorded last year and provided the main thrust to the year's profitability. The hydro power sector recorded a profit after tax of Rs.19.7 M.

## Chairman's Statement Contd..

### QUALITY

The Company ranked No.1 and No.2 for low and high grown elevations respectively at the Colombo Tea Auctions in respect of prices amongst the Regional Plantation Companies with our average tea price at year end being well above the national average.

Mattakelle estate continued its leadership amongst all estates in the Western high grown region for the fourth consecutive year and six of our high grown marks were amongst the top ten price earners in the Western high grown catalogue. Eight out of our eleven high grown estate marks and three of the four low grown marks recorded prices above the national elevation averages during the year.

As an environmentally conscious producer, Rainforest Alliance Certification coverage was extended in 2012. Currently, we have completed the certification of all our high grown estates and the largest low grown estate. This certification has already enhanced the value of our teas.

### DEVELOPMENT AND INVESTMENTS

The refurbished and expanded Bearwell factory of capacity 600,000 kg was brought back into operation during the year. The previously silent Clarendon factory of capacity 300,000 kg too was upgraded and commissioned adding to bought leaf volumes from the high grows. Hydro Power Plants located at Radella, Somerset and Palmerston were fully operational but poor rainfall resulted in lower generation of power at these plants.

The capital expenditure incurred during the year on field and non-field areas amounted to Rs.151.3 M taking the total capital investment since privatization to Rs.3,353.0 M. Improvements to worker housing, water, sanitation and other social welfare activities also received attention with investments amounting to Rs.7.5 M in 2012. The cumulative cash outlay in this sphere of activity as at end of the year under review stands at Rs.263.7 M.

### DIVIDENDS

The Board recommends a dividend payment of Rs.2.50 per share.

### AWARDS

The Company received a Presidential Award for the highest tea replanting in the industry at the Inaugural Presidential Awards Ceremony for the Plantation Industry.

The Company's Annual Report for 2011 received a Bronze Award for the plantation sector from the Institute of Chartered Accountants of Sri Lanka at the Annual Report Awards Competition. We were also recognised as the Best performing (highest GSA) Regional Plantation Company for 2011 in high and low grown categories at the Annual Awards ceremony organised by Forbes and Walker Tea Brokers (Pvt) Limited.

### FINANCIAL REPORTING

The Company during the year adopted Sri Lanka Financial Reporting Standards in the presentation of financial statements as required under the convergence to IFRS as adopted by the Institute of Chartered Accountants of Sri Lanka.

**CHANGES TO THE BOARD**

Mr S T Gunatilleke, who served the Company for 20 years and as its Chief Executive Officer since 2001 retired with effect from 31 December 2012. During his stewardship, the Company made significant progress in many areas particularly in respect of the quality of teas produced and prices fetched. I thank him on behalf of the Board of Hayleys PLC and of Talawakelle Tea Estates PLC for his loyal, dedicated and valuable service to the Company and wish him well in his retirement.

Mr Roshan Rajadurai was appointed as the Managing Director with effect from 1 January 2013. He brings with him close to 30 years of management experience in the plantation sector. Mr. Rajadurai is no stranger to Hayleys Group having worked as Estate Group Manager of Kelani Valley Plantations in addition to several managerial positions in Kahawatte Plantations where he eventually served as the CEO.

**STRATEGY AND PROSPECTS**

We began 2012 in a volatile trading and operating environment. As envisaged in my previous year's statement concerted efforts were directed at implementing a strategy to return to profitability. Product quality, improved productivity and reduction of borrowings received priority attention. The results of the year under review stand testimony to the work done. The outcome is indeed a credit to employees at all levels for surpassing expectations to register the highest PBT on record during the year under review. It is also noteworthy that the Company reduced its borrowings in 2012.

*The challenge in the new year is to maintain and build on this momentum and ensure a satisfactory return on investment* in the wake of increasing cost of inputs including the expected revision of wages. The focus of the strategy will be to strive for further improvements in worker and land productivity, reduce operational costs, benchmark best practices and

KPI's in a holistic and integrated manner. Moreover, broad basing revenue sources are essential for the long term sustainability of your Company.

Rebranding and consolidation of the Hayleys Plantations Sector companies made up of Talawakelle Tea Estates PLC, Kelani Valley Plantations PLC and Mabroc Teas (Pvt) Ltd has begun to yield encouraging outcomes. Further consolidation of the work already done to align these businesses would be continued into the new year to reinforce our unique positioning as a preferred provider of quality Ceylon Teas.

The Sri Lanka Tea Board export cess fund is said to be presently close to Rs.3 B. We urge the expeditious use of these monies intended for the promotion of Ceylon Teas in the international markets before our teas recede in the minds of the consumers.

Replanting and maintaining good agricultural practices will receive our priority attention to enhance our agricultural potential and to sustain earnings. We are encouraged to note the

**Chairman's Statement Contd..**

2013 budget proposal to raise funding for plantations from external sources to ensure funds are made available at affordable cost to enable investment in replanting. With regard to the fertilizer subsidy, it has no doubt contributed to the overall development of the agricultural and plantation economy and we urge its continuity.

We once again wish to stress the need for early settlement of overdue compensations for lands acquired.

*With the impending revision of wages in 2013, all stakeholders need be mindful of our cost competitiveness relative to global costs especially with the emergence of new producer countries with lower costs posing a threat to our teas.*

We need to be aware that despite our teas being of high quality, we are very dependent on global brands to place our teas in their blends where cost is a key consideration. The prevailing remunerative prices should not

detract attention from addressing key industry issues such as high cost of production, low land and worker productivity compared to our global competitors.

The year ahead will be challenging though tea prices may remain at present levels in the first few months of 2013. We are concerned with the outcome of the impending wage negotiations and the impact of the US sanctions on Iran and the uncertain situation in Syria. Expected increases in energy costs and the additional cess on auction prices are also of concern as their impact on earnings will be material.

**IN CONCLUSION**

I wish to thank all our employees for their tireless work during the year. I also thank our buyers, brokers and bankers for their continued support and my fellow Directors on the Board for their guidance.



**Mohan Pandithage**  
Chairman

13 March 2013

## Management Discussion & Analysis

### *A strong brand image with cost management and sustainable agricultural policies as the corner stone was our strategy.*

#### Overview

The global economy in 2012 was marked with the US economy showing signs of recovery and the Euro zone debt crisis being addressed with massive bailout packages and economic reform programmes to reduce national debt. The Asia Pacific region economies were more robust with China recording growth albeit at lower growth rates, and Japan rebuilding their infrastructure from the impact of Tsunami and the Nuclear reactor fallout. The Middle East continued to be volatile with civil unrest and US sanction on Iran.

Rising domestic demand in India and China and an overall shortfall in global tea production in major producer countries including Kenya, Sri Lanka exerted price pressure on international tea auction centers that mirrored on the Colombo tea auctions as well. This was further given an impetus by the devaluation of the Sri Lankan Rupee against the US Dollar in early February 2012. The active participation of Pakistani buyers and additional purchasing by Japan this year also had a positive impact at the Colombo auctions. However, unsettled conditions in two key

markets, Syria and Iran, kept prices somewhat depressed for the low grown teas.

Overall, the Colombo tea auction prices were buoyant mainly driven by the rise in high grown teas from the third quarter onwards to record Rs.391.64 per Kg at year end, an increase of Rs.31.75 per Kg over 2011 and surpassing the 2010 high of Rs.370.61 per Kg. The high grown teas increased from Rs.329.95 per kg to Rs.375.53 per kg and the low grown from Rs.381.27 per kg to Rs.407.14 per kg.

A strategy to operationalise a return to profitability, underpinned by strong brand image, maximise pricing opportunities by producing a quality tea, improving productivity and managing cost with good agricultural and manufacturing practices as the cornerstone; with a buoyant market at the auctions, paid rich dividends to record the highest ever PBT for a year at Rs.239.9 Mn.

A satisfactory cropping year, other income and the team's commitment despite a substantial increase in finance costs also contributed to the year's performance.

As a mono-crop (tea) Company with bearish tea market conditions continuing at the Colombo Tea Auctions, to end of the first quarter and contending with a steep increase in the wage costs (27%) coming in from the previous year was a major challenge. This was further compounded by a steep increase in money market rates (AWPLR) and revision of electricity and fuel costs. The challenge from the second quarter onwards was to optimise crop intakes, manufacture a quality tea to gain market advantage, adopt good agricultural practices and ensure effective worker deployment and their management.

With focus on quality, we retained our competitive advantage in our brands (estate marks), as they continued to outperform other marks. This enabled the Company to be recognised as a quality conscious producer and was ranked No.1 for low grown and No 2 for high grown prices at the Colombo Tea Auctions amongst all Regional Plantation Companies.

An increase in wage costs, a high interest rate regime and trading conditions in our key markets Iran and Syria are some of our concerns and challenges in the year ahead. With tea prices expected to hold on to their present levels in to the first quarter, along with our strong brand portfolio, we look with cautious optimism to 2013.

## Management Discussion & Analysis Contd..



## OPERATING ENVIRONMENT

### Sri Lanka Economy

The economy experienced a moderation of GDP growth in 2012 compared to the two years immediately after the civil war. Whilst the economy grew at over 8% in 2010 and 2011, the government took measures to prevent overheating of the economy in 2012, resulting in a slower growth rate. The tightening measures taken in 2012 have however placed the economy on a more sustainable long term growth path.

The cumulative impact of the policy package introduced in February 2012 resulted in lower GDP growth in 2012. Higher interest rates, a weaker currency and higher domestic prices resulted in lower consumer demand during the year. Despite strong growth of 7.9% in Q1 2012, growth in Q2 and Q3 declined sharply to 6.4% and 4.8% respectively. Growth in the services sector declined sharply, as did the manufacturing sector. The agriculture sector experienced strong growth in Q1 and Q2 from a low base in the previous year. Adverse weather conditions in Q3 resulted in a contraction in the agriculture sector and Q4 is also expected to have seen weakness in the sector due to floods in key agricultural regions. The contribution of the

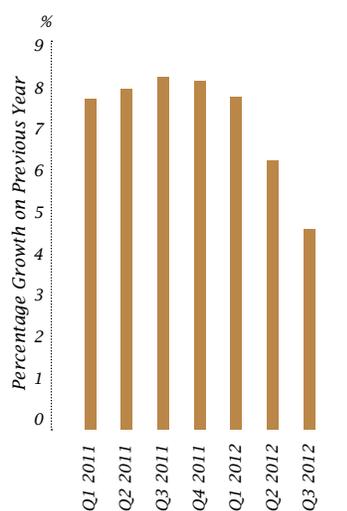
tea sector to GDP saw contractions in Q1 and Q2 of 2012 by 6.7% and 3.5% respectively. In Q3 however there was a recovery as the sector grew by 23% compared to Q3 of 2011. Overall GDP growth in 2012 is expected to have declined to around 6.5%.

The export sector declined by 6.6% for the first 11 months of 2012 compared to 2011 in value terms. Cumulative exports for the first 11 months of the year were US\$ 8.99 billion, compared to US\$ 9.63 billion in 2011. Tea export earnings declined by 6.2% during this period.

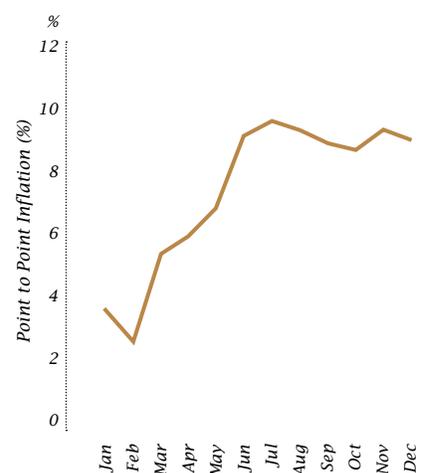
Despite a more favourable currency regime for the export sector, the global economy continued to face weakness in 2012, curtailing demand for Sri Lankan exports and also causing a decline in commodity prices compared to 2011.

The Rupee movement stabilised towards the end of 2012 to close at 127.70 depreciating 11.0% for the year. Cumulative trade gap for the first 9 months of 2012 contracted for the first time since December 2009, recording 2.1% decline in the deficit for the first 11 months of 2012 compared to the previous year cumulative trade deficit.

Quarterly GDP Growth

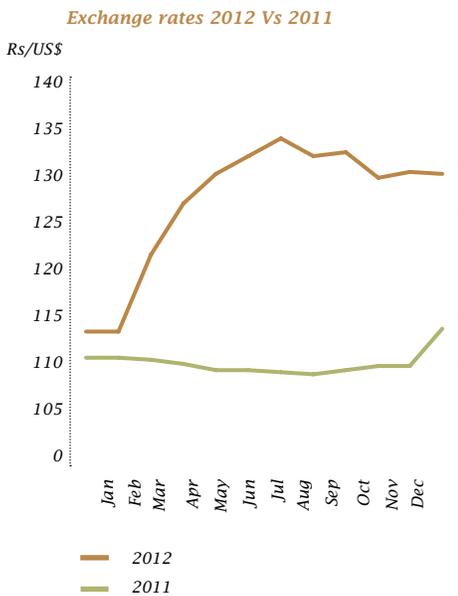


Inflation 2012



## Management Discussion & Analysis Contd..

Market liquidity was tight during the year, resulting in an increase in Government security rates and also commercial lending rates. Benchmark yield on one year Treasury bills increased by 2.65% from 9.31% in January to 11.69% in December after touching a high of 13.36% in September. Average Weighted Prime Lending Rate (AWPLR) also increased by 3.40% to close the year at 14.4% the highest recorded for the year.



Inflation continued to remain at single digit levels for the 47th consecutive month in December 2012 at 9.2% on a year on year basis and 7.6% on an annual average basis. Inflation was recorded at 6.5% in January and remained low for the first few months of the year till the trend reversed

in May as higher energy prices and a depreciated rupee, coupled with adverse weather conditions, resulted in a higher price level.

### GLOBAL ECONOMY

The global economy continued to experience weakness in 2012, as a sluggish recovery from the global recession was disrupted by intermittent crises on various fronts during the year. Sovereign debt problems coupled with political inertia resulted in GDP contraction of 0.4% in the Euro area. The United States grew by 2.3% off a low base and growth and investment was hampered by political failure, particularly in dealing with the debt ceiling. Emerging economies in general experienced a moderation in growth compared to highs in 2010 and 2011. China grew at 7.8% in 2012 whilst India grew at a very weak 4.5%. Russia grew by 3.6% in 2012, lower than the 4.3% growth in 2011, as a result of softer commodity prices in 2012. The Middle East recovered in 2012 (GDP growth of 5.2%) from the growth disruptions faced in 2011 (3.5%) due to the political upheavals experienced in that year.

### Exchange Rate

Global currencies have remained volatile through 2012 due to weak global economic conditions. The Euro and Great Britain Pound showed a volatile performance

with the Euro depreciating against the USD by 2.0% and Pound appreciating against the USD by 5.0 % to close at 1.2934 and 1.6255 respectively. The Yen appreciated during most part of the year, however depreciated sharply against the USD during the last month of 2012, as a new government announced significant monetary and fiscal stimulus, resulting in an annual depreciation of the Yen by 11.0% to close at 86.75. The Indian Rupee (INR) and Kenyan Shilling (KSH), both countries being main tea exporters, saw their currencies depreciating against the USD during 2012.

Exchange rate		
LKR /USD	2011	2012
Jan	110.97	113.95
Feb	111.11	113.95
Mar	110.78	121.73
Apr	110.46	128.01
May	109.87	130.08
Jun	109.75	131.85
Jul	109.55	133.70
Aug	109.50	131.78
Sep	109.92	132.35
Oct	110.23	129.58
Nov	110.25	130.21
Dec	113.93	130.06

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

INR reported 3% depreciation and closed at 54.99 after opening 2012 at 53.30, after depreciating to as much as 57.15 in June, a 7.2%

devaluation since January. KSH reported a marginal depreciation of 1.0% to 86.1 against the USD in December. Russia a main tea

importer appreciated by 5.0% for 2012 after opening at 32.14 and closing at 30.52.

## TEA INDUSTRY

The year overcame challenging growing conditions due to extreme weather conditions that affected tea production. The continuation of the fertiliser subsidy also contributed to the years achievement. National tea production was 326.2 Mn kgs a decline of 1.3 Mn kgs from 2011.

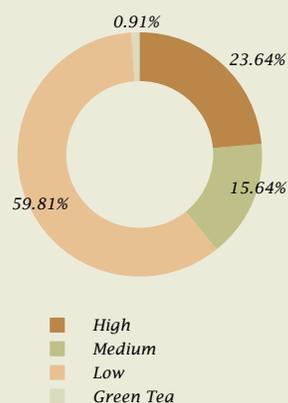
Global tea production was also lower compared to last year with Kenya and India recording crop shortfall in the year, resulting a global crop shortfall of approx 50-60 million kgs in mid 2012 now narrowed down to 22.5 Mn kgs.

A strong market for tea prevailed at the Colombo auctions, this year compared to last year, with high grows recording a high of Rs.375.53 per kg and low grows Rs.407.14 per kg at year end. A global shortfall in tea production and the devaluation of the SL rupee viz a viz the US had also a favorable impact on tea prices in Colombo. During the year the average price per kg @ US \$ 3.03 in Colombo was lower to that of Kenya @ US \$ 3.19

Total Exports for the period January - December recorded a decrease of 2.7 Mn kg to the corresponding year 2011. However, the revenue of Rs.180.4 Bn surpassed the previous best of Rs.164.8 Bn realised in 2011.

A notable feature was a decline in exports in the tea bag segment. The major buyers of our teas was CIS, Iran and Syria. The impact of sanctions on Iran and the unsettled conditions in Middle east can pose challenges to the industry in to the next year.

Tea Production 2011



## NATIONAL TEA PRODUCTION

Year	Tea Production (Mn Kg)	GSA High Grown (Rs./Kg)	GSA Low Grown (Rs./Kg)
1991	240.8	57.41	61.75
1992	178.8	66.45	61.9
1993	232	68.34	71.48
1994	242.2	66.3	67.38
1995	246	70.04	77.27
1996	258.4	93.38	114.35
1997	276.8	109.43	129.47
1998	280	127.6	141.88
1999	283.7	106.17	125.74
2000	305.8	128.46	144.79
2001	295.09	135.56	154.5
2002	310.03	141.73	160.55
2003	303.2	138.31	160.86
2004	308.09	171.78	189.86
2005	317.19	172.24	199.01
2006	310.8	204.58	204.5
2007	304.6	252.46	298.66
2008	318.47	273.83	336.38
2009	289.7	319.73	387.7
2010	331.43	338.33	392.48
2011	327.5	329.95	381.27
2012	326.2	375.53	407.14

## Management Discussion & Analysis Contd..

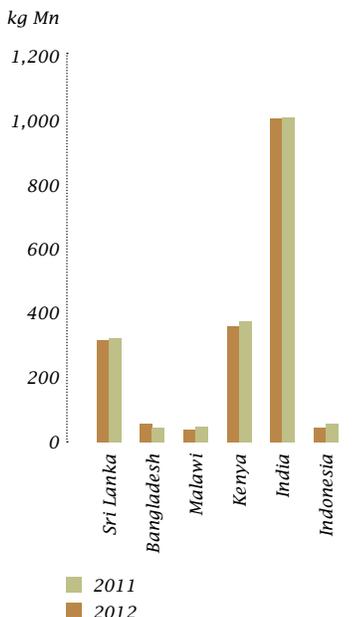
### WORLD BLACK TEA PRODUCTION

Global tea production recorded a shortfall to the corresponding year 2011. All major black tea producing countries Kenya, India and Sri Lanka recorded declines compared to last year. Bangladesh recorded an increase of 3 Mn kg whilst other smaller producers showed a decline.

#### World Tea Production

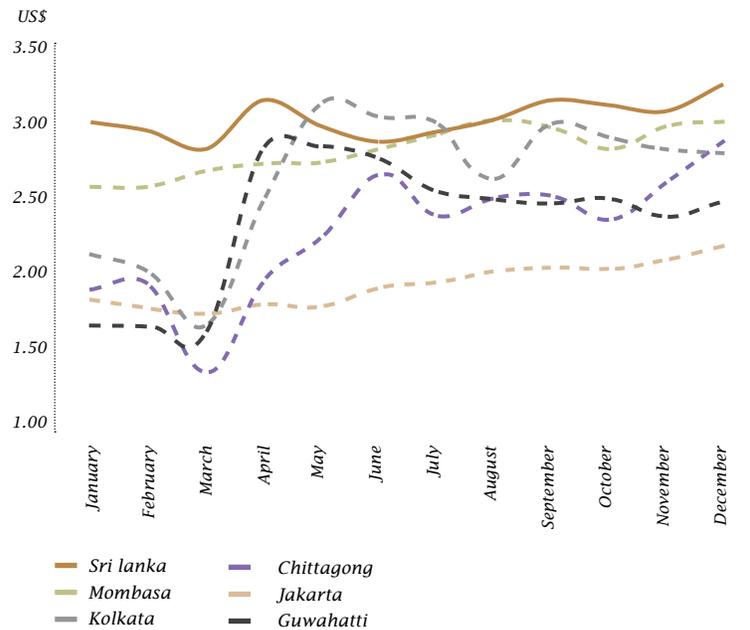
Country	From Jan to	2012 (Kg Mn)	2011 (Kg Mn)
Sri Lanka	Dec	326.2	327.5
Bangladesh	Dec	62.15	59.13
Malawi	Dec	42.5	47.1
Kenya	Dec	369.5	377.9
India	Nov	1016.3	1019.3
Indonesia	Nov	48.8	56.3

World Tea Production



### WORLD AUCTION CENTER PRICES 2012

Auction prices 2012



All global auction centers recorded an upward trend in prices following a shortfall in supplies. Colombo and Mombasa, the largest auction centers, saw tea prices moving up from mid-year with third and fourth quarter showing a strong market. As at December, the Colombo Tea Auction's price occupied the No.1 slot at US\$ 3.31 per kg. Mombasa was second @ US\$ 3.07 Chittagong US \$ 2.94 and Kolkata @ US \$2.86.

### NATIONAL TEA PRODUCTION

The year had a marginal decline in production 1.3 Mn kgs arising from adverse weather conditions to record a production of 326.2 Mn kg. The low grown elevation reached a

milestone by crossing 200 Mn kgs in the year. The high grown were affected with bad weather to record a production of 71.9 Mn kgs, the lowest since 2007.

### Tea Prices-Colombo Auctions

The market outlook at the beginning of the year was not very promising, with tea prices continuing to be at their low levels as in the previous year, in the backdrop of unsettled conditions in two key markets for our teas; Syria and the Iran and currency volatility in the Euro region in particular. These developments had an impact on the industry and

prices consequently dropped at the Colombo auction to US\$ 2.99 in the first quarter, which was US\$ 3.26 for the corresponding year 2011. The Western quality season whilst was an improvement, however did not translate to better prices except a few seasonal quality teas and overall prices were lower to their corresponding levels in the previous year. The devaluation of the rupee in early February had a direct impact on prices at the auctions, in particular on the low grown market, with these teas improving to around Rs. 424.01 per kg from Rs. 366.44 per kg in early February. Overall, the market was lower in the quarter with High grown prices at the end of the first quarter (Jan-March) being US \$ 2.84 vs 3.42 and low grown at US \$3.15 vs 3.69 in comparison to 2011 at the Colombo auctions.

Second quarter tea prices increased compared to the previous quarter and prices in the high grown was reasonable, considering higher volumes and quality levels prevalent and was higher to their price levels in 2011. Low grown prices peaked in April @ Rs.447.5 per kg and ended the second quarter at high levels more than the previous quarter and the previous year. The decline in national tea production for two consecutive quarters and the emergence of

global crop shortfall was now being reflected in auction prices around the world.

With a global shortfall of around 50-60 Mn kg by mid 2012, tea prices around the world auction centers were rising in the third quarter, mainly attributed to unprecedented increase in prices of other origin black tea due to prolonged drought,

which impacted tea production of Kenya and India. Colombo auctions also reflected an upward trend with US \$ prices being higher to the previous quarters and their corresponding levels in 2011. The high gowns teas and Westerns received attractive prices in the quarter. Low gowns prices were reasonable but were impacted by less activity from our traditional markets particularly from our Middle Eastern buyers.

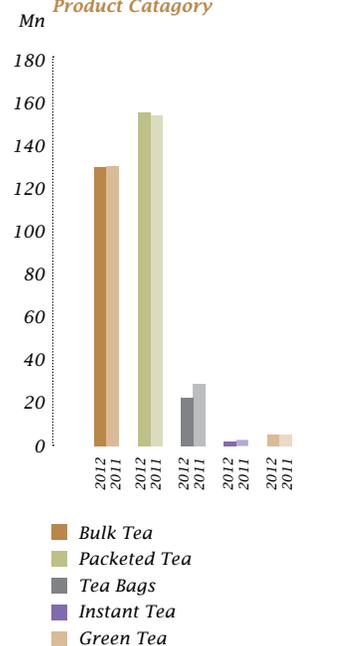
The strong market conditions continued at a higher prices in to the fourth quarter with high grown tea prices now surpassing low grown since 2006 in a quarter. Low gowns however, started to decline drastically from October to November. It is noteworthy to

note that high grown prices in US\$ was significantly higher than their levels in 2011 in the quarter.

The average price at year-end was Rs.391.64 per kg, compared to corresponding level of Rs.359.89 per kg in 2011 at the Colombo auctions.

## SRI LANKA TEA EXPORTS

*Sri Lanka Tea Exports by Product Category*



### Sri Lanka Tea Exports by Product Category

Mn Kg	Bulk Tea	Packeted Tea	Tea Bags	Instant Tea	Green Tea	Total
2012	131.8	157.4	24.0	1.5	5.1	319.8
2011	132.0	155.6	27.8	1.9	5.2	322.5

## Management Discussion & Analysis Contd..

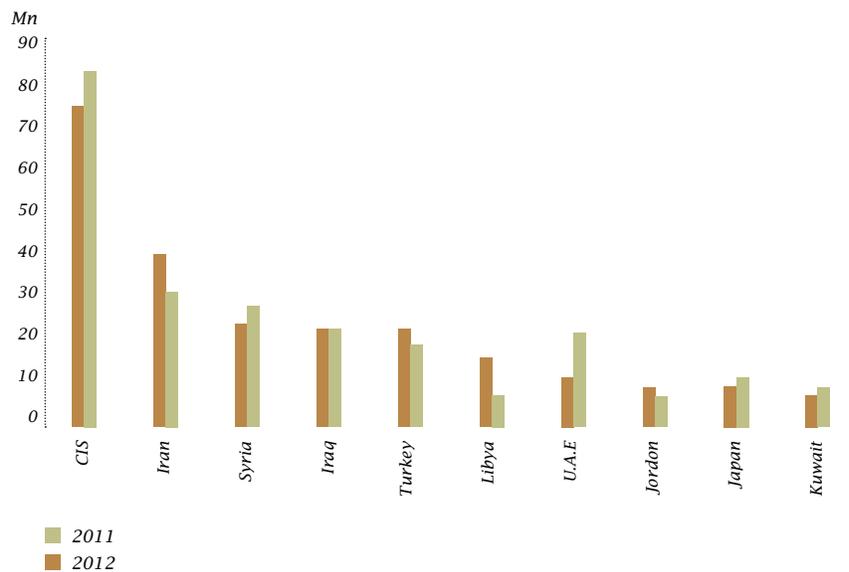
Total tea exports for the year was 319.8 Mn kg ,to show a decrease of 2.7 Mn kg to the corresponding year 2011. Iran, Iraq, Turkey, Libya have increased their volumes whilst other have reduced. The top 3 markets were Russia, Iran and Syria. The average FOB price per kg was Rs.563.94 per kg compared to Rs.511.08 per kg an increase of Rs. 2.86 per kg (10.3%). Tea in bags reflected a significant decline compared to the previous year.

### Sri Lankas Export Volumes

	2011 (Kg. mn)	2012 (Kg.mn)
CIS	84.39	75.98
UAE	22.53	11.89
IRAN	32.10	41.04
SYRIA	28.86	24.74
TURKEY	19.31	23.16
JORDAN	7.32	9.43
IRAQ	23.32	23.49
JAPAN	11.83	9.75
KUWAIT	9.26	7.40
LIBYA	7.42	16.51

The CIS continues to be the largest customer of Sri Lanka tea followed by Iran/Syria. Exports to Libya have increased whilst Iraq is at same levels of last year. However, the CIS and UAE two large markets for our teas have declined by 10.7% and 50.7% respectively.

Sri Lanka's Tea Export Markets



### PERFORMANCE REVIEW

#### AGRICULTURAL AND FIELD OPERATIONS

*Less erratic weather to the previous year was experienced in the year: although the second and the fourth quarter did not have the ideal weather for high crops during this period. The challenge was to maximise crop intakes whilst maintaining the quality of leaf harvested. Timing and intensity of our agricultural operations were programmed to maximise production/productivity amidst climate change.*

#### Crop Pattern

In the year under review the high grown maintained a satisfactory level of crops; maintaining last year's level, whilst the low grown reflected an upward trend after 2008 in crop and yield. The challenge in the high grown was in the first half with dry conditions adversely affecting crop levels in the first quarter especially the Nanu Oya agro climatic region. Operations were managed during this period to optimise labour deployment and to keep costs at economical levels. Thereafter, in the third quarter, crop pattern saw a major change from the traditionally low cropping pattern seen at this time of the year, mainly due to the monsoon conditions not prevalent this year. This change brought about a crop level

well above last year and previous years as well. The fourth quarter saw an increase in crop levels from the third quarter to levels similar to last year. Maximum deployment of labour in harvesting was the priority in the third and fourth quarters whilst ensuring essential field maintenance work was undertaken.

Crop patterns were less volatile than the previous year due to a less erratic weather pattern this year than last year especially in the high grows. The month of May recorded the highest crop for the month followed by November, and production was the lowest in July and January respectively. The low grows monthly variations were not that significant, with all quarters recording a similar pattern. The improvement in low grown crops was mainly due to a good September and November.

#### **Agricultural & field management**

The focus of the harvesting operation was to maintain high plucking standards on all estates that brought in the ideal leaf standard to produce a tea, which, Talawakelle is renowned for. The timing of agricultural operations such as harvesting, fertilizing and pruning was undertaken to optimise crop/quality in varying operating conditions in the different agro climatic regions we

operate. Manpower planning was detailed out with some flexibility to handle the high cropping months and timing of other agricultural operations with mechanisation of pruning practiced to some extent.

#### **Nursery & field development**

Under the field development programme, 16.85 Ha of tea and 26.86 Ha of rubber in the low grown was planted, and 96.67 Ha, of tea and 70.48 Ha in Rubber hectares was maintained as capital clearings, with 52 Ha of tea expected to be brought in to revenue in 2013. Tea nurseries were maintained on all estates, with TRI recommended cultivar that are resistant to drought, pests and quality tea makers, to provide planting material to meet the on-going field development programme.

#### **Sustainable agriculture**

The Rainforest alliance programme complimented our Sustainable agricultural practices that were the cornerstone of our agricultural operations. Building soil carbon and soil conservation were given priority, whereas pest and disease are mostly biologically controlled. Soil management measures include, planting of vettiver on bank edges, upper banks of drains, de-silting of drains, terracing, thatching, mulching and planting of grass on vacant patches. Soil samples are checked for carbon, pH and nutrient

levels and nutrition deficiency identified and corrected with replacement with special fertilizer mixtures. Site-specific fertilizer application is also done on some of our estates.

#### **Climate Change**

The impact of climate change on our tea plantations is closely monitored, as it is now a recurring concern due to its significant bearing on tea cropping patterns and the quality season. The overall observation during the year was that the weather was less erratic than last year and conditions were more favourable in the low grows for crop growth than previous years. In the high grows, the absence of the normal monsoon conditions had a very favourable impact on crop growth this year.

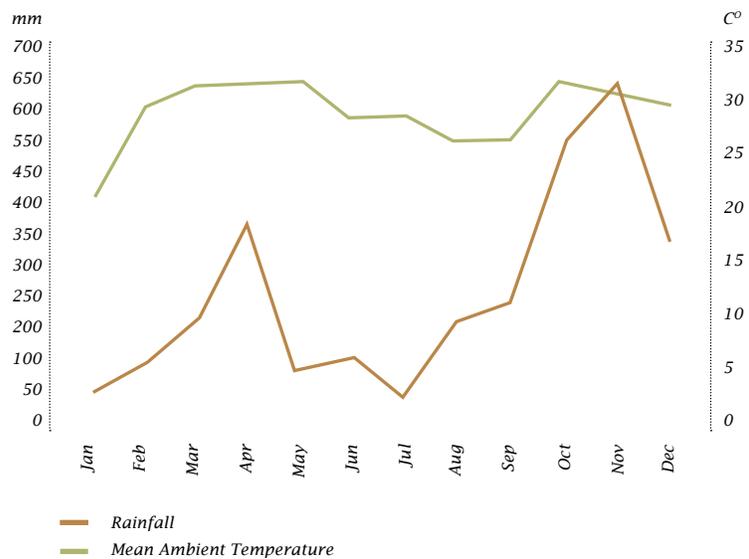
Two elements that are monitored are rainfall and temperature. Since May 2011, mean ambient thermometric temperature meters were installed to monitor the mean temperature to evaluate climate change and inconsistent changes in the seasonal weather patterns in the different agro climatic regions our estates are situated; namely Deniyaya and Galle in the low grows; Lindula, Talawakelle and Nanu Oya in the high grows. Twelve of our estates are located in the high grows and five are in the low grows.

## Management Discussion & Analysis Contd..

### Deniyaya Region

This region contributes more than 75% of the Company's low grown tea crop, with the largest low grown tea estate of the Company - Kiruwanaganga situated in the region. The temperature and rainfall in the first quarter for the Deniyaya region was conducive for growth. Thereafter, the month of September and November was also favourable. However 1/3 of the annual rainfall was received in November and December.

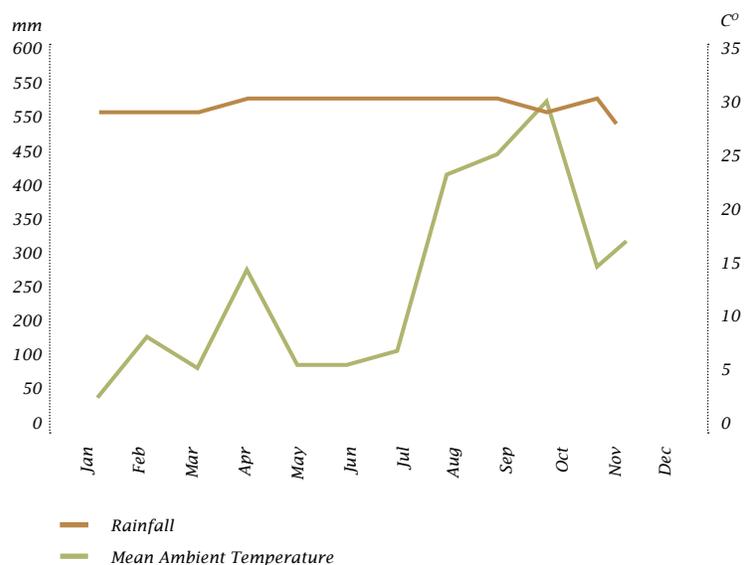
Deniyaya Region Kiruwanaganga Estate  
Mean Ambient Thermometric Temperature  
& Rain Fall - 2012



### Galle Region

This year too, the cropping pattern of Galle was favourable. Temperature fluctuation was very marginal. The ambient temperature in comparison to Deniyaya is much higher and rainfall was more evenly distributed, with crop growth, much better than the Deniyaya region.

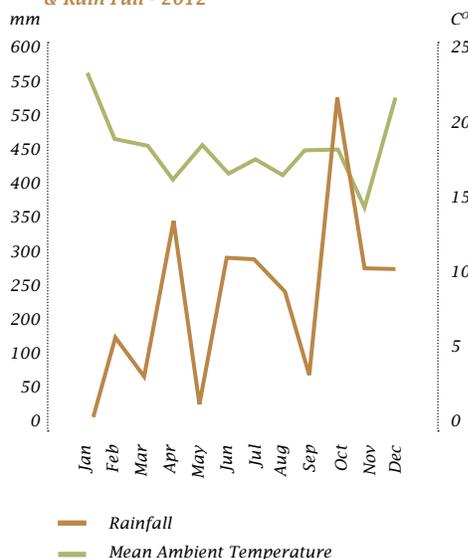
Galle region Moragala Estate  
Mean Ambient Thermometric temperature  
Rain Fall 2012



*Talawakelle Region*

In the first quarter, normal weather prevailed but the second quarter experienced inconsistent rain, and in the third quarter the normal monsoon conditions did not prevail and the fourth quarter was less conducive than otherwise. Overall, the weather was favourable for crop than in the previous year.

*Talawakelle Region Wattegoda Estate  
Mean Ambient Thermometric Temperature  
& Rain Fall - 2012*



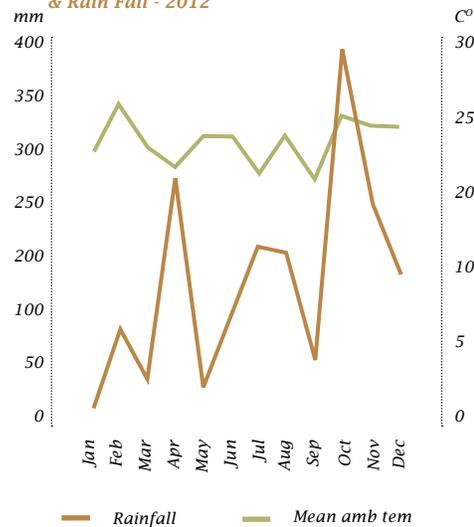
*Nanu Oya Region*

Crop was poor in the first quarter, not a favourable second quarter either with a decent third quarter, and not an exceptional fourth quarter. The weather was dry and cold in the first quarter, inadequate rainfall was seen in the second quarter, and monsoon conditions did not set in the third as usual. The fourth quarter was less favourable than normal during this period.

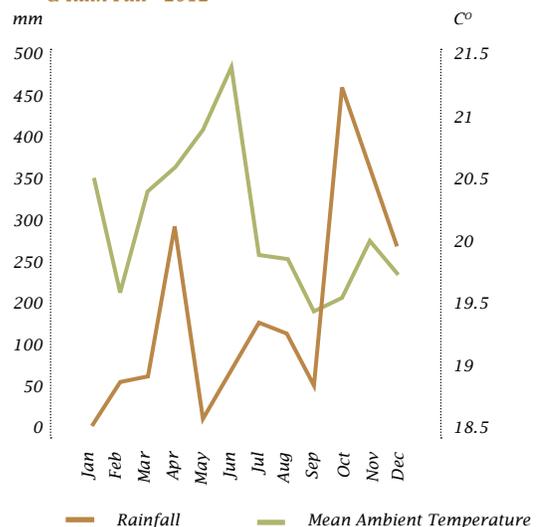
*Lindula Region*

Crops were down in the first quarter, improved on the second quarter and excellent third quarter with an average fourth quarter. Fairly conducive weather prevailed for the crop with the normal monsoon conditions not prevalent in the third quarter.

*Lindula Region Mattakelle Estate  
Mean Ambient Thermometric Temperature  
& Rain Fall - 2012*



*Nanu Oya Region Calsay Estate  
Mean Ambient Thermometric Temperature  
& Rain Fall - 2012*



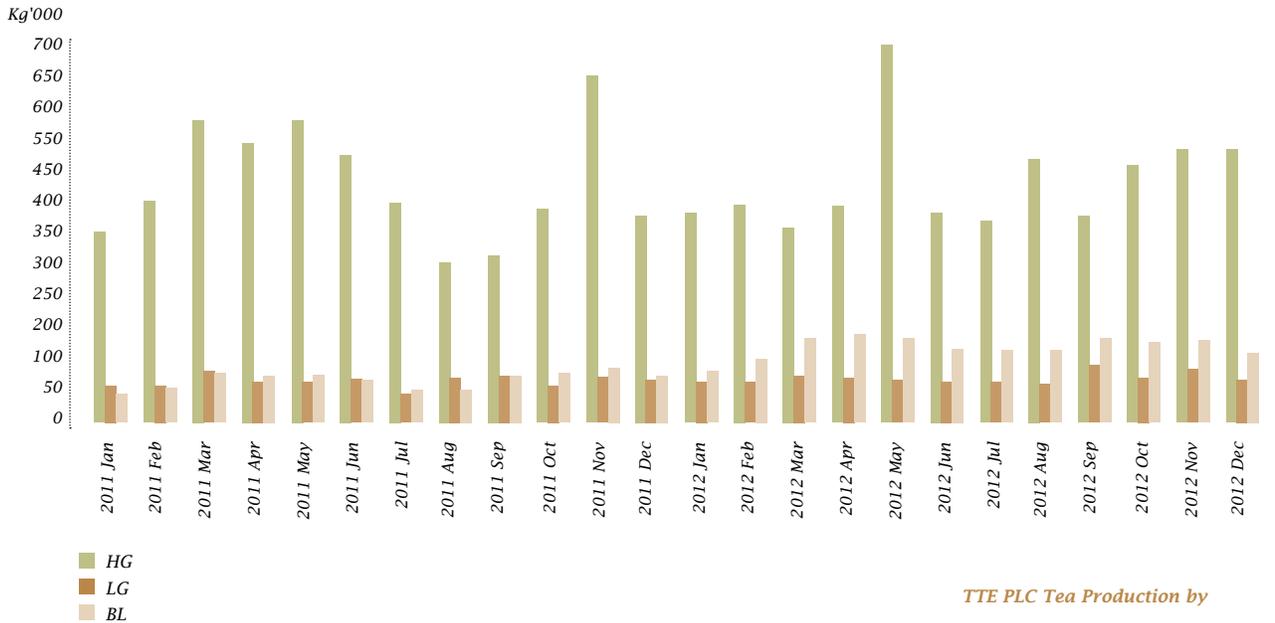
## Management Discussion & Analysis Contd..

### TEA PRODUCTION

*Cropping patterns have now changed*

***Challenging growing conditions was managed with planning and good agriculture practices and a break-through in the supply chain in bought leaf optimised crop intakes in the year.***

TTE PLC Tea Production January 2011 to December 2012



TTE PLC Tea Production by



**Tea production 2012-  
7.65 Mn kg,**  
*an increase from*  
**6.89 Mn kgs.**

Cropping patterns in the high grown were less erratic than the previous year.

First half production was affected due to dry conditions in the high grown.

Whilst high grown estate leaf crop maintained last year's satisfactory crop levels, an increase of 51% in bought leaf production contributed to the increase in tea production in the year.

The share of bought leaf in total production has increased from 13.5% to 21.1% in 2012.

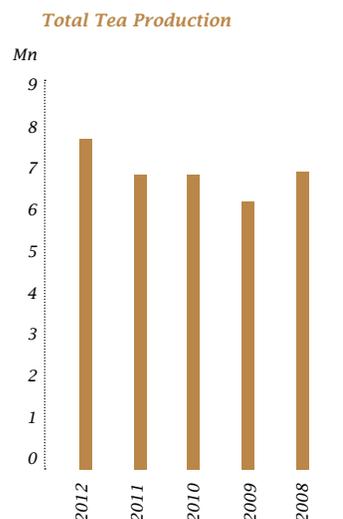
The first quarter was not conducive for estate crop in the High Grown and a short fall of 160,070 kg was recorded over the previous year. The Low Grown in the first quarter recorded an increase of 8,977 kgs over the previous year. The second quarter too recorded a decline of 85,573 Kg in the High Grown compared to the previous year, and Low Grown a marginal increase of 3,368 Kg compared to previous year in estate crops.

The third quarter in the High Grown was a good quarter as the weather was conducive for growth with an increase of 214,381 kg over the previous year. Low Grown also achieved a higher crop of 26,939 kg more than last year.

The fourth quarter in High Grown recorded an increase of 38,961 kg and Low Grown 27,008 Kg over the previous year.

**TEA PRODUCTION**

**Estate leaf production - 6.03 million kgs**  
**TTE PLC tea production**



**HIGH GROWN**

High grown tea production contributed 5.06 Mn kg (84%) and the low grown 0.970 Mn kg (16%) towards the total crop in the year. The extent under tea in high grown is 3,099.1 Ha and low grown 706.70 Ha.

The total high grown crop maintained at last year levels (7,699kgs more). In the high grown, the contribution from the Talawakelle region was 3.289 Mn kgs and Nanouya region was 1.773 Mn kgs. Dry conditions in the Nanu-oya region in the first quarter

## Management Discussion & Analysis Contd..

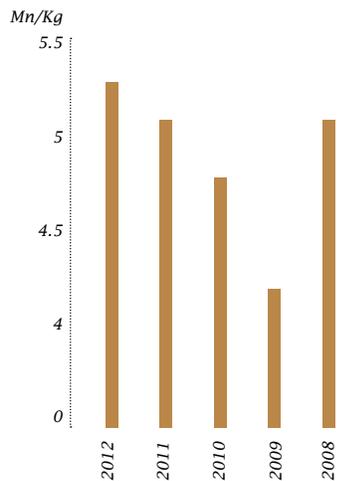
had an adverse impact on crop production resulting in the crop being 48,385 kgs below last year. The Talawakelle region recorded a moderately higher level of crop to last year, an increase of 56,081kgs on last year. The YPH of high grows during the year was 1633 kgs compared to 1649kgs in 2011.

The cropping pattern in the year was less erratic than last year and the crop intakes in the second quarter was the highest followed by the fourth quarter with month of May recording a high of 662,708 kgs. A significant difference in crop intake pattern was noted in the third quarter with intake being well above last year and previous year. This change was attributed to the non- prevalence of the traditional monsoon conditions in the period.

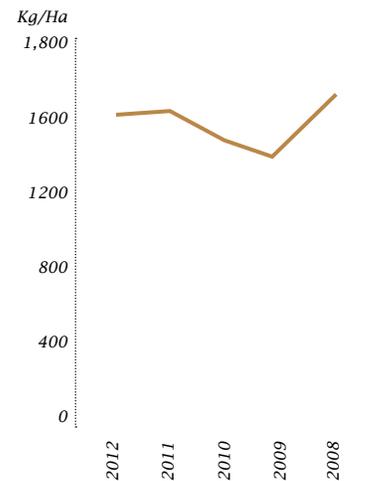
### LOW GROWN

Low grown tea estate leaf production increased over last year by (66,292 kgs). Deniyaya region production was 816,104 kgs (84%) and the balance was from Galle. More favourable weather in the year compared to the previous year had a favourable impact on tea crops in the Deniyaya region. The YPH in the year was 1373 kg to 1273 kg in 2011. Unlike the high grows, there is no seasonal variation in cropping patterns, except that crop intakes in the third and fourth quarter was higher than 2011.

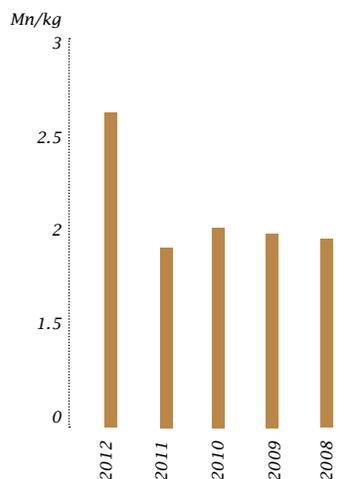
High Grown Production



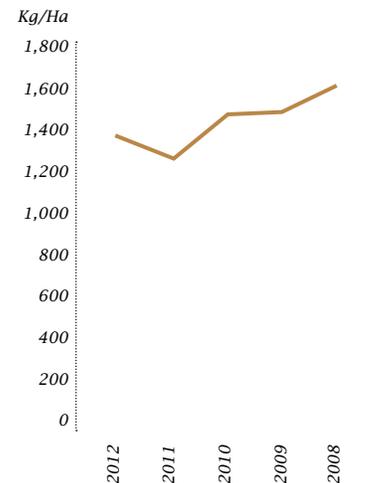
High Grown-Yield



Low Grown Production



Low Grown-Yield



Satisfactory weather, good agricultural practices and new fields coming in to bearing from the field development programme

undertaken, contributed to the overall estate leaf production in the year.

**BOUGHT LEAF****Production 1.62 Mn kg**

During the year, Clarendon factory in the high grown was commissioned and produced 207,730 kg. This was a satisfactory performance considering being the first year of operations.

A major breakthrough in the supply chain was achieved in the low country with crop intakes increasing by 477,988 kg (51%). Intakes in Deniyaya region increased by 316,148 kg and 161,840 kg in Galle. Overall competition for bought leaf is intense and Moragalla estate in the Galle region recorded the highest increase over the previous year by 78%. Kiruwanaganga and Deniyaya estate also recorded higher intakes than last year. The total production from low grown for the year increased to 1.41 Mn kgs from 0.936 Mn kgs in the previous year.

An improvement in price rankings and a proactive engagement with the producers and suppliers enabled to secure the higher intakes despite stiff competition. Excess factory capacity relative to the availability of green leaf in the low grown encourages unhealthy competition which does not augurs well for the industry; higher incentive pay-outs thus, reducing margins and encouraging the production of poor quality leaf.

**QUARTERLY TEA PRODUCTION 2012 VS. 2011**

Kg'000	1st Qtr		2nd Qtr		3rd Qtr		4th Qtr		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Estate Leaf EsProduction	1,329	1480	1,642	1724	1,423	1182	1,639	1573	6,033	5959
Bought Leaf	360	205	441	235	408	220	413	276	1,622	936
Total	1,689	1685	2,083	1959	1,831	1402	2,052	1849	7,655	6895

The agro climatic region contribution to tea production for the year is detailed below.

**TEA PRICES AND MARKET**

*A differentiation strategy offered quality teas to our buyers that gave premium prices. The Company was ranked No 1 in Western High Grown and in Low Grown elevations amongst Regional Plantation Companies.*

**Tea Market review**

The Colombo auctions saw an upward movement in tea prices from mid-year, from relatively low levels in the first half. The high grown teas had a strong market since the third quarter ending with a good fourth quarter. Low grown prices were however at moderate levels during the year and was trailing behind high grown in the fourth quarter. Low grown was affected in the third quarter with less activity in our traditional markets in the MiddleEast. The depreciation of the rupee in February 2012 vs. the US \$ and the global shortfall of teas had a favourable impact at the Colombo auction prices. The national average price at year-end was Rs.391.64 per kg compared to Rs.359.89 per kg in the previous year. However the US \$ price @ 3.07 per kg was lower to US \$ 3.26 per kg in 2011.

**A differentiation strategy and a marketing mix that offered teas, that meets customer demands enabled the Company to maintain prices at Rs.41.75 per kg above the high grown national average and Rs.9.62 per kg above the national low grown average. A focus on quality and product differentiation enabled the Company to obtain prices to be No.1 RPC ranking at the Auctions for low grown and no 2 in the high grown nevertheless no 1 in the western high grown.**

## Management Discussion & Analysis Contd..

TTEL was ranked No. 1 in the Western High Grown elevation for the ninth successive year amongst RPC at the Colombo Auction in 2012.

TTE PLC in the High Grown category, ranked number 1 for the last 9 consecutive years amongst Regional Plantation Companies (From 2003-2011) and ranked NO 2 in 2012.

TTE PLC ranked number 1 for the last 8 consecutive years amongst Regional Plantation Companies (From 2005-2012) in the Low Grown category.

### ACHIEVEMENTS FOR 2012

6 Estate Marks were within the first ten rankings in the Western High Grown: Mattakelle, Dessford, Bearwell, Somerset, Wattegodde, Great Western.

Eight High Grown marks and three of the Low Grown marks above respective - National Averages.

Mattakelle - Highest GSA amongst all High Grown garden marks for 2012.

Improved rankings  
Dessford from 26 to rank 05  
Bearwell from 16 to rank 06  
Wattegodda from 10 to rank 09  
Moragalla from 173 to rank 139.

Mattakelle - Highest GSA amongst all High Grown garden marks for the 4th consecutive year.

Rank No.1 in Low Grown among RPC in 2012.

TTE PLC Rank No.1 in Western High Grown category.

Kiruwanaganga Rank No.1 in low grown category amongst RPC.

**GROSS SALES AVERAGE****Q1**

High and Low Grown were below 2011.

**Q2**

High Grown declined from Q1 and Low Grown moved up considerably.

**Q3**

Strong market for High Grown and was above 2011.

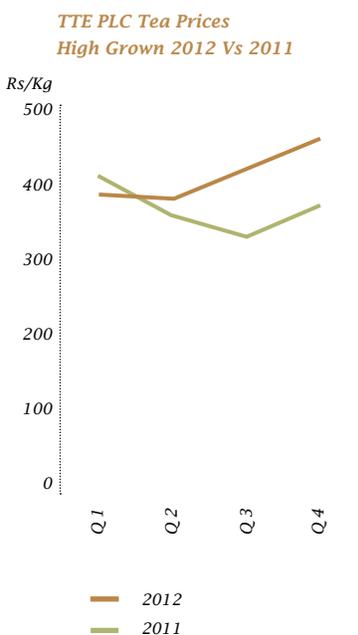
**Q4**

High Grown further increases and was higher to 2011 & Low Grown was higher to 2011 after declining from the previous two quarters.

**National Tea price per Kg increased to Rs.391.64 exceeding the previous high of Rs.359.89 in 2010.**

**TTE PLC TEA PRICES 2012 VS 2011**

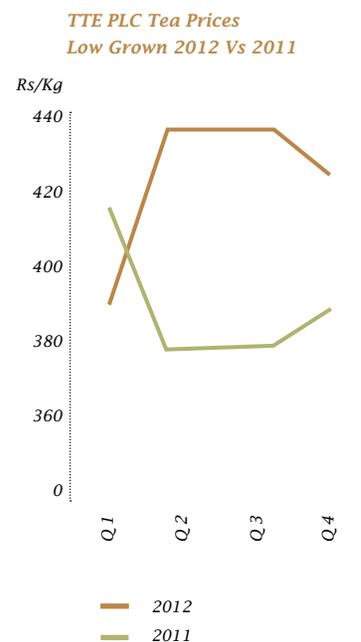
High grown prices were low in the first quarter at RS 390.06 per kg and marginally declined in the second to Rs.387.42 per kg with a strong trend in the third and fourth quarter to Rs.454.99 per kg. The year's average was RS.413.38 per kg.



The low grown prices were low Rs 389.33 per kg in the first quarter increasing to Rs.449.38 per kg in April, but declined from this level except to record a high in December of Rs.429.37 per kg and achieving an average price of Rs.420.49 per kg for the year.

**Mattakelle retained the distinction of being the mark with the highest average price in the Western catalogue for the fourth consecutive year.**

Noteworthy performances were also noted in improved rankings from previous year in (brackets) Bearwell 06(16) Dessford 05(26) Wattedoda 9(10), excluding leafy and green teas in the catalogue and Radella was ranked No.2 in green teas. Kiruwanaganga in the low grown was ranked No 1 amongst the RPC estates and Moragalla performed better than last year by improving its ranking from the previous year.



## Management Discussion & Analysis Contd..

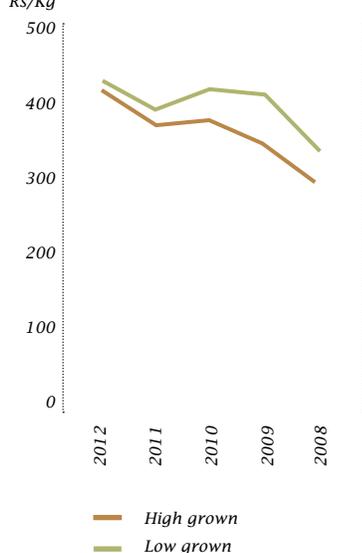
Six estates, compared to four last year, of our estates marks were within the first ten rankings in the Western high grown and nine of our high grown marks and three of our low grown marks were above their respective national averages.

We also received many awards from the respective catalogue of Forbes and Walker and John Keells Tea brokers at their awards nights held in 2012.

The Company's gross sale average for the year was Rs.415.55 per kg an increase of Rs.38.81 per kg on last year's GSA. The increase in high grows was Rs.41.72 per kg and low grows was Rs.29.60 per kg.

### TTTE PLC HIGH GROWN AND LOW GROWN GSA 2008 TO 2012

TTTE PLC High Grown and Low Grown GSA 2008 to 2012



### COST OF PRODUCTION-COP

*Cost of Production...a marginal increase of Rs1.58 per kg.*

*With productivity improvements and higher volumes, we were able to keep cost of production to last year levels, despite an increase in fuel and operating overhead costs.*

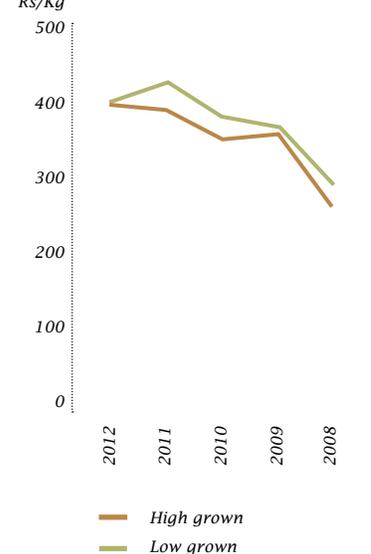
The challenge was to keep cost of production (COP) to last year levels with the full wage impact in 2012.

Low grows recorded a decline in cost of production and high grows maintained last year levels.

### TTE PLC HIGH GROWN AND LOW GROWN ESTATE COP

Managing cost of production with a high wage component was the challenge this year, especially in the first half with a crop deficit due to dry conditions and relatively low prices. Moreover, energy cost increased as a result of higher payment for fuel wood due to restrictions in harvesting, and electricity cost since May. With high grown crop increasing from

TTEPLC High Grown and Low Grown Estate COP



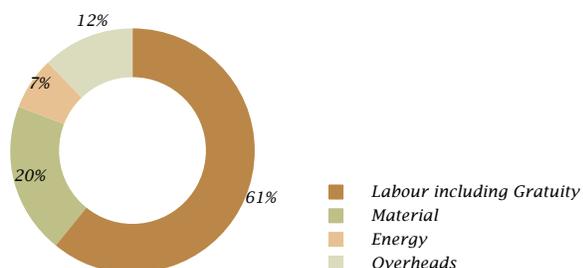
the beginning of third quarter onwards to last year especially in the traditional low cropping third quarter; was beneficial as the higher volumes contributed to keeping a lower COP in this traditionally high COP quarter. Close monitoring of cost and productivity and receiving the fertilizer subsidy, kept the cost of production low. The increase in high grown COP to last year was a marginal Rs.3.59 per kg. Low grown cost of production declined from the previous year by Rs.24.65 per kg as a result of an increase in crop and managing costs. Higher volumes of bought leaf production also reduced overhead cost per kg in the low grown.

The cost of estate leaf production in the year was Rs 389.85 per kg to Rs 390.51 per kg for last year.

Cost of production with bought leaf, was Rs 400.46 per kg, the overall COP for the year was Rs 392.10 compared to Rs 390.52 per kg in 2011.

#### Cost Structure

##### Cost Structure - 2012



#### Estate level Profitability

**Estate operating profit (tea) was the highest on record- Rs. 228.9 Mn. A strong market for high grows, managing costs to last year levels and focus on quality contributed to the excellent results in 2012.**

#### Estate level profits - Tea

Rs. Mn	2008	2009	2010	** 2011	** 2012
Tea					
HG	161.51	34.74	125.39	-126.86	172.92
LG	38.55	70.7	38.31	-34.43	35.16
COM Tea	200.06	105.44	163.7	-161.29	208.08

#### Key contributors to cost of production

Key costs/Rs	2008	2009	2010	2011	2012
Urea MT	92,000	47,000	46,500	26,000	26,000
Wages/day	320.00	447.75	447.75	572.00	572.00
Fuel/litre	80-105	73.00	73.00	84.00	115.00
Firewood	1850	1900	2000	2200	2300
Electricity/kwh	8.10	9.30	9.30	10.45	10.45
KVA	400	675	675	850	850
Total COP/kg	279.35	359.24	357.07	390.52	392.10

Mattakelle, Bearwell, Wattegoda, Palmerston recorded highest ever profits.

Kiruwanaganga, Moragalla and Deniyaya contribution was encouraging.

Dessford, Radella reduced their losses appreciably

Great Western a very consistent contribution.

## Management Discussion & Analysis Contd..

Estate operations turned around from a loss in 2011 of Rs.161.29 Mn to a record profit of Rs.208.08 Mn from tea in 2012. The high grown tea contributed to the significant profit improvement with a profit of Rs.172.92 Mn supported by the low grown tea with a contribution of Rs.35.16 Mn. The third quarter recorded the largest improvement in profitability in comparison to the previous year.

The Talawakelle region was the highest contributor to profits-83% with Nanu-oya performing below budget but, higher than last year mainly due to the lower volumes in the first half.

A significant contribution from bought leaf in the low grown tea and improved performance all round, transformed a loss of Rs.34.43Mn in previous year to a profit of Rs.35.16 Mn in 2012.

Mattakelle recorded the highest profit per hectare with Palmerston and Bearwell in the second and third positions respectively and in the low grown tea, Moragalla reported the highest.

Higher prices relative to the National Averages, managing costs, improved productivity and subsidised fertilizer prices contributed to the overall results this year.

Rubber made a profit of Rs.2.48 Mn lower than the previous year due to a decline in prices. Bought leaf

made a positive contribution to profits with Rs.2.8 Mn to a negative of Rs.14.9 Mn in the previous year.

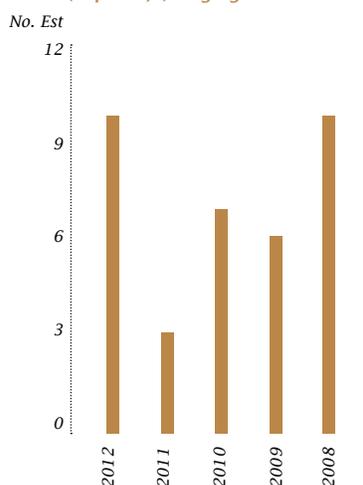
The profit per hectare in the high grown tea was Rs.56,065 and low grown tea's Rs.44,456 in the year.

### ESTATE PROFITABILITY-TEA 2012 VS. 2011

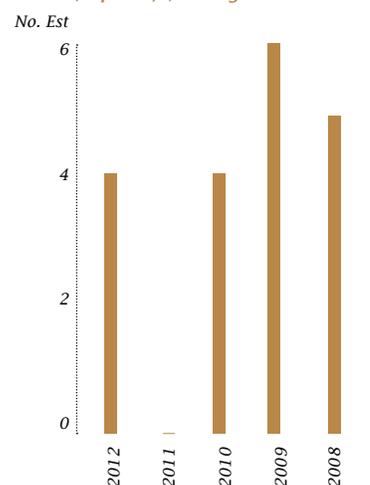
Rs.Mn	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	2012	2011
HG	3.42	16.12	43.55	109.83	172.92	-126.86
LG	5.69	25.62	11.52	-7.67	35.16	-34.43
Com	9.11	41.74	55.07	102.15	208.08	-161.29

### NO OF ESTATES MAKING TEA PROFITS (BEFORE SUNDRY INCOME)

No of estates making Tea profits (before S/I) High grown



No of estates making Tea profits (before S/I) Low grown



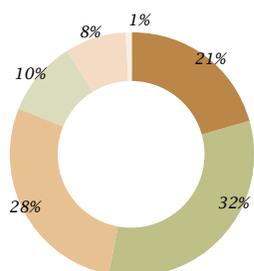
## Human Resources /Industrial Relations

*Estate teams will not only sustain the productivity gains achieved but also further improve it, which will be essential to meet emerging challenges, particularly the impending wage hike early next year.*

was the framework to improving welfare and social infrastructure with an investment of Rs.7.5 Mn made during the year on housing, water and sanitation. Skills and competencies were developed by providing training and development programmes at a cost of Rs.0.87 Mn. In addition, a sum of Rs.106.4 Mn was spent on welfare and related activities such as medical, childcare, housing, sports and recreation.

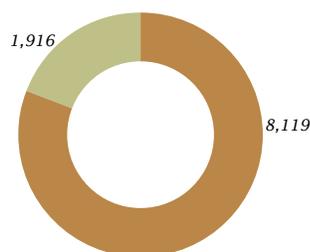
### WORKERS AGE PROFILE

Worker distribution



- Less than 30
- 31-40
- 41-49
- 50-54
- 55-60
- Over 60

No. of workers 2012



- High grown
- Low grown

### AGE CATEGORIES OF EMPLOYEES

Less than 30	2074	21%
31-40	3264	32%
41-49	2818	28%
50-54	992	10%
55-60	818	8%
Over 60	69	1%
	10,035	100%

The challenge in the year 2012 was to deploy the workforce to maximise crop intakes in growing conditions and manage costs in low cropping season, whilst ensuring industrial harmony on the estates. The shortage of workers in some estates, labour inflexibility to move from one location to another and continuous pressure for employment were some of the other challenges faced by the estate managers. Home for every Plantation worker

The implementation of the Rainforest Alliance Programme on all high grown estates and the largest low grown estate had a positive impact on worker motivation and perception of management. The challenge ahead is to maximise the large investment made in this programme over two years (Rs.40 Mn) to change worker perception and attitudes for mutual benefit.

Introducing an incentivised remuneration package and rewarding and recognition of performance will be given priority in the year ahead. We expect these HR initiatives to have a breakthrough in harnessing the full potential of our front line staff and executives from present levels.

## Management Discussion & Analysis Contd..

### FIELD DEVELOPMENT AND FUEL WOOD DIVERSIFICATION

*The total field development expenditure for the year was Rs.73.8 Mn. The replanting rate of the Company has been the highest in the industry and was acknowledged with a Presidential Award.*

Field development, a key priority in the investment plans of the Company to increase the agricultural potential, has received large capital investments in the recent past.

In the year under review 16.85 hectares was planted albeit lower to last year as per the medium term replanting programme. Good agricultural practices were implemented to safeguard the new clearings and ensure potential future yields are secured.

Since 1992, 906.04 hectares were planted with new tea: high grown 615.10 hectares and low grown 290.94 hectares and currently 96.67 hectares in capital clearings are maintained. The total extent brought in to revenue in the year 2012 was 58.10 hectares and from the year 2000 to date is 720.9 hectares. The VP cover has increased from 51% in 2000 to 65% in 2012. Currently the Company has a good cover of tea and the challenge today is to harvest the full potential from the large extent now planted.

Fuel wood planting is an integral component of our sustainable agricultural policy as it reduces the dependence on fossil fuels and is environmentally friendly. Under the programme, a concerted effort is underway to ensure adequate fuel wood is available for each estate to be self sufficient in energy. During the year, we planted 6.50 hectares of fuel wood and have planted since 2000, an extent of 367.13 hectares.

*VP cover has increased from*

**51%** in 2000 to  
**65%** in 2012.

#### Field Development Replanting

Extent (Hect)	Planted				
	2012	2011	2010	2009	2008
Tea	16.83	27.21	52.49	50.45	96.00
Rubber	16.70	16.46	3.39	11.35	1.37
Fuel wood	6.50	18.56	23.70	88.17	86.89



Great Western Estate - Talawakelle

*Factory Development**Factory Development and Upkeep**- Rs. 79.8 Mn*

With substantial investments made to increase capacity in Bearwell, Clarendon and the green leaf factory in Raddela in 2011; investment in factory development in the high grown this year was modest. However, in the low grown with an increase in bought leaf operations, investment were made to equip the Kiruwanaganga and Deniyaya factory with new colour sorting equipment to improve factory throughput and quality.

During the year, Bearwell Factory Development was completed with the installation of 2 troughs 2 conveyors and 01 water purification plant. In addition, equipment for sorting was installed at Deniyaya and Handford and the Logie drier was upgraded to improve product quality.

Currently, all 17 factories are well maintained with attention to safety and quality standards and certified under the ISO 22000- FMS, and

Raddela green tea UTZ certified. The total factory capacity is 10.5 Mn Kg per annum.

Preventive maintenance and upkeep was undertaken at a cost of Rs.37.9 Mn in the year to ensure uninterrupted production and maintain factory standards.

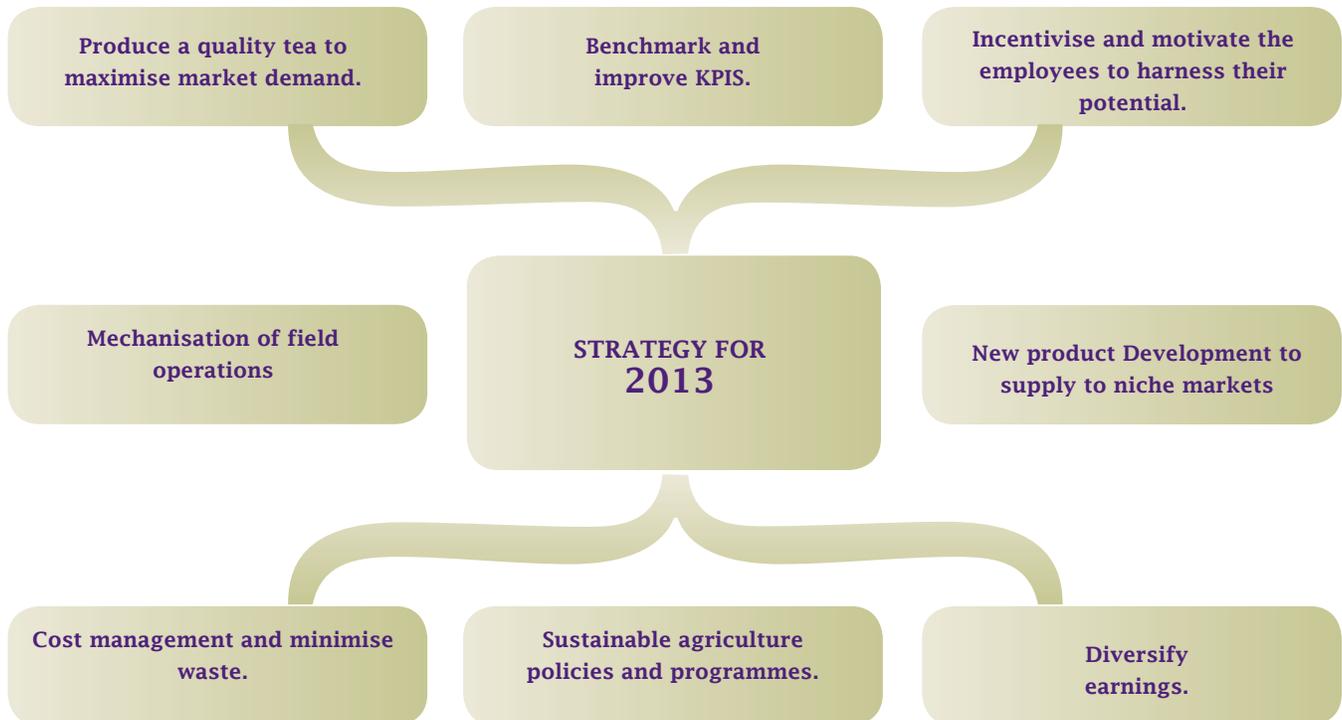


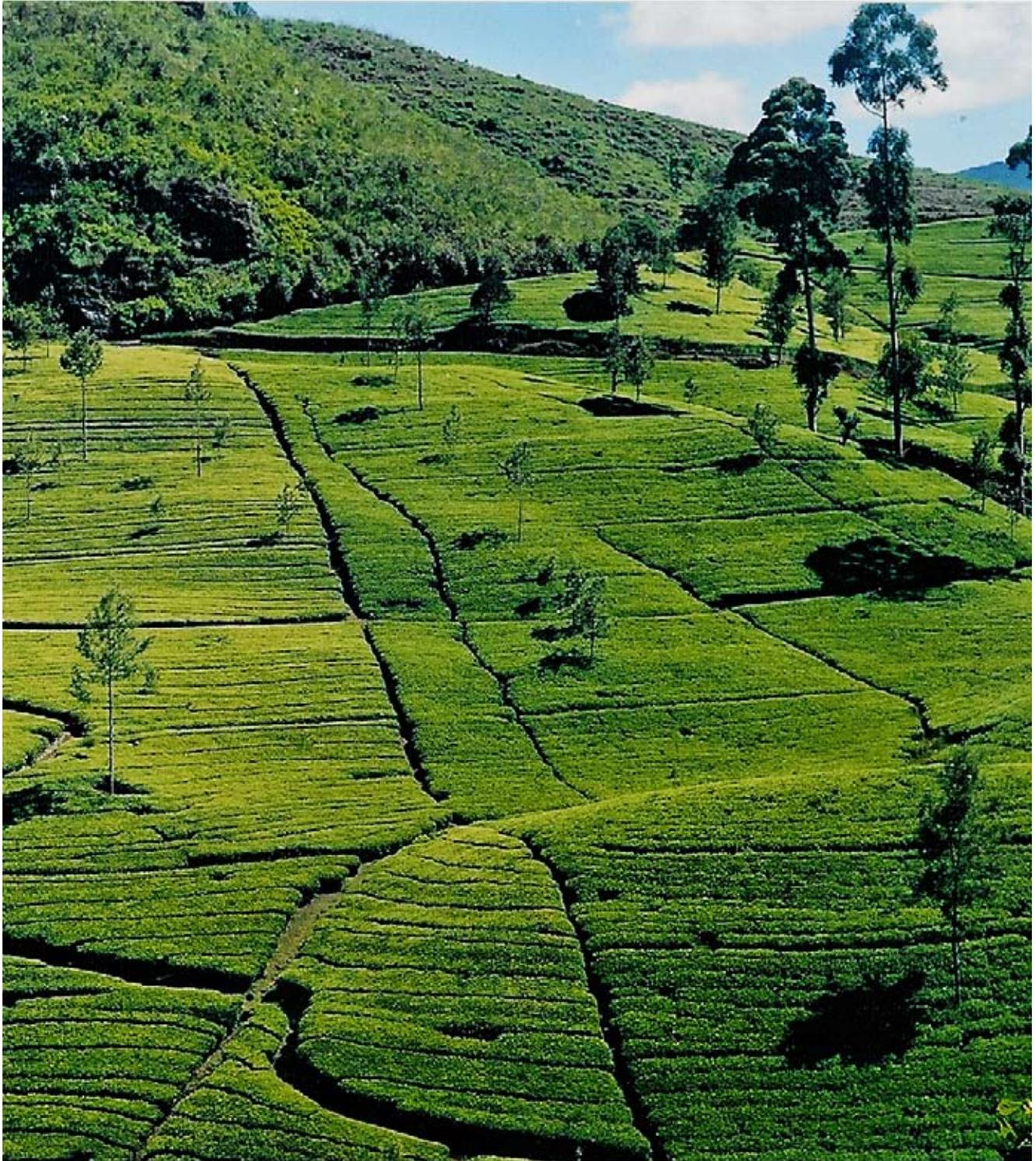
*Bearwell factory - 720,000 Kg capacity at elevation 1280m above sea level in Lindula Talawakelle*

## Management Discussion & Analysis Contd..

### THE YEAR 2013

*The key challenge ahead is to manage the significant cost increase arising from the impending wage revision from April 2013. A coherent strategy to improving KPI's from their present levels, whilst retaining our focus to produce a quality tea to maximise market conditions will be implemented. Increasing our extent of rubber and timber to diversify earnings will complement the above. We are aware of the magnitude of the challenge and are confident to meet it with our team.*





*Dessford Estate Nanuoya*

## People



*People are an intrinsic part of our business and we have always strived to consistently provide a sustainable economic performance and growth to each and every one of our stakeholders.*

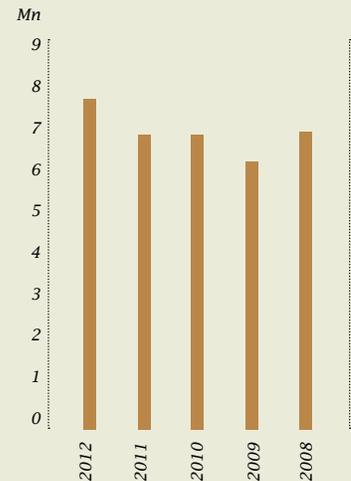
There in turn they have benefited in numerous ways through the wealth creation of our company which validates the trust they have placed with us for many years.

## Production of tea

**10.5 million**  
cups a day

We at Talawakelle are proud to state that we serve up to 10.5 million cups a day, which means our productivity has increased over the years in the industry. By ensuring that our team is always at its peak, coupled with the raw materials that always brew success, we will continue to raise the bar in excellence.

Total Tea Production



## Quality



*Over the past 10 years we have produced high quality teas that have sated the taste buds of Sri Lankans and people all over the world.*

This is due to our commitment to quality and always ensuring that the end product is a superior one.

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## Ethical Sustainability

*By being a conscious entity at all times, we have pledged our support towards the ethical sustainability movement. And we have stayed true to this by always using best practices and eco-friendly operations in order to maintain the delicate balance in nature as well as our business.*



## Financial Review

**A creditable financial turn-around was posted in the year from a loss of Rs 32.7 Mn in the previous year to a record PAT of Rs 234.0 Mn. Remunerative tea prices and prudent management of cost and finances contributed to the results in the year.**

### IFRS

The financial statements for 2012 were prepared as per SLFRS and LKAS of the ICASL to be in accordance with IFRS. The Income Statement for 2011 and the Statements of Financial Position for the previous years (2010 & 2011) have been restated and adjustments are effected to the brought forward retained earnings of 2011. Adjustments are given in note 5.4 to the Financial Statements.

### Summary

Bearish market conditions and low tea production in high grows together with the higher wage cost prevailing in the first quarter, had a negative impact on the earnings to post a marginal PBT of Rs.5.5 Mn compared to the previous years PBT of Rs.94.4

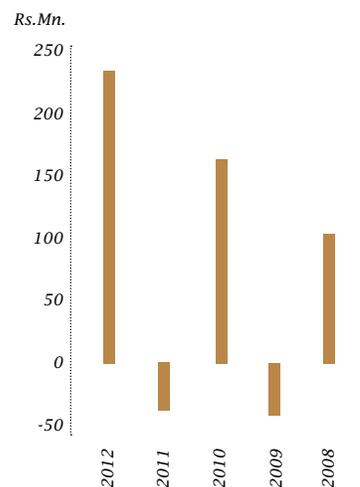
Mn. The situation changed in the second quarter with tea prices at the Colombo auctions beginning to strengthen and production volumes increasing from their first quarter levels to post a PBT of Rs.16.5 Mn compared to a loss of Rs.66.4 Mn in the same quarter last year. The third and fourth quarters posted very strong earnings on the back of a buoyant tea market and a satisfactory cropping pattern to contribute Rs. 217.9 Mn in the two quarters, with the fourth quarter posting the highest PBT of Rs.177.1Mn in the year to end the financial year with a record PBT of Rs.239.9 Mn. Other income also made a noteworthy contribution of Rs 43.1.Mn albeit higher to last year. However, a sharp increase in money market rates (AWPLR) had a negative impact on earnings despite a substantial reduction in borrowings.

# Rs 234.0 Mn

Group Net Profit after tax 2012

Group Net Profit after tax was Rs.234.0 Mn compared to a Net loss after tax of Rs 32.7 Mn in 2011

Group NPAT-5 Years



## Profitability and growth

A financial milestone (Rs.200 Mn) was surpassed by recording a NPAT of Rs.234.0 Mn and a turnover of Rs.3.3 Bn in the year under review by the group.

### Revenue

Consolidated Revenue crossed the three billion mark to Rs.3.3 Bn from Rs.2.7 Bn in 2011.

Group revenue posted an impressive increase of 20.9% to Rs.3,318.1 Mn compared to Rs.2,744.5 Mn in the previous year, with Hydro Power Sector share at Rs.58.9 Mn, a decrease from Rs.109.3 Mn in 2011.

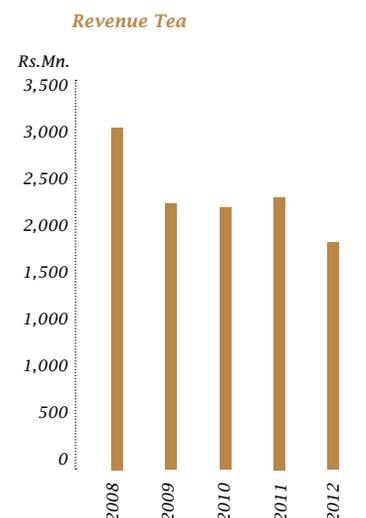
Group Revenue-5 Years					
Rs.'Mn	2012	2011	2010	2009	2008
Revenue Tea	3,200.5	2,558.0	2,511.2	2,635.4	2,186.8
Rubber	40.1	55.1	36.5	20.8	21.8
Other	58.9	109.3	28.0	38.0	39.1
Hydro Income	18.6	22.1	116.6	77.9	16.3
Total Revenue	3,318.1	2,744.5	2,692.3	2,772.1	2,264.0

### HIGH GROWN AND LOW GROWN TURNOVER 2012

Turnover High grown Vs Low Grown

A significant increase in tea turnover contributed to the revenue growth in the year under review. Tea revenue increased by Rs.642.5 Mn (25.1%) to Rs.3,200.5 Mn with high grows contributing Rs.2,216.0 Mn and low grows Rs.984.5 Mn respectively.

High grown revenue was driven on remunerative tea prices and higher production volumes, 215, 429 kgs to last year, mainly from bought leaf and prices Rs.45.69 per kg over the previous year. In the low grown, the increase in bought leaf volume of 477,988 kgs (51.5%), the higher estate leaf crop of 66,292 kgs and the prices increase of Rs.29.77 per kg over the last year, contributed to the revenue increase.

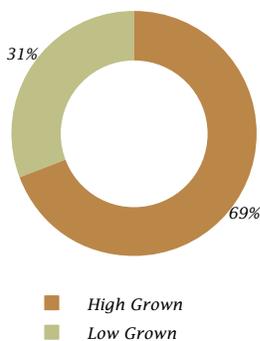


## Financial Review Contd..

The first quarter tea turnover in the high grown was adversely affected by a decline in crop with similar prices to the same quarter last year. However, in the low grown an increase in bought leaf volumes and estate crops despite a decline in tea prices compared to the same period last year, offset a large extent the high grown revenue shortfall to post a moderate decline in total revenue in comparison to the previous year.

Turnover from second quarter onwards increased at a steady pace followed by the third and fourth quarters on the back of improved prices and crop volumes. The high grown led the increase in all quarters with impressive gains on prices, driving the years turnover to surpass the previous year. Income from rubber declined to Rs 40.1 Mn from last years Rs.55.1Mn due to a reduction in crop volumes and price per kg.

TTE PLC Tea Production



## QUARTERLY TEA TURNOVER FROM 2008 - 2012

Group Revenue					
Rs Mn	1st Q	2nd Q	3rd Q	4th Q	Total
2008	598.00	610.00	512.00	461.00	2,181.00
2009	384.00	665.80	681.00	857.00	2,587.80
2010	685.80	800.60	698.30	817.90	3,002.60
2011	742.70	755.39	547.07	747.19	2,792.35
2012	701.70	836.30	848.80	813.70	3,200.50

TTE PLC Crop and prices (GSA)



## Hydro power sector

The sector beset with losses to end third quarter made a profit Rs.21.6 Mn in the fourth quarter, to break even before tax compared to a PBT of Rs.40.0 Mn in 2011. With a reversal of brought forward deferred tax provision of Rs.21.1 Mn the sector contributed Rs.19.7 Mn after tax towards group profit compared to Rs.25.3 Mn in the previous year. Lower rainfall in catchment areas resulted in a drop of 45% in KWH (units) being supplied to the national grid with the annual generation being 4,678,329 KWH (units) in 2012.

**EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)**

EBITDA					
RS. Mn	2012	2011	2010	2009	2008
Group	510.3	217.4	480.8	296.0	340.7
Company	472.3	139.8	384.9	232.1	321.0

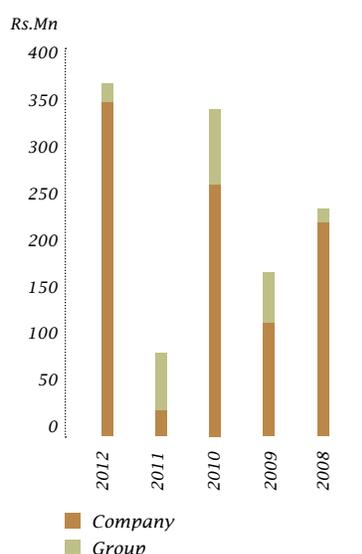
**Group EBITDA increase by Rs 292.9mn compared to a decline of Rs 263.4 mn last year.**

The group EBITA posted a sharp increase of Rs.292.9 Mn compared to a decline of Rs.263.4 Mn in the previous year. The group EBITDA improved due to an increase in TTE PLC company EBITDA from Rs.139.8 Mn to Rs.472.3 Mn, arising from improved gross profits; despite a reduction in hydro-power sector. Hydro-power sector EBITDA declined to Rs.38.0 Mn from Rs.77.6 Mn in the previous year.

**PROFIT FROM OPERATIONS**

**The Group posted an operating Profit of Rs.374.2 Mn (before finance cost) compared to Rs.88.8 Mn in the previous year, a noteworthy turnaround in the year.**

Profit From Operations



The Group's operating profits increased by Rs.285.4 Mn to Rs. 374.2 Mn contributed mainly from a significant increase in TTE PLC's gross profits of Rs.325.7 Mn. Estate profitability, the main contributor to the gross profits at TTEL had a very favorable trading year; with strong tea prices, higher volumes and a competitive cost of production. High grown estate profitability at Rs.235.7 Mn was an increase of Rs.264.7 Mn from previous year and low grown also recorded an increase of Rs.80.3 Mn from the previous year. A buoyant tea market especially for the high grown and higher volumes at better prices to the previous year for the low grown, also contributed to the years profits.

A profitable third quarter, normally a loss making quarter in most years, and an exceptionally good fourth quarter contributing 50.0% of the year's profit made a worthwhile contribution to the year's profit. Revenue from rubber and other income including a gain on fair value on biological assets of Rs.22.4 Mn also made useful contributions to profit. The Hydro Power Sector operating profit was Rs.20.0 Mn compared to Rs.60.3 Mn last year.

## Financial Review Contd..

## LIQUIDITY

**Financial risk indicators; interest cover and gearing levels improved from their high risk ratings to moderate levels in the year.**

**Debt /Equity of the Group improved from 86.7 % to 60.0% and interest cover improved from 0.80 times to 2.79 times.**

## FINANCE COST

**Group finance cost increase to Rs.134.2 Mn from Rs. 111.0 Mn 2011.**

TTE PLC	Rs Mn	Q1	Q2	Q3	Q4	2012	2011
Interest quarter		22.8	25.8	24.2	16.9	89.9	69.7
Borrowings		779.0	752.3	605.3	557.4	557.4	726.6
Avg Borrowings Cost %		12.12	13.52	14.31	11.66	14.01	10.97

**Monetary policy**

CBSL increased policy rates in February and April by 50 and 25 basis points respectively and a credit ceiling was imposed on lending undertaken by commercial banks.

Tighter monetary policy in 2012 resulted in lower credit expansion during the year. Private sector credit growth was recorded at 20.7% by November 2012, which was a decline from a peak of 35.2% in March 2012. Market liquidity was tight during the year, resulting in an increase in Government Treasury Bill rates as well as commercial lending rates. Benchmark yield on

one-year Treasury bills increased by 2.65% from 9.31% in January to 11.69% in December after touching a high of 13.36% in September. Average Weighted Prime Lending Rate (AWPLR) also increased by 3.40% to close the year at 14.4%, the highest recorded for the year.

Money market cost of funds (AWPLR) increased appreciably from 11% in January to 14.3% end December 2012. Group borrowing costs were impacted with the high cost of funds; resulting in an increase in group finance costs of Rs.23.2 Mn mainly from

TTEPLC (Rs 21.8 Mn) and Hydro sector Rs 1.4 Mn during the year. A reduction in borrowing levels from the second quarter onwards and treasury management mitigated to some extent, the full impact of an approximate 40% increase in AWPLR during the year.

An improvement in interest cover to 2.79 times from 0.80 times in 2011 was a significant reduction in financial risk during the year, despite an increase in the average cost of funds from 10.97% to 14.01% at year end.

%	AWPLR 2011	AWPLR 2012
Jan	8.92	11.00
Feb	9.47	11.54
Mar	9.04	11.91
Apr	9.30	12.65
May	8.97	13.04
Jun	9.24	13.55
Jul	9.41	13.68
Aug	9.58	13.77
Sep	9.37	13.82
Oct	9.16	13.83
Nov	9.48	14.13
Dec	10.20	14.30

**TAXATION**

*The Company tax for the year increased by Rs 31.2 Mn to Rs 27.1 Mn arising from income tax and deferred tax.: income tax charge increased by Rs16.4 Mn due to the changes in the tax rates for agriculture and manufacture sectors from zero to 12% and from 35% reduced to 28% respectively .Deferred tax arising from timing difference of the book balance and the tax base amounted to Rs.7.5 Mn. The hydro sector in the tax holiday period reversed deferred tax amounting to Rs.21.4 Mn, resulted in a reduced group tax charge of Rs.5.9 Mn for the yeay group.*

**CAPITAL EXPENDITURE**

*Capital expenditure of Rs.151.3 Mn was financed by internal earnings during the year.*

**The Group's investment during the year was Rs.151.3 Mn., only from TTE PLC.**

With capital expenditure being consolidated since 2008, the investment in capital development in 2012 was lower for the fourth consecutive year to the high in 2008. The years investment in field development was Rs.71.5 Mn and non- field Rs.79.8 Mn. Investment in field and factory development was lower to the previous year and was funded from internal funds

**BIOLOGICAL ASSETS-TIMBER**

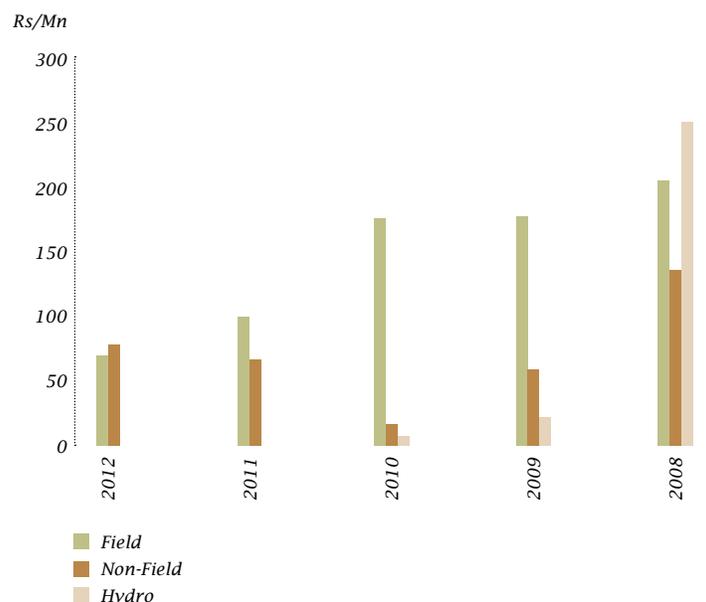
With the adoption of LKAS 41 the company recognised its biological assets - Timber at fair value amounting to Rs.166.8 Mn with an initial recognition of Rs.121.4 Mn to 2010 & Rs.142.0 Mn to 2011- refer Note 14 c. Consequently a timber reserve of Rs.139.7 Mn was recognised as a part of the equity.

**INVESTMENT IN SUBSIDIARIES**

During the year no investments were made in the Hydropower sector. The total investment now in the hydropower sector is Rs.134.9 Mn in equity and preference shares.

**Group Investment decrease by Rs.19.7 Mn.**

Capital Investment by Catagory

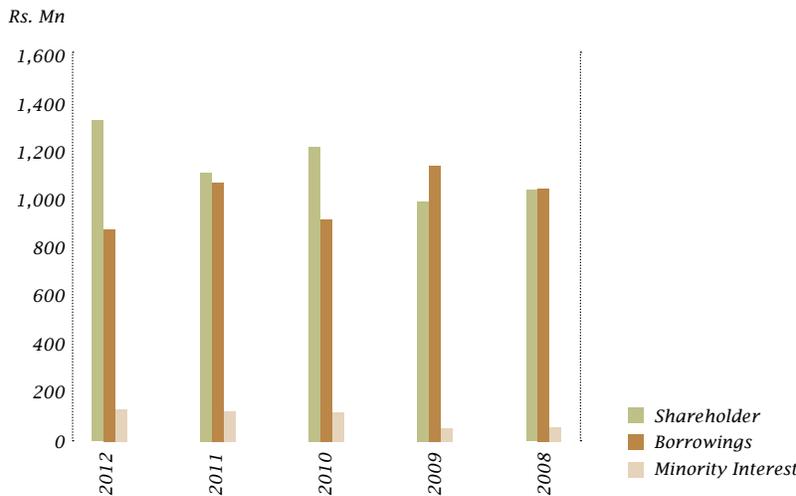


Financial Review Contd..

CAPITAL STRUCTURE

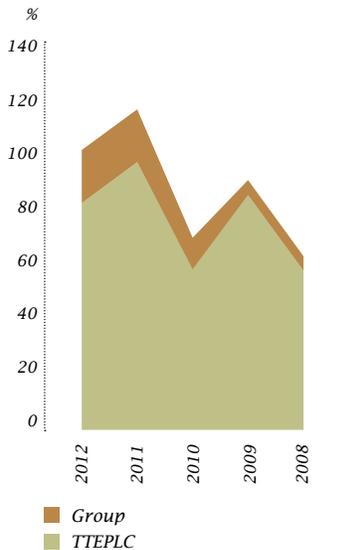
**TTEPLC debt /equity cover improves from 86.7% to 60%**

Capital Structure

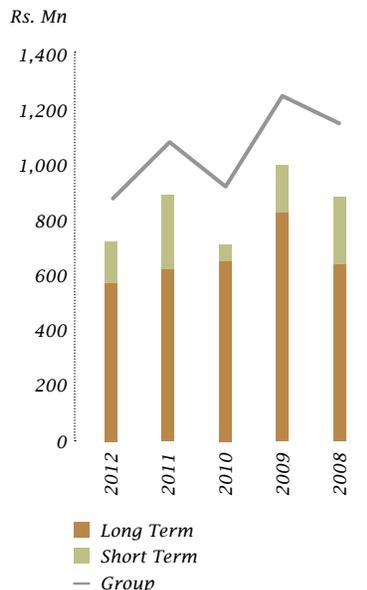


The group assets are mainly funded through equity of Rs.1,355.4 Mn and long and short term borrowings of Rs.895.9Mn. Minority interest financed Rs.136.9 Mn

Debt Equity



Short Term and Long Term



Debt

The Company's financial risk exposure significantly improved with financial leverage risk indicators in capital structure; borrowings and debt to equity ratio marking a significant improvement from relatively high risk levels in the previous year to moderate risk levels in 2012. The total debt exposure reduced by Rs.169.6 Mn; short term debt reduced by Rs.122.6 Mn and long term by Rs. 47.0 during the year and earnings improved debt/Equity cover from 79.6% to 54.3% in the year.

SHORT TERM AND LONG TERM DEBT

The Group level debt/equity was 60.0 % a decrease from 86.7% last year, due to a lower level of debt at TTEPLC. Group total debt was Rs.895.9 Mn compared to Rs.1,092.4 Mn in the previous year.

**Financial position at year-end was healthy with borrowing levels declining by Rs 196.5mn. to Rs 895.9mn.**

**WORKING CAPITAL**

TTE PLC's current ratio at 1.2 reflected a safe liquidity cover, an improvement from a 0.9 times cover in the previous year. The Net current assets of the TTEPLC at year-end were Rs.76.5 Mn to a Rs. 85.3 Mn net current liability in the previous year.

**A positive cash flow from operations and zero borrowings for capital expenditure contributed to the healthy improvement in cash flow during the year.**

**CASH FLOW**

**Operating cash flow exceeded PBT by 141.0% and net cash from operations increased by Rs.229.7 Mn**

**Operating cash flow**

Rs.Mn	2012	2011	2010	2009	2008
TTEPLC	315.3	69.2	415.3	260.3	213.9
Group	336.1	108.7	321.8	315.9	298.2

Hydro sector net cash flow from operations decreased by Rs.18.7 Mn from the previous year to Rs.39.6 Mn. The group recorded a net decline in borrowings of Rs.196.5 Mn.

**The Company's net cash flow from operations made significant turnaround to post a surplus of Rs.256.1 Mn from Rs.69.2 Mn in the previous year. An increase in NPBT by Rs.303.6 Mn from the previous year mainly contributed to the improvement.**

**During the year, net cash used in investing activities was Rs.131.6 Mn lower to the previous year and net cash on capital investing activities was an outflow of Rs.151.3 Mn. Net cash from financing activities was Rs.36.9 Mn and a total of Rs.31.3Mn debt repayments were made in the year, lower to the previous year. A cash flow adequate to meet capital expenditure and debt repayments generated a net increase in cash and cash equivalents of Rs 146.6 Mn in comparison to a negative of Rs.235.2 Mn in the previous year.**

**Solvency Certificate**

**Talawakelle Tea Estates PLC**  
199200123

**Who Exam & Young Chartered Accountants**  
No. 10, Section 10, Colombo 10

**Statement of Solvency**  
Final Dividend of Rs.2.50 per share amounting to Rs.18,750,000  
Solvency Test in accordance with Section 56 of the Companies Act, No. 07 of 2007

We acknowledge our responsibility for the assessment of solvency of the Company as mentioned above the distribution of dividends in cash, based on the audited financial statements for the year ended 31<sup>st</sup> December 2012. We have made appropriate enquiries of directors and officers of the Company with the relevant knowledge and experience and have based our solvency in accordance with Section 56 of the Company's Act, No. 07 of 2007.

1) **Ability to pay debts in the normal course of business.**

The Company considers that a positive net current asset position indicates credit and cash equivalents or borrowing arrangements with financial institutions for which all due dates are available will not exceed the Company's ability to pay its debts in the normal course of business.

2) **Net Current Asset/Liability position as at 31<sup>st</sup> December 2012.**

	Rs.
<b>Current Assets</b>	
Cash & Bank Balances	18,750,000
Accounts Receivable	1,212,212
Prepaid Expenses	1,212,212
Other Current Assets	1,212,212
<b>Current Liabilities</b>	
Cash & Bank Deposits & Borrowings	18,750,000
Accounts Payable	1,212,212
Other Current Liabilities	1,212,212
<b>Total Current Liabilities</b>	21,174,424
<b>Net Current Assets</b>	<b>18,750,000</b>

3) **Value of Company's Assets less Liabilities, stated capital and proposed Dividends.**

	Rs.
<b>Fixed Assets</b>	
Land & Buildings	1,212,212
Plant & Equipment	1,212,212
Other Fixed Assets	1,212,212
<b>Current Assets</b>	
Cash & Bank Balances	18,750,000
Accounts Receivable	1,212,212
Prepaid Expenses	1,212,212
Other Current Assets	1,212,212
<b>Current Liabilities</b>	
Cash & Bank Deposits & Borrowings	18,750,000
Accounts Payable	1,212,212
Other Current Liabilities	1,212,212
<b>Total Current Liabilities</b>	21,174,424
<b>Total Assets less Liabilities, stated capital and proposed Dividends</b>	<b>18,750,000</b>

4) **Release test**

Based on the above assessment and after considering circumstances which would affect the solvency test as mentioned above, we are satisfied that the Company's ability to pay its debts in the normal course of business is not affected.

**Who Exam & Young Chartered Accountants**  
No. 10, Section 10, Colombo 10

Section 56 of the Company's act No 7 of 2007 requires that a solvency test be performed prior to the payment of dividends. In order to satisfy this requirement ; the company carried out a solvency test prior to payment of the final dividend of Rs 2.50 per ordinary share. The company has the ability to pay its dues in the normal course of business. The value of the company's assets are greater than the value of its liabilities and the stated capital. Given above is the computation of solvency for the company as at the year end.

## Financial Review Contd..

### STABILITY

#### Return on Equity ( ROE)

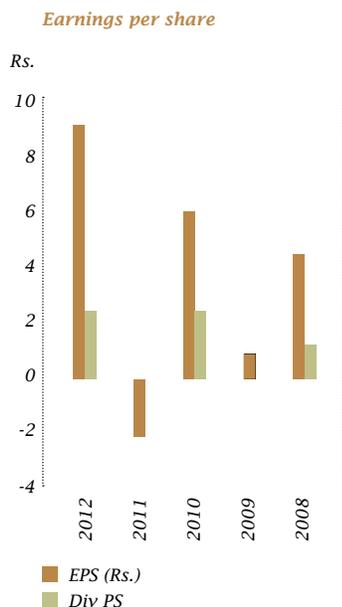
The groups return on equity recovered from a negative 4.5% to a positive 16.4% arising from the improvement of attributable profits by Rs.274.7 Mn despite an increase in equity by Rs.223.2 Mn.

Group	2012	2011	2010	2009	2008
ROE	16.4	-4.5	12.7	-2.2	10.2
Profit Attributable to equity Holders	223.3	-51.4	147.4	-22.3	109.2

#### Performance Measurement

##### Dividends

A final dividend of Rs.2.50 per share is proposed for the year amounting to Rs.59.4 Mn on NPAT of Rs.214.3 Mn.



A Net profit before tax of Rs.241.4 Mn contributed to a positive earnings per share of Rs.9.40 compared to a negative earnings per share of Rs.2.17 in the previous year. The EPS in the current year was the highest on record.

#### PERFORMANCE OF THE SHARES

The Company's share price decreased by 20% to close at Rs. 24.00 compared to Rs. 29.70 in 2011. The price was influenced by the overall market sentiment as All Share Price Index moved from 6074 points to 5643 points and Milanka Price Index from 5229 to 5119. The plantation index also closed at 811 points from 867 points at the beginning of the year.

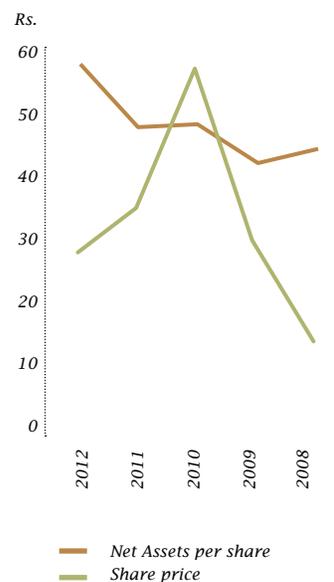
During the year, the share price reached a peak of Rs.35.00 and a low of Rs.12.70. The year-end price earnings ratio was 2.55 times Vs a negative in 2011. At year-end, the market value per share was

Rs.24.00 representing a market capitalization of Rs.570.0 Mn, a decrease of Rs.135.Mn from previous year.

The net asset per share increased from Rs.47.66 to Rs.57.06 in 2012.

### MARKET VALUE ADDITION

#### NET ASSETS PER SHARE



Market Value Added (MVA) is the difference between the current market value of a firm and the capital contributed by investors. If MVA is positive, the Company has added value during the financial year during the financial year the market value added was Rs.220.0 Mn against 2011 Rs.355.0 Mn.

**FINANCIAL REPORTING**

The Company is committed to adopt best practices for financial reporting and accounting. The financial reports on pages 158 to 216 are prepared as per Sri Lanka Accounting Standards and every attempt is made to give the reader a clear and comprehensive understanding of them. We ensure timely delivery of quarterly and annual financial statements and its preparation in compliance with accounting standards and Stock Exchange disclosure requirements.

**OUR ACHIEVEMENTS**

The annual report of TTE PLC for the financial year 2011 was recognised with a Bronze Award in the Plantation sector at the Annual report Awards competition conducted by the Institute of Chartered Accountants of Sri Lanka

**FINANCIAL RISK MANAGEMENT**

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

<b>GROUP INCOME STATEMENTS</b>	<b>3 Months Ended</b>	<b>6 Months Ended</b>	<b>9 Months Ended</b>	<b>12 Months Ended</b>	<b>12 Months Ended</b>
Rs.Mn	<b>31.03.2012</b>	<b>30.06.2012</b>	<b>30.09.2012</b>	<b>31.12.2012</b>	<b>31.12.2011</b>
Revenue	728.16	1,577.70	2,450.29	3,318.14	2,744.50
Cost of sales	(665.04)	(1,438.32)	(2,200.20)	(2,886.23)	(2,603.85)
Gross Profit	63.12	139.38	250.09	431.91	140.65
Gain on Fair Value of Biological Assets	-	-	-	22.47	16.63
Other income and gains	5.15	12.56	11.88	43.17	35.98
Administrative Expenses	(24.72)	(50.05)	(77.72)	(96.06)	(98.50)
Management Fee	(4.75)	(10.20)	(16.52)	(27.25)	(5.93)
Government Lease Interest	(5.28)	(10.52)	(15.86)	(22.78)	(21.18)
Finance Cost	(27.94)	(59.08)	(89.03)	(111.46)	(89.86)
Profit/(Loss) before taxation	5.58	22.09	62.84	239.97	(22.19)
Income tax expense	(2.95)	13.37	6.28	(5.94)	(10.53)
Net profit/(Loss) for the period	2.63	35.46	69.12	234.03	(32.72)

## Sustainability Report

*Sustainability is about making an effort... cause when deeds speak, words are nothing.*

### ORGANISATIONAL PROFILE

Talawakelle Tea Estates PLC is a public quoted Company with limited liability incorporated in Sri Lanka on 22<sup>nd</sup> June 1992 and its ordinary shares are listed on the Colombo Stock Exchange. The Company headquarters are located at 400, Deans Road, Colombo 10.

Our business focuses on the cultivation and manufacture of black and green tea. Talawakelle Tea Estates PLC is a leading

producer of Ceylon Teas, a partner of Hayleys, which is one of Sri Lanka's oldest manufacturing and exporting conglomerates.

Talawakelle Tea Estates manages some of the largest and the best-known tea estates in the country.

The Mattakelle, Holyrood, Great Western, Dessford, Bearwell, Wattegodde, Somerset and Radella estates, nestled in the hills of Talawakelle/Nanu Oya tea country comes under the umbrella of

TTEPLC high grown zone offering premium quality famous Dimbulla Teas.

Low grown from the low lying Deniyaya and Galle regions are known for their unique qualities which tea connoisseurs and drinkers appreciate. Ruhuna Teas from the low grown are sold through our estate marks; Deniyaya, Kiruwanaganga, Handford and Moragalla.



**Awards, Certifications & Accreditations Received for the Year 2012****Awards:**

Awards	Winner	Awarded By
National Agri Business Awards 2012 Silver Award	TTEPLC	National Agribusiness Council
<b>National Plantation Awards - 2012</b> 1. Replanting-highest rate (percentage) and extent; Tea Sector - 1 <sup>st</sup> Place 2. Highest Crop Productivity; tea sector - 2 <sup>nd</sup> Place 3. Forestry Management, Environmental Friendliness and self-sufficiency in energy - 3 <sup>rd</sup> Place	TTEPLC	Ministry of Plantation Industries
Best Annual Report in the Plantation Sector 2012 - Bronze Award	TTEPLC	Institute of Chartered Accountants of Sri Lanka
Outstanding Achievement in Quality "Health Care Services" - Health Team - 1 <sup>st</sup> runner up for High Grown Estates	Somerset Estate	Plantation Human Development Trust (PHDT)
Inter-Plantations Company Rugby Sevens - Winner	TTEPLC	Dickoya/Maskeliya Cricket Club (DMCC)
PHDT 20 <sup>th</sup> Anniversary - Stage Drama Competition - Winner, Nuwara Eliya Region	Holyrood Estate	Plantation Human Development Trust (PHDT)
PHDT 20 <sup>th</sup> Anniversary - Stall Competition - Winner, Nuwara Eliya Region	Somerset Estate	Plantation Human Development Trust (PHDT)
<ul style="list-style-type: none"> <li>Awards for Achieving;</li> <li>Highest GSA in Low Grown Category amongst RPC's</li> <li>Second Highest GSA in High Grown Category amongst RPC's</li> <li>Second Highest GSA in All Island Category amongst RPC's</li> </ul>	TTEPLC	Forbes & Walker Tea Brokers (Pvt) Ltd

## Sustainability Report Contd..



Director/CEO, receiving the National Plantation Award from the President Mahinda Rajapakse



Deputy CEO, receiving the Agri Business Award



Inter Plantations Rugby Champions



Somerset Team, Winner for the Stall Competition



GM Plantations, receiving the Award from Forbes & Walker Tea Brokers

*International Certifications and Accreditations*

Certification and Accreditation		Estates Certified
	Rainforest Alliance-Sustainable Farm Certification	<b>Talawakelle Group</b> Mattakelle, Bearwell, Holyrood, Great Western, Wattegodde, Palmerston Estates
	Rainforest Alliance-Sustainable Farm Certification	<b>Nanu Oya Group</b> Dessford, Somerset, Clarendon, Calsay, Logie, Radella Estates, Wangioya Factory
	Rainforest Alliance-Sustainable Farm Certification	Kiruwanaganga Estate
	Ethical Tea Partnership (ETP)	Calsay, Clarendon, Dessford, Somerset, Great Western, Mattakelle, Palmerston, Radella, Bearwell, Holyrood, Logie, Wattegodde, Kiruwanaganga Estates
	UTZ Sustainable Tea Certification	Radella Estate
	ISO 22000 Food Safety Management Systems Certification	Somerset, Wattegodde, Radella, Dessford, Great Western, Holyrood, Mattakelle, Bearwell, Wangioya, Moragalla, Handford, Deniyaya & Kiruwanaganga

**Sustainability Report Contd..**

**Memberships in Associations Maintained by Talawakelle Tea Estates PLC in 2012**

- Ceylon Chamber of Commerce
- Planters’ Association of Ceylon
- Employers' Federation of Ceylon

**REPORT PARAMETERS**

Talawakelle Tea Estates PLC operates an annual reporting cycle, commencing on the 1<sup>st</sup> of January and ending on the 31<sup>st</sup> December. The information provided pertains to this period, wherever relevant data relating to previous periods may also be used.

This is our second Sustainability Report. When preparing this report we based our approach on the principles and methodology of GRI version 3.1.

The activities of the Company are limited to 12 estates located in the Nuwara Eliya District (Central Province) and 5 estates located in Galle & Matara Districts (Southern Province).

At present, it is expected that this Sustainability Report shall be published annually to accompany the Organisation’s Annual Report.

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

This report covers the performance of the businesses within the Talawakelle Tea Estates PLC and is presented in accordance with the criteria pertaining to level C of the GRI guidelines and our report is not externally assured.

The economic performance report has been prepared using the accounts data for the year ended 31/12/2012, audited by M/s. Ernst & Young, Chartered Accountants.

Data and statistics on environmental issues and biodiversity have been compiled using actual operating data maintained by the estates in the TTEPLC group through the Rainforest Alliance-Sustainable Farm Certification Programme and Biodiversity Surveys conducted by professional bodies on certified estates. All high grown estates and the prime low grown estate

Kiruwanaganga have received Rainforest Alliance-Sustainable Farm Certification and Ethical Tea Partnership (ETP) compliance confirmation.

Report on Social Responsibility has been compiled from data maintained on site for the ‘A Home for Every Plantation Worker’ Programme.

**Stakeholder Engagement**

TTEPLC has recognised five stakeholder groups as; shareholders, employees/trade unions, suppliers, government & buyers/customers/brokers.

Engagement with each stakeholder is based on the materiality of that group to the business, based on the materiality matrix model.



We pride ourselves on our effective and decent engagement with these groups based on their relevance to the business, the nature of interest and finding the most practical and meaningful ways to identify and meet their needs and expectations.

**Stakeholder**

- Shareholders

**Sustainability Issue**

- Profit and Growth
- Sustainability of Company
- Responsible Corporate Management
- Climate Change and Crop Production

**Process of Engagement**

- Annual General Meeting
- Published Accounts and Annual Report
- Open Door Policy
- Board Meetings

**Stakeholder**

- Suppliers

**Sustainability Issue**

- Profitability and Price
- Credit Period
- Sustainability of Company
- Availability of Raw Material
- Climate Change & Crop Production

**Process of Engagement**

- Visits to Ensure Standards of Raw Material and Compliance Levels
- Regular Dialogue and Interactions
- Annual Reports

**Stakeholder**

- Financial Institutions

**Sustainability Issue**

- Meeting Repayment Schedule
- Climate Change and Crop Production
- Responsible Corporate Management
- 

**Process of Engagement**

- Regular Meetings, Dialogues and Interactions
- Published Accounts and Annual Report

**Stakeholder**

- Employees/Trade Unions

**Sustainability Issue**

- Remuneration
- Profit and Growth of Company
- Responsible Corporate Management
- Estate Infrastructure and Environment
- Occupational Health and Safety
- Quality of Work Life
- Career Stability and Advancement
- Climate Change and Crop Production

**Process of Engagement**

- Collective Agreements
- Collective Bargaining
- Regular Dialogues and Interactions with the Management
- Home for Every Plantation Worker-Sustainable Social Development Programme
- Rainforest Alliance-Sustainable Farm Certification Programme
- Ethical Tea Partnership (ETP) Programme
- UTZ-Sustainable Tea Programme
- Annual Report

**Stakeholder**

- Buyers/Customers/Brokers

**Sustainability Issue**

- Product Quality and Food Safety
- Compliance with International Norms
- Green and Ethical Products
- Price
- Climate Change and Crop Production

**Process of Engagement**

- Regular Meetings and Interactions
- International Trade Fairs
- Conforming to the by-laws of Ceylon Tea Traders Association (CTTA)
- Annual Report

**Stakeholder**

- Government

**Sustainability Issue**

- Profitability and Growth
- Sustainability of Company
- Regulatory and Legal Compliance
- Responsible Corporate Management

**Process of Engagement**

- Published Accounts and Annual Report
- Golden Shareholder Meetings
- Annual General Meeting

## Sustainability Report Contd..

## Key Challenges, Opportunities and Risks

Triple Bottom Line	Challenges	Opportunities	Risks
<b>Economic</b>	<ul style="list-style-type: none"> <li>• Recession and conflicts in tea consuming countries reducing the demand for high priced Ceylon quality teas.</li> <li>• Increasing global supply of tea and competition from low-cost producers and substitute beverages reducing the demand and prices for Ceylon teas.</li> <li>• Increasing costs of operational resources particularly, energy, fuel and wages.</li> <li>• Adverse affects of the interest cost that arises due to the fluctuating interest rates.</li> <li>• Long gestation periods for returns.</li> <li>• Fiscal and monetary policies not complimenting industry and business growth.</li> <li>• Adverse effects on crop production due to climate change.</li> <li>• High cost of replanting.</li> <li>• Ageing tea fields affecting crop production and productivity.</li> </ul>	<ul style="list-style-type: none"> <li>• Diversification in to other crops and new business ventures.</li> <li>• Leveraging Company's brand image for effective marketing of teas.</li> <li>• Availability of Mabroc teas, a global marketing company to add value to our produce.</li> <li>• Higher global demand and prices for green, ethical and Food Safety Management Systems (FSMS) certified quality teas.</li> <li>• Achieving self-sufficiency in fuelwood production and undertaking commercially viable timber projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Cost/ Inflationary pressures may adversely affect implementation of sustainable development programmes and viability.</li> <li>• Adverse affects on crop production due to climate change and ageing tea fields may seriously affect business results.</li> </ul>

Triple Bottom Line	Challenges	Opportunities	Risks
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Climate change and extreme weather conditions adversely affecting the ground water table, availability of water and crop production.</li> <li>• Land degradation due to extreme weather conditions.</li> <li>• Increasing customer demands for green and ethical products.</li> <li>• Greater demand for water by the expanding community.</li> <li>• Water conservation.</li> <li>• Biodiversity conservation and development.</li> <li>• Reducing the carbon footprint.</li> <li>• Water and land pollution due to organic fertilization and agrochemical applications by estates and vegetable cultivators.</li> <li>• Solid waste and waste-water management on estate.</li> </ul>	<ul style="list-style-type: none"> <li>• Availability of land for promoting sustainable environmental initiatives.</li> <li>• High value biodiversity, both fauna &amp; flora available on estates.</li> <li>• Availability of lakes, ponds, wetlands with swamps and marshes promoting rain water harvesting.</li> <li>• Availability of water streams for generation of hydropower.</li> <li>• Cleaner production technologies available.</li> <li>• Availability of renewable energy.</li> <li>• Production of organic fertilizer.</li> <li>• Recycling of solid waste.</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change and prolonged dry weather could reduce the ground water table resulting in water scarcity.</li> <li>• Contamination of water due to agricultural activities of vegetable cultivators.</li> <li>• Land slides and soil erosion due to extreme weather conditions.</li> </ul>

## Sustainability Report Contd..

Triple Bottom Line	Challenges	Opportunities	Risks
<p><b>Social</b></p>	<ul style="list-style-type: none"> <li>Employee retention particularly manual worker category due to new employment opportunities.</li> <li>Providing housing, water, health, sanitary and other facilities to the expanding estate community.</li> <li>Managing the greater expectations and aspirations of the plantation community due to socio - techno -economic developments in the country and social pressures.</li> <li>Managing changing attitudes, values and self -defeating habits among the estate community and absenteeism among estate workers.</li> <li>Managing highly unionised large workforce.</li> </ul>	<ul style="list-style-type: none"> <li>Availability of a large human resource base on plantations.</li> <li>Availability of upgraded infrastructure and facilities including Education, Housing, Water, Health, Sanitation and Nutritional development programmes on estates to uplift the living standards and quality of life of the estate community.</li> <li>Availability of social development programmes conducted by the Plantation Human Development Trust (PHDT), reputed NGOS and other professional bodies.</li> </ul>	<ul style="list-style-type: none"> <li>Due to out migration, Non-availability of workers for estate work may adversely affect business operations and results.</li> <li>If the out migration continues, most infrastructure facilities and services will be utilised by adults and their families living on estates and working elsewhere, thereby causing undue economic and social pressures on the management.</li> <li>Ageing Workforce.</li> </ul>

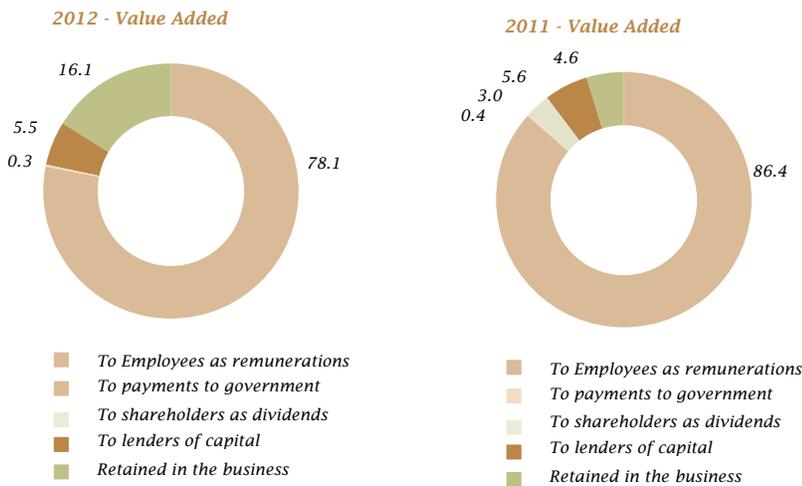
**ECONOMIC PERFORMANCE****Economic Performance**

TTEPLC is committed to delivering sustainable economic performance and growth to all our diverse stakeholders.

**Consolidated Value Added Statement**

<b>GROUP VALUE ADDITION</b>				
		<b>2012 (Rs.Mn)</b>		<b>2011 Restated (Rs.Mn)</b>
Turnover		3,318		2,745
Other Income		43		36
		3,361		2,780
Cost of materials & services bought in		(1,133)		(823)
		2,229		1,957
	<b>2012 Share %</b>		<b>2011 Share %</b>	
To Employees as remunerations	78.1	1,740	86.4	1,691
To payments to government	0.3	7	0.4	8
To shareholders as dividends	0.0	-	3.0	59
To lenders of capital				
Interest on borrowings	5.0	111	4.6	90
Minority Interest	0.5	11	1.0	19
Retained in the business				
Depreciation	6.1	136	7.2	141
Profit/(Loss) retained	10.0	223	(2.6)	(51)
	100.0	2,229	100.0	1,957
Note 1				
Profit/(Loss) attributable to Talawakelle		223		(51)
Dividend		-		(59)
Retained Profit/(Loss)		223		(111)

## Sustainability Report Contd..



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

Contributions	2012 (Rs. Mn)	2011 (Rs. Mn)
Employee's Provident Fund	209.99	151.9
Employee's Trust Fund	31.94	
Estates Staff Provident Society	13.25	
Ceylon Planters Provident Society	6.42	
Gratuity	69.37	160.5

### Market Presence

The operations of the Company are strictly limited to Sri Lanka. Therefore, there are no significant variances in minimum wages or recruitment procedures or other HR related policies depending on the different locations within the operational area.

### Indirect Economic Impacts

A Plantation is much more than a simple unit of production. It is also host to a vibrant and dynamic community; and TTEPLC through its Corporate Social Responsibility Programmes is committed to fostering, nurturing and

developing the untapped live forces of these communities, to achieve its integration with its neighbours outside of the Plantation Sectors, and achieve its full potential.

Our Social Development Programme, "A Home for Every Plantation Worker" is elaborated along the following four areas;

- Living Environment
- Community Capacity Building
- Health and Nutrition
- Empowerment of Youth

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

### 1. Living Environment

The activities as indicated in the table, have been carried out for living environment with the collaboration of Plantation Development Project (PDP), Plantation Human Development Trust (PHDT), National Housing Development Authority (NHDA), Ministry of Livestock and Rural Community Development, MJF Foundation and many reputed NGOs.

Development Activities	1992-2012 (Units)
Water Schemes	65
Re-roofing Houses	4095
Ramps and Drains	1272
Sanitation	4198
Field Rest Rooms	44
Factory Rest Rooms	13
CDC New/Upgrading	49
New Houses Built	1108
Play Grounds	22
Community Centers	15
Road Rehabilitation - km	45
Roads(concreted) - km	54
Upgraded Staff Quarters	158
Upgraded Houses	169

**2. Community Capacity Building**

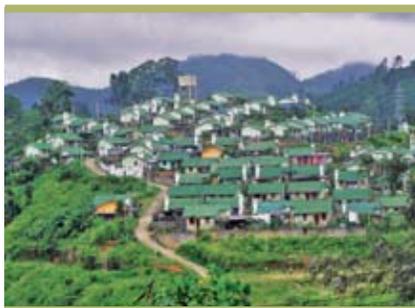
This comprises EWHCS activities and Awareness Training.

*EWHCS Activities :*  
Under the dimension of EWHCS activities for community capacity building, 1,167 participants have benefited from the activities as indicated in the table, during the year 2012.

Introducing Savings Schemes
Housing Loans
Providing Roofing Sheets
Providing Gas Cookers & Cylinders
Donations for Spectacles/ Surgeries
Distribution of 'School Books'
Distribution of 'Maternity Kits'
Handing Over 'Wheel Chairs'



Donations for Spectacles - Kiruwanaganga Estate



New Housing Scheme - Holyrood Estate



Distribution of 'School Books' and Handing Over 'Wheel Chairs' - Bearwell Estate

**Sustainability Report Contd..**

*Awareness Training :*

Under the dimension of awareness training for community capacity building, 2,906 participants have benefited from the activities as indicated in the table, during the year 2012.

Household Cash Management
Happy Family Concept
Introducing the importance of Micro Financing
Women/Children Care Programmes
Dengue Awareness Programmes
HIV/AIDS Awareness Programmes
Prevention of Drugs/Alcohol Programmes
Water Conservation Programmes
Waste Management Programmes
Biodiversity, Wildlife and Environment Conservation Programmes
Occupational Health and Safety Programmes



*Waste Management Programme  
- Wattegodde Estate (Sinhala  
Vidyalaya)*



*Dengue Awareness Programme  
- Kiruwanaganga Estate*

**3. Health and Nutrition**

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

**Preventive Healthcare**

*Immunization Coverage  
Under the canopy of preventive healthcare-immunization coverage for health and nutrition, 3,142 residents have been benefited from the immunization coverage as indicated in the table, during the year 2012.*

BCG	MMR	Penta
OPV	Rubella	H1N1
DPT	DT	MV
JE	TT	MR

*Awareness Programmes*

Under the dimension of preventive healthcare-awareness programmers for health and nutrition, 7,468 participants have benefited from the activities as indicated in the table, during the year 2012.

Medical Camps for Children
Prevention of Cancer Programmes
Awareness on HIV/AIDS Prevention
Awareness on Dengue Prevention
Awareness on Safe use of Water
Dental Clinics
Sprayers/Pluckers Medical Examinations
Health Education/Proper Home Gardening
Chlorination of Drinking Water
Making and Introducing Nutritious Food



Prevention of Cancer Programme  
- Deniyaya Estate



Making and Introducing Nutritious  
Food - Dessford Estate



Awareness on Safe use of Water  
- Wattegodde Estate

**Nutrition Programme**

*Feeding*

Under the extent of nutrition programme-feeding for health and nutrition, 17,872 mothers, infants and children at the CDC's have benefited from the activities as indicated in the table, during the year 2012.

Distribution of 'Thriposha'
Distribution of Milk Power
Distribution of Wheat Flour
Distribution of Vitamins
Free Mid-Day-Meal
Free Milk Distribution



Free-Mid-Day Meal  
- Mattakelle Estate

*Awareness on Nutrition*

In the aspect of nutrition programme-awareness on nutrition for health, 2,578 participants have benefited from the activities as indicated in the table, during the year 2012.

Introducing 'Hand Washing Day'
Health Education
Awareness of Nutrition to Pregnant Mothers & Children
Food Safety Management
Awareness on 'Balanced Diet'
Awareness on 'Nutrition Pillars'
Dengue Awareness Programmes
Art Exhibition on 'Nutrition'
Introducing the Importance of 'Nutrition'



Introducing "Hand Washing Day"  
- Holyrood Estate



Health Education - Moragalla Estate

**Sustainability Report Contd..**

**Antenatal and Postnatal Care**

*Antenatal Clinics*

Under the dimension of antenatal clinics for antenatal and postnatal care, 3,138 pregnant mothers have benefited from the activities as indicated in the table, during the year 2012

Antenatal Clinics
Well Women Clinics
Health & Nutrition Clinics
Providing 'Thriposha'/Milk/Vitamins
Free Transport for Clinics/Scanning



Antenatal Clinics - Dessford Estate

*Postnatal Clinics*

Under the canopy of postnatal clinics for antenatal and postnatal clinics, 1,540 mothers have benefited from the activities as indicated in the table, during the year 2012

Postnatal Clinics
Well Women Clinics
Educating Family Planning
Introducing Nutritious Food
Home Visits
Well Baby Clinics



Introducing Nutritious Food - Indola Estate

**Early Childhood Development**

In the extent of early childhood development for health and nutrition, 3,342 children have benefited from the activities as indicated in the table, during the year 2012.

Dental Clinics
Eye Care Programmes
Free Mid-day-Meals
CDC Activities
Daycare extended to Children
Free Milk Distribution



Dental Clinic - Wattergodde Estate



CDC Activities - Kiruwanaganga Estate

**Auxiliary Medical Service**

Under the dimension of auxiliary medical service for health and nutrition, 1,498 participants have benefited from the activities as indicated in the table, during the year 2012



*Dental Clinic  
- Kiruwanaganga Estate*

**4. Empowerment of Youth**

*Vocational Training*

In the aspect of vocational training for empowerment of youth, 1,371 girls and boys have benefited from the activities as indicated in the table, during the past years.

Medical Camps
Cataract Detection Programmes
Dental Clinics
Providing Signing Boards (Occupational Health & Safety)
Analysis of Injuries/Accidents
Medical Screening of Workers
Introducing Personal Protection Equipment (PPE)
Occupational Health & Safety Programmes



*Medical Screening of Workers  
- Wattedogde Estate*

Computer Classes
Sinhala & English Classes
Music/Dancing Classes
Tailoring/Sewing Classes
Scholarships - A/L & University Students
Beauty Culture Classes



*Computer Classes - Palmerston Estate*



*Music Classes - Bearwell Estate*



*Tailoring/Sewing Classes  
- Holyrood Estate*

## Sustainability Report Contd..

### Awareness Training

Under the dimension of awareness training for empowerment of youth, 645 girls and boys have benefited from the activities as indicated in the table, during the past few years.



Drama Competition – Palmerston Estate

Awareness Programmes on Personal Hygiene & First Aid
Awareness on Health & Safety
Youth Leadership Training
Inter Company Quiz Competition
Inter Company Drama Competition
Dengue Awareness Programmes
Awareness on Money Management
Vegetable Cultivation Programmes



Dengue Awareness Programme  
– Indola Estate

## ENVIRONMENT MANAGEMENT

The Company's Environmental Policy is;

### ENVIRONMENTAL POLICY

- The environmental policy reviews the commitment of TTEPLC, in partnership with the **Plantation and local community to conserve and manage the environment** in which we operate for the benefit and well being of the **present and future generations** within plantations and its neighborhood.
- Towards achieving this objective, we shall pursue **environmentally friendly and responsible methods** in all our agricultural operations, field practices and manufacturing process to ensure that all **natural resources and ecosystems** will be managed in a **sustainable manner**.
- **Biodiversity and water sources** in particular will be **protected** through a well-managed **conservation programme**.
- We shall endeavour to conserve the usage of all resources by **optimizing resource utilization** and **minimizing waste** through practicing **cleaner production principles**.
- **Education and awareness** will be promoted at all levels in a manner designed to increase the level of awareness of all aspects of the environment and its relevance, importance, care and management.
- We are committed to comply with applicable **environmental laws and regulations** at all times
- The state of the environment will be continually assessed and environmental management strategies, systems and objectives will be **periodically reviewed and upgraded** to achieve **continual improvements**.

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

- Materials
- Energy
- Water
- Bio-diversity
- Emissions, Solid Waste
- Products and Services

### Materials

Primary activity of the Company is the production of black and green tea for export. Main materials consumed by the Company during the year are given below;

#### Raw Materials

• Estate Leaf	- 26,664,226 kgs
• Bought Leaf	- 7,932,138 kgs
<b>Total Green Leaf</b>	<b>- 34,596,364 kgs</b>

#### Associated Process Materials

• Fuel	
a) Diesel	- 235,330 Litres
b) Petrol	- 83,705 Litres
c) Oil	- 2,968 Litres
• Firewood	- 39,556 cu.mts
• Briquettes	- 228,545 kgs
• Fertilizer	- 3,690 mt
• Dolomite	- 1,207 mt
• Agrochemicals	- 11,505 Litres

#### Packing Materials

• Paper Bags	- 163,944
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### Energy

Company is committed to reducing its direct energy consumption and now operates all tea driers on renewable energy. Many initiatives such as installation of energy efficient machinery, capacitor banks, lightings, VSD's, training etc. have been undertaken in all factories to conserve energy and minimise energy usage.

We have also commenced educational and awareness programmes among the estate community, suppliers and service providers to reduce their energy consumption within the framework of the Rainforest Alliance - Sustainable agriculture certification programme.

#### Direct Energy Consumption by Primary Energy Source

Type of Energy and Area of operation	Quantity	Units
• Firewood	39,556	cu.mts
• Briquettes	228,545	kgs
• Diesel		
Power generators	37,878	Litres
Estate transport vehicles	157,278	Litres
Estate Supervisory vehicles, ambulances etc	29,563	Litres
Head Office vehicles	10,611	Litres
<b>Total</b>	<b>235,330</b>	<b>Litres</b>
• Gasoline		
Estate Supervisory vehicles, motorcycles, ambulances, etc.	55,683	Litres
Agriculture equipment and machinery	8,451	Litres
Head Office vehicles	19,571	Litres
<b>Total</b>	<b>83,705</b>	<b>Litres</b>
• Oil		
Estate vehicles, motorcycles, ambulances etc	1,636	Litres
Factory machinery	715	Litres
Agriculture equipment and machinery	297	Litres
Head Office vehicles	320	Litres
<b>Total</b>	<b>2,968</b>	<b>Litres</b>

## Sustainability Report Contd..

**Indirect Energy Consumption by Primary Source**

Type of Energy and Area of operation	Quantity	Units
• High Grown manufacture	4,340,565	KWh
• Low Grown manufacture	1,918,304	KWh
• Bungalows, quarters, offices and other estate buildings	674,920	KWh
• Head Office	65,187	KWh
<b>Total</b>	<b>6,998,976</b>	<b>KWh</b>

**Renewable Energy Production by Primary Source**

Company has generated 4,678,329 KWhs during the year from the three mini-hydro power plants and therefore, the net usage by the Company is only 2,320,647 KWhs.

The units of electricity generated by the Mini Hydro Plants at Radella, Palmerston and Somerset during the past three years are detailed below;

**Generated Units of Hydro Power Companies**

	2012 (KWh)	2011 (KWh)	2010 (KWh)
Somerset	2,334,902	4,347,782	5,204,647
Palmerston	1,859,451	3,317,906	4,607,860
Radella	483,976	825,266	881,907
<b>Total</b>	<b>4,678,329</b>	<b>8,490,954</b>	<b>10,694,414</b>

Low generation of power in 2012 was due to less rainfall recorded during the year.

Although the Company had 18.75 Hec of fuelwood consisting of Eucalyptus species ready for harvesting, it was not possible to harvest any trees during the year due to government and local government regulations applicable for harvesting in the Nuwara Eliya district.

The table given below indicates the extents of fuel wood planted by the Company since 2007.

Region	2007 - 2012 (ha)
Low Grown	68.52
High Grown	263.43

In recognition of the initiatives undertaken, the Company received a National Award for forestry management, environmental friendliness and self-sufficiency in energy, at the first National Plantation awards, conducted by the Ministry of Plantation Industries.



*Well Grown Fuelwood Blocks  
- Logie Estate*

## Water

***“Water is life - we make every drop count!”***

Water is essential for the sustenance of mankind and biodiversity and for a food secure world, but unfortunately food production is already affected in many parts of the world due to lack of water. The Company is conscious about the water scarcity in many parts of Sri Lanka due to climate change and prolong dry weather periods, which are being frequently experienced now and its impact on people and biodiversity.

Company is committed to protect and sustain all water sources available on our lands to ensure adequate supplies of wholesome water to the estate community, factories, nurseries and in some instances to neighboring villages and towns as well.

All estates have commenced measurement of water withdrawn from all sources and the exact quantities will be reported from next year.

Under the Rainforest Alliance Sustainable agriculture certification

programme, all water sources and water bodies within estates have been identified and mapped. A management programme with necessary initiatives to protect all water sources and conserve water in all spheres of activity within estates has been implemented. All water sources are well protected with live/mechanical fences and tree species such as Albizzia, Calliandra, Gliricidia, Bambo, etc have been planted for conservation of these sources. Rainwater harvesting is done through many lakes, ponds and wetland areas available on estates. Chemical free buffer zones with specified distances and vegetative barriers have been established around all water sources and water bodies to prevent any contamination due to agricultural operations.

Water quality in all drinking water sources too is tested annually for required parameters.

Waste-water management and purification systems have been constructed on all estates to prevent any form of contamination of water sources/bodies. These initiatives ensure that waste-water generated on estates is adequately

purified before releasing to the natural water bodies, which is verified by laboratory testing of samples for required parameters.

Regular Training and awareness programmes are conducted through the Rainforest Alliance - Sustainable agriculture programme to educate the estate staff and communities on the importance of protecting water sources, and the need for water conservation for the benefit of the present and future generations.



*Protected Water Sources  
- Kiruwanaganga and Mattakelle  
Estates*

Sustainability Report Contd..

**Biodiversity**

*“Our biodiversity is a profound treasure trove”*

Company’s Environmental Policy has clearly demonstrated our strong commitment towards protecting the Biodiversity and water sources through a well-managed conservation programme. All employees and the

community have been educated on the Environmental Policy and its contents and intentions for effective implementation and compliance.

All estates within the Company, in both high and low grown regions are rich in biodiversity. The estates are endowed with diverse habitats consisting of lakes, ponds, streams, wetlands with swamps

and marshes, waterfalls, riparian habitats, eco-forests and Eucalyptus forests. All these habitats provide sanctuary for the precious biodiversity within estates. The lakes and wetlands store rain water and provide much needed seepage water essential to maintain the ground water table and also the splendor of the ecosystems.



*Aquatic Ecosystems with Lakes and Riparian Habitats - Wattegoda and Holyrood Estates*

Through the Rainforest Alliance programme, we have identified 244 hectares as high biodiversity areas and necessary initiatives have been implemented to protect and conserve these blocks to enrich the Biodiversity value of our estates. All biodiversity blocks and wildlife habitats are protected with a 5 meter chemical free buffer zone and clear warning and sign boards in languages understandable to the community. Hunting, capturing and trafficking wild animals/ birds and rearing of these species within estates have been strictly

prohibited. In addition, wildlife sightings by the community are recorded for close monitoring of the presence of each species. All certified estates have undertaken Biodiversity/wildlife surveys by professional bodies and are aware of all species available within estates. The studies revealed that habitats within estates provided unique niches and supported maintenance of natural diversity of estates.

#### Fauna of Talawakelle Estates

**"The greatness of a nation can be judged by the way its animals are treated" - Mahatma Gandhi**

Among faunal species identified are many species of mammals, birds, butterflies, dragonflies, amphibians, reptiles, fish, crabs and land mollusks.

Out of over 220 species of vertebrates and invertebrates identified on estates, the surveys reveal the existence of 39 Endemic species, 12 critically endangered (CR)/endangered (EN) species, 12 threatened species, 4 vulnerable (VU) species and 24 Near threatened (NT) species as per the IUCN Red data list published in 2007.

The identification of the Kashmir Flycatcher (*Ficedula subrubra*) on Mattakelle estate, which is a globally threatened species and a Pied Bush Chat (*Saxicola caprata*) which is an endangered species and a critically endangered

butterfly species Paint brush swift (*Boaris penicillata*) on Wattegoda and Karunaratne's narrow mouth frog (*Microhyla karunaratnei*) on Somerset were the highlights of the surveys conducted on high grown estates. Interestingly, according to IUCN Red list - 2007, endangered species of butterfly species namely Gaudy Baron (*Euthalia lubentina*), Tamil Bush Brown (*Mycalasis visala subdita*), and vulnerable species Ceylon Tiger (*Parantica taprobana*), Dark Palmdart (*Telicota ancilla*) were also recorded in the survey conducted on Mattakelle and Somerset. Three other Endangered and endemic frog species namely Horton Plains shrub frog (*Pseudophilautus alto*), Dull-green shrub frog (*Pseudophilautus viridis*) and Small eared shrub frog (*Pseudophilautus microtympanum*) were also identified on Somerset. A rich population of the endemic Golden Palm Civets was recorded on Calsay.

The survey carried out on Kiruwanaganga estate revealed the identification of critically Endangered Land Mollusk species namely *Ratnadvipia karuii* which, according to the survey report, found abundantly at Kiruwanaganga estate. It is heartening and encouraging to observe that report further affirms that Kiruwanaganga has been identified as a Dragonfly hotspot and two of the recorded species, namely Wijaya's

Scissortail (*Microgomphus wijaya*) and Yerbury's Elf (*Tetrathemys yerburyii*) are endangered species according to the 2007 Red List and none of their presence has been recorded previously within Galle district. It is also most interesting to learn that Amphibian species *Pseudophilautus cuspis* and *Pseudophilautus folicola* which were recorded from Kiruwanaganga estate are currently considered as Endangered species and *Hylarana aurantianca* which was also found at Kiruwanaganga is considered a Vulnerable species.

A single specimen of the endemic and endangered Rough horn Lizard (*Ceratophora aspera*) has also been found at the forest edge bordering Indola estate. Among bird species, Sri Lanka white - throated Flowerpecker (*Dicaeum vincens*), and among mammals, Purple - faced Leaf Monkey (*Semnopithecus vetulus*), Giant Squirrel (*Ratufa macroura*) and Dusky Squirrel (*Funambulus sublineatus*) are threatened and vulnerable species identified during the survey on Kiruwanaganga.

Many other endangered, vulnerable and near threatened Amphibians, Butterflies and bird species identified on many estates are ample evidence of the rich biodiversity and wildlife habitats available within our estates.

Sustainability Report Contd..



Tamil Treebrown  
*Lethe drypetis*  
Endangered (EN) Species  
Somerset Estate



Narrow Mouth Frog  
*Microhyla karunaratnei*  
Critically Endangered (CR) Species  
Somerset Estate



Gaudy Baron  
*Euthalia lubentina*  
Endangered (EN) Species  
Somerset Estate



Wijaya's Scissortail  
*Microgomphus wijaya*  
Endangered (EN) Species  
Kiruwanaganga Estate



Whistling Lizard  
*Calotes liolepis*  
Endemic and Vulnerable (VU) Species  
Kiruwanaganga Estate



Rough - Horn Lizard  
*Ceratophora aspera*  
Endangered (EN) Species  
Kiruwanaganga Estate

**Flora of Talawakelle Estates**

The agro-ecosystems on estates are dominated by tea (*Camellia sinensis*) fields with low shade trees such as *Erythrina lithosperma*, *Calliandra calothyrsus*, *Gliricidia sepium* and high shade trees *Grevillea robusta* and *Albizia* species. Tea fields are also entwined with species such as *Bambusa vulgaris*, *Cassia spectabilis*, *Toona ciliate* etc. *Vetiveria zizanioides* and *Arachis pintoii* have been planted intensely to conserve the vulnerable highland ecosystems. In addition, eco forests and home gardens are planted with a variety of native and endemic tree species and indigenous fruit trees adding value to the profound biodiversity within estates.



*A Green Carpet of Arachis pintoii Effectively Covering a Motor Road on Kiruwanaganga Estate*

Among many diverse species of Flora amounting to 169 species including 27 endemic species, identification of a protected plant namely *Oncosperma fasciculatum* on Wattegoda, which is also an

endemic plant was significant. Two critically endangered floral species namely Diyapara (*Dillenia triquetra*) and Ruk (*Horsfieldia iryagedhi*) have also been identified at Kiruwanaganga. Two endangered species namely Vewal (*Calamus zeylanicus*,) Kaluwara (*Diospyros ebenum*) and many other vulnerable species too have been identified during the Kiruwanaganga survey and the estate can be proud to be the custodian of such profound biodiversity.



**Indian Peafowl**  
*Pavo cristatus*  
A Welcomed Visitor to Kiruwanaganga Estate Group Managers' Bungalow



*Protected Eco Forests Rich in Endemic and Native Tree Species and Abundance of Wildlife - Kiruwanaganga Estate*

## Sustainability Report Contd..



*Wild Raspberry - Rubus rosifolius (Rosaceae)*  
Dessford Estate

### Rainforest Alliance Sustainable Agriculture Certification Programme

We have implemented several measures to conserve and consolidate the rich biodiversity habitats in order to sustain and develop the diverse fauna and flora in the region, including the Rainforest Alliance (RA) Sustainable Agriculture Certification programme on all our estates. An Internal Management System (IMS) with an implementation mechanism and a manual consisting of Policies, objectives, strategies, programmes, activities and key sustainability performance indicators have been developed to effectively implement and monitor the activities of the Rainforest Alliance programme. Apart from regular inspections and evaluations, comprehensive internal

audits are carried out on each estate by a competent and qualified team headed by the RA Group Administrator, GM-HR & QMD. Certification audits are carried out by an RA assigned officers from India who have commended the initiatives, performance and results of the programme which is evident from the high scores granted by them. All our twelve high grown estates and Kiruwanaganga, which is the prime low grown estate, are now RA certified.

Estates have also established Rainforest Educational and Information Centers (REIC's) as a key strategy to drive and sustain the programme. These centers are effectively used to train and educate the community on the sustainable concepts, strategies and

activities under the ten principles of sustainable agriculture including ecosystems and biodiversity management, water and wildlife conservation and sustaining the initiatives already implemented.

The Mission of RA is to protect ecosystems, biodiversity, and the people and wildlife that depend on them by transforming land management practices, business practices and consumer behaviors. RA Standard follows ten universal principles of sustainable agriculture, which are built on the three pillars of Sustainability - environment, economy and social justice. The objective is to mitigate environmental and social risks caused by agricultural activities, through a process that provides a measure of farm's social and environmental performance and best management practices and motivates each company to consistently enhance its performance in their respective areas to ensure sustainability.



*Rainforest Information and Educational Center  
Bearwell Estate*



*Paintings by Children on Biodiversity,  
Displayed at a Divisional Office  
- Kiruwanaganga Estate*

In view of the above initiatives consisting of required protective and precautionary measures implemented, bio-diversity and habitats are not affected directly or indirectly by our operational activities.

**Emissions, Effluents and Waste**

**GHG Emissions**

We have commenced gathering the following data required for calculation of green house gas emissions.

**Direct GHG Emissions**

	Diesel (Litres)	Petrol (Litres)
Fuel used to operate generators	37,878	-
Fuel used by estate internal transport vehicles	157,278	-
Fuel used by estate supervisory vehicles - Jeeps, cars, motorcycles, ambulances etc	29,563	55,683
Fuel used for Agricultural Equipment		8,451
Fuel used by the head office	10,611	19,571
<b>Total</b>	<b>235,330</b>	<b>83,705</b>



*Land Utilisation Map  
- Palmerston Estate*

Sustainability Report Contd..

Indirect GHG Emissions

	Units - KWhs
Purchased electricity for operations	6,258,869
Purchased electricity for estate Bungalows, buildings and head office	740,107
Total	6,998,976

Total GHG emissions in all operational sites amounts to 5,825 tCO<sub>2</sub>e. Company has generated 4,678,329 KWh of electricity through the three hydropower plants during the year, which amounts to 3,181 tCO<sub>2</sub>e and therefore, the net GHG emissions of the Company for 2012 could be considered as only 2,644 tCO<sub>2</sub>e.

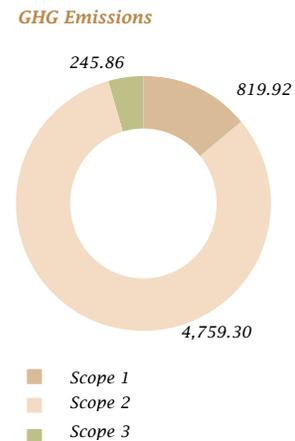
in all locations is monitored and controlled through many Company initiatives including the Rainforest Alliance - Sustainable Agriculture certification programme. Emissions related to purchased items such as fertiliser, agrochemicals, packing material etc. and fertiliser applied have not been taken into account for the above calculations.

Company commenced gathering required data and computing direct and indirect GHG emissions for the first time in 2012. The following table indicates the breakdown of GHG emissions by source for 2012.

Fuel and electricity usage in all Estates, factories, offices, buildings, bungalows etc. and head office have been taken into account for computation. The consumption

GHG Emissions by Source tCO <sub>2</sub> e	
Scope 1	819.92
Scope 2	4,759.30
Scope 3	245.86

GHG Emission Source	Units	Quantity	GHG Emission tCO <sub>2</sub> e
Scope 1 - Combustion of fuels in stationary sources			
• Diesel for power generators	litre	37,878	101.36
Scope 1 - Combustion of fuels in mobile sources			
• Diesel for vehicles	litre	197,452	528.38
• Petrol for vehicles	litre	75,254	170.98
• Petrol for agricultural equipment	litre	8,451	19.20
Scope 2 - Purchased electricity			
• Electricity purchased from CEB	KWh	6,998,976	4,759.30
Scope 3			
• International air travel	km	2,620	0.29
• Diesel used by out sourced transporters	litre	91,768	245.57
<b>Total tCO<sub>2</sub>e</b>			<b>5,825.09</b>



Conversion of all Tea driers operating in factories from fossil fuel to wood based renewable energy by installation of hot water generators was a major energy conservation initiative undertaken by the Company over the years. This initiative alone has reduced GHG emissions by over 3,000 tons per annum.

Installation of energy saving machinery, including replacement of high powered motors with low powered motors, capacitor banks, variable speed drives (VSD's), energy saving lighting and close monitoring and controlling of energy usage at each location are

many other initiatives undertaken by the Company successfully to conserve energy and minimise its usage.

Emission of ozone depleting substances from our production facilities is non-existent and in domestic equipment almost negligible.

NO<sub>x</sub> or SO<sub>x</sub> gasses produced through the activities in our operations and households too, are negligible.

**Waste Water Management**

As a key initiative of the Rainforest Alliance programme, waste water treatment systems have been constructed in all factories to ensure that waste water is treated before discharging. Waste water treatment systems have also been constructed to purify domestic waste water generated. Expert advice was obtained from the Department of Agriculture Engineering, University of Peradeniya towards construction of effective waste water treatment systems.

**Waste Water Treatment Systems**



Sedimentation and Twin Filtration (rock, gravel, sand) through Concrete Cylinders - Great Western Estate

Sedimentation and Twin Filtration (rock, gravel, sand) through Concrete Bunds - Bearwell Estate

## Sustainability Report Contd..



Filtration through Concrete Bunds (rock, gravel, sand) and Biological Filtering  
- Palmerston Estate

A Wastewater Testing Point  
- Holyrood Estate

Waste-water quality testing and monitoring programme is being implemented to ensure that water discharged is within permissible limits.

### Solid Waste Management

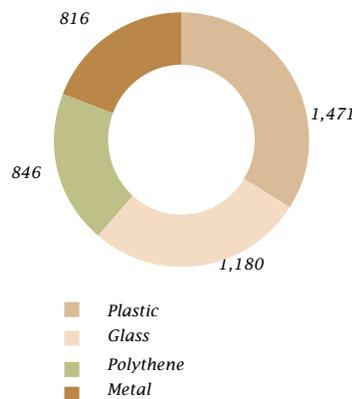
Through the Rainforest Sustainable Agriculture Certification programme, estates have implemented an integrated waste management programme based on the “3-R” concept of Reducing, Re-using and Recycling. Through this programme, all bio - degradable waste is utilised to produce compost, which is used in tea fields and home garden plots of the community. Metal, glass, plastic, and polythene are segregated, collected separately, and sent for recycling to authorised collectors.



Quantities of Solid waste sent for recycling during the year are detailed below:

Solid waste category	Quantity Recycled (kgs)
Plastic	1471
Glass	1180
Polythene	846
Metal	816
Total	4313

Solid Waste Recycled by Category of Waste



The functioning of open waste dumps and burning of waste have been prohibited on all estates.

Training and awareness programmes on integrated waste management are being conducted regularly to educate all employees and the community. With the active participation of the community, the programme has created a clean healthy environment and a profound impact contributing positively towards uplifting the image, dignity and wellbeing of the estate community.



*Solid Waste Segregation and Management - Bearwell Estate*

factory of Unilever for further extraction and only a negligible quantity of 2510 kgs of refuse tea has been generated. At Pethiyagoda, the quantity of refuse tea produced is 174,475 kgs and these quantities are used for making compost.

No spills have been reported from any of the estates. However, through the Rainforest Alliance programme, as a precautionary and preventive measure, spill collection mechanisms have been constructed in all fuel and chemical storage facilities.



*Handing Over Solid Waste for Recycling - Kiruwanaganga Estate*



*Producing Compost from Biodegradable Waste - Logie Estate*

No waste deemed hazardous has been transported, imported, exported or treated.

Due to effective preventive and precautionary measures implemented, discharge of water and run off have not affected any habitats and water bodies.

### **Tea Waste Management**

Waste in our Tea production process could be considered zero, as all refuse tea generated at each factory is sent for reprocessing at two factories in the two regions namely Wangioya and Pethiyagoda. At the Wangioya factory, the absolute refuse tea is sent to Ceytea

### **Products and Services**

Company produces only black and green tea, which are biodegradable and environmentally friendly and therefore, does not cause any environmental risks and hazards.

Packing materials used are mainly exported with produce and therefore, not practical to reclaim.

## Sustainability Report Contd..

### Compliance

No monetary or non-monetary fines or sanctions were imposed on the Company for non-compliance of any environmental clause and regulations.

### Transport

Due to effective preventive measures implemented, transporting of products, other goods and materials or members of the workforce have not caused any adverse environmental impacts.

### Overall

Company has invested a sum of Rs.55.25 Million during the year in protecting the environment to undertake the following initiatives.

- Soil management and conservation.
- Protection of water sources and water conservation.
- Planting of agro forestry and native tree species.
- Construction of waste water purification systems.
- Drinking and waste water quality testing and monitoring.
- Integrated waste management.
- Biodiversity surveys.
- Establishment of vegetative barriers, and chemical free buffer zones.
- Construction of chemical sprayers, washing facilities and chemical mixing points.
- Training and educational programmes and erecting of sign boards.
- Establishment of Rainforest Information and Educational Centres (RIEC).
- Rainforest Alliance-Sustainable Agriculture programme certification.



All High Grown Estates and Kiruwanaganga Estate among Low Grown Estates have now received Rainforest Alliance Sustainable Agriculture Certification and Ethical Tea Partnership (ETP) Compliance confirmation.

**LABOUR PRACTICES AND DECENT WORK**

**Employment**

We believe that the overall quality of our product and the satisfaction of our customers are greatly dependent on the quality of life of our all employees and the satisfaction they obtain by working with us. Therefore, we will endeavour to assure that our employees' quality of life and their skills are continuously improved.

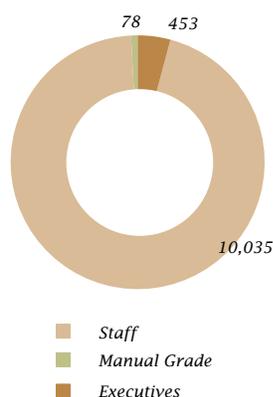
There are no part-time employees engaged by the Company.

Temporary employees are provided with all benefits provided to full-time employees.

*Total Workforce by Employment Type;*

Type of Employment	Number of Employees
Executives	78
Staff	453
Manual	10,035
Total	10,566

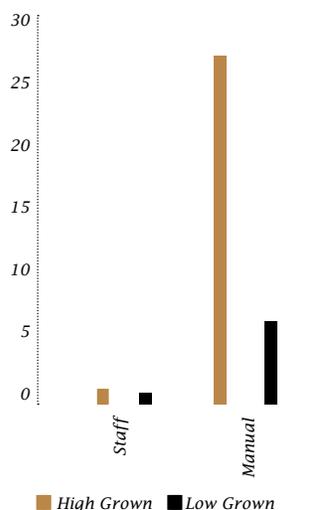
*Employment by Type*



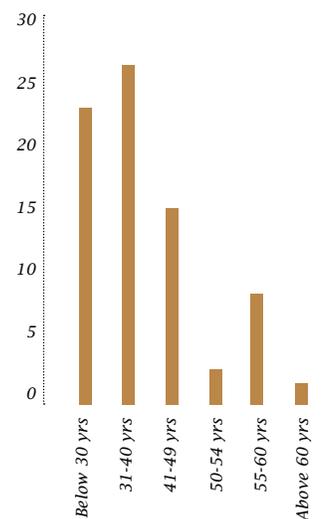
*Staff & Manual Grade Employees in Estates as per Region;*

Region	Staff	Manual
High Grown	328	8119
Low Grown	125	1916
Total	453	10,035

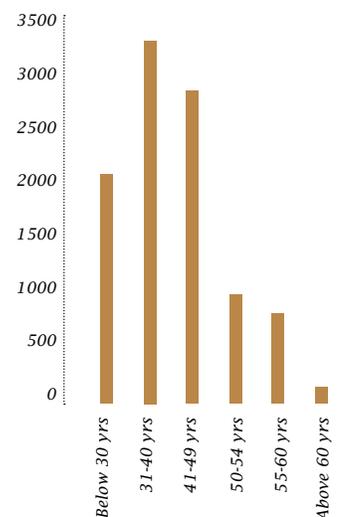
*Employment by Region*



*Age Analysis of Executives*

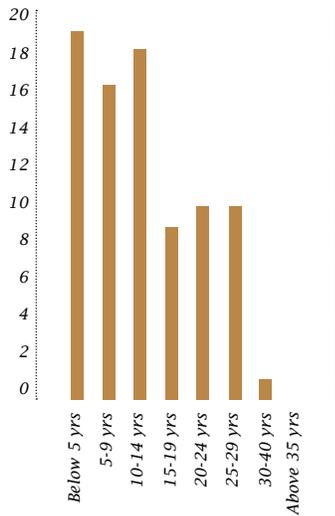


*Age Analysis of Other Employees*

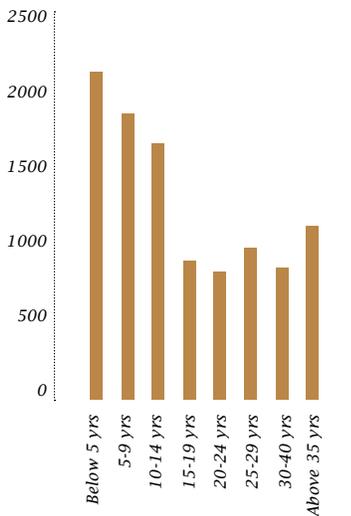


Sustainability Report Contd..

Service Analysis of Executives



Service Analysis of Other Employees



Labor/Management Relations

Over 98% of all employees are covered by collective bargaining agreements with Trade Unions, which effectively means that the entirety of our workforce and staff members, are covered by relevant collective agreements applicable to their categories.

Occupational Health and Safety

The Company is committed to a comprehensive programme to ensure the occupational health and safety of its staff, which is embodied in its Health and safety policy.

Employees of all different categories receive training in all aspects of occupational health and safety. Medical centers with qualified health and medical staff in attendance are available on our estates; and ambulances are located at strategically placed estates.

Joint management worker Health & Safety Committees are in existence on all divisions and factories of our estates.

These committees have conducted, educational training programmes on good manufacturing practices, health & safety, first aid & fire drills for 1985 participants, counseling programmes for 198 participants

and prevention/risk control programmes for 433 participants by assisting workforce members, their families and community members.



First Aid & Fire Drills Training - Kiruwanaganga Estate



Health & Safety Committee Training By QSDE - Dessford Estate

### Training and Education

TTEPLC considers training and development of its employees as being of the most fundamental importance to sustain its continued competitive advantage as Sri Lanka's leading producer of black and green tea. The cornerstone of our Training and Development programme is the development of the skills and competencies of our workers, staff members and executives. This consists on the one hand of honing and strengthening the knowledge base already existing in the employment cadre, whilst ensuring that this is cascaded down to each succeeding level of employees right down to the level of the most junior recruits, in an atmosphere of preserving the traditions of excellence garnered over more than a century, whilst adopting and adapting to new technologies and conditions to meet the challenges of another millennium. Building on these solid foundations, we at TTEPLC, identified the following overall strategic training and development objectives for the Company.

#### *a. Quality Assurance and Sustainability Management*

The development of the concept of quality in all activities and at all levels in the Company in

pursuit of the Company's vision of continuously striving to be the best plantation company in Sri Lanka. This translates into a set of practical training goals linked to the implementation of Sustainability Management Systems and Food Safety Management Systems such as Rainforest Alliance Sustainable Agriculture Certification programme and ISO 22000 FSMS Certification. We are proud to announce that during 2012, all our high grown tea manufacturing facilities and Kiruwanaganga Factory were certified by the Rainforest Alliance as being in conformity, with the most stringent standards of the Sustainable Agriculture Network for the production of tea, covering all aspects of environmental, economic and social criteria considered by the sustainable agriculture network Organisations as being basic to sustainable development.

Comprehensive and multi-layered training programs have been undertaken on the job, in-house and externally to ensure the achievement of these training goals by all levels of employees with the overall aim of increasing and maintaining the Company's competitive advantage in terms of quality and sustainability.

#### *b. Strategic Planning and Management*

The second major area identified as a strategic training objective for the Company was the necessity for executives to be familiarised with strategic management theory and practical strategic planning and analysis, to enable them to identify and characterise, the full potential of the assets under their command and to formulate and implement strategies for their maximum development within the Company's overall strategic plan. This will also necessarily entail the development of high caliber support services for the effective and timely supply of relevant management information. Which in turn, necessitates in its wake training programs on financial and management accounting aspects of plantation management, report writing, presentational skills and enhanced information technology management for junior executives and staff members.

#### *c. Marketing and Business Development*

The thrust of the above strategic objectives was determined by the overwhelming necessity for our industry to overcome its cyclic character by continuously highlighting our product's unique position among the world's teas

Sustainability Report Contd..

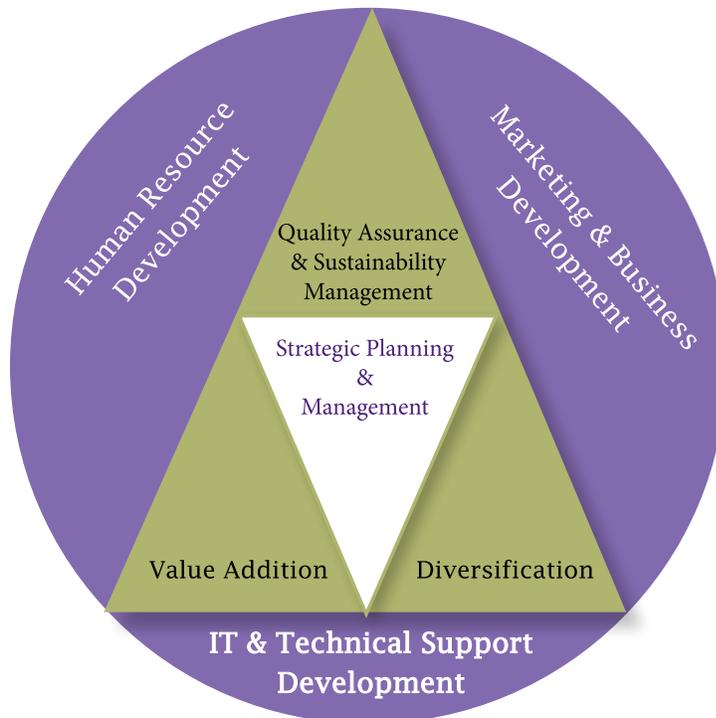
by ensuring its conformity to the highest quality and food safety standards. To the same end, another important aspect of our strategic plan remains promoting in-house value addition to our products, to move our position higher up on the value chain and the diversification of our products and activities to reduce our dependence on a single commodity. If production of specialty teas such as green teas and organic teas and packaging of our own teas count under the former category, then development of new projects such as vegetable cultivation in open fields and under protected conditions, value added timber processing, which are currently underway on our estates fall under the second category.

Both these areas however, bring up a range of strategic training requirements common to both, in terms of marketing and business development; which in turn needs to dovetail with our quality strategies. Further, it was necessary to develop a human resource development program which addresses each aspect of our

core strategy and the development of an information technology and technical support program to ensure an efficient and timely flow of information to facilitate the decision making process and strengthen monitoring and control. This training strategy may be diagrammatically presented as below.

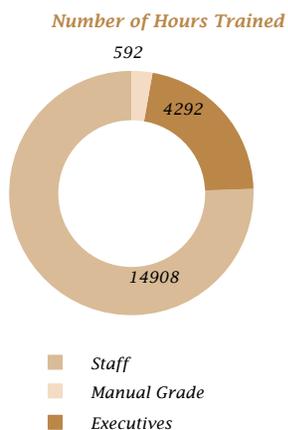
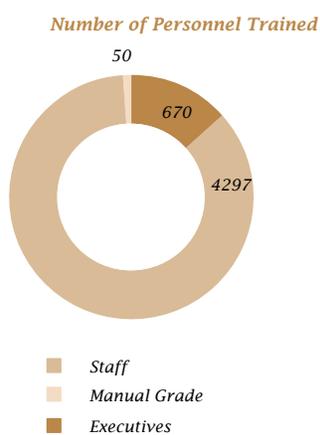
d. Human Resource Development

This area has been identified as a vital support component of our core strategic plan as depicted in the diagram below. Current strategic thinking places great emphasis on human resource management in order to gain competitive advantage in a globalised and knowledge driven market place. It is even more important in the plantation sector, which remains one if not the largest employer in the country, while facing the greatest and most wide ranging challenges ever faced since its inception over a century ago. It is therefore,



imperative that the plantation industry stay abreast of the newest developments in modern human resource development, to address the challenges that will be thrown up in the wake of the profound mutations and socio-economic transformations that are taking place within the sector. The stakes are as high as the complete redefinition of work and attitudes to work in an industry transforming itself. Therefore, management for and of change transformational leadership, human resource and Organisational development programmes will form the cornerstone of training programmes which define the HR management strategy of our Organisation. As traditionally done in the industry, effectively and successfully for over a century, on-the-job training will be the key training methodology that will be practiced throughout all levels of the Organisation, to train and develop people.

During this reporting period, we have utilised 19,793 hours to conduct training programmes for the employees at all levels in the Company.



Employees of all levels in our Organisation were trained in different areas accordingly. Six of our Estate Managers successfully completed the management Development Programme conducted by the PIM and the Professional Programme in Tea/Rubber Agronomy, 4 Assistant Managers completed Professional Programme in Tea Manufacture & Factory Practices, 2 Deputy Managers participated in Executive Development Programme conducted by Hayleys PLC, 3 Assistant Managers nominated to follow Certificate Course in Plantation Accounting & Financial Management and 23 Assistant Managers participated in a workshop on the Types of Misconduct, Disciplinary Inquiry Procedure and Punishments conducted by the EFC.

Our Staff Members and Manual Grade employees were trained Externally and by in-house resource personnel on measures taken to prevent Food Safety Hazards, Tea Manufacturing Process and Process Flow Charts, Good Health and Sanitary Practices to be followed in Tea Factories, Fealth & Safety Practices, Waste Management Programmes, Safe Handling of Agrochemicals & Material Safety Data Sheets, emergency response

Grades	No. of Personnel		No. of Hours of Training	
	Male	Female	Male	Female
Executives	44	6	483	109
Staff	445	225	3117	1176
Manual Grade	1873	2424	6522	8386

## Sustainability Report Contd..



*Training Programmes conducted for Staff & Manual Grade Employees - Kiruwanaganga Estate*

preparedness and Fire Drills, 10 RA principles & Company Policies & Objectives, Safe Working in Machineries and Equipment, Plucking, Tapping, Spraying, Pruning & Soil Fumigation Programmes, among many others.



*Training Programmes conducted for Staff & Manual Grade Employees - Indola Estate*

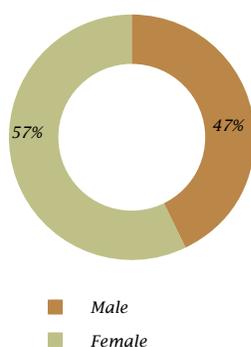
### Diversity and Equal Opportunity

TTEPLC strives to be an equal opportunities employer; equal opportunities are guaranteed under collective agreements with trade unions, Company policies as well as through Rainforest Alliance-Sustainable Farm Certification Programme, Ethical Tea Partnership Programme (ETP) and UTZ-Sustainable Tea Programmes.

The breakdown of Our Workforce by Gender is given below.

Gender	Total Workforce
Male	4569
Female	5997
Total	10,566

Workforce by Gender



### Equal Remuneration for Women and Men

TTEPLC strives to be an equal opportunities employer; equal remuneration is guaranteed under collective agreements with trade unions and Company's Human Resource and Social policy as well as remuneration policies.

### HUMAN RIGHTS

#### Investment and Procurement Practices

TTEPLC has been certified by the Rainforest Alliance-Sustainable Farm Certification Programme and Ethical Tea Partnership Programme as being in conformity with their criteria in respect of human rights, Social, Ethical and Environmental Management Practices.

All key suppliers have been educated on the Rainforest Alliance-Sustainable Agriculture standards and evaluated.

Estate executives, staff and most workers have been trained on the Company Policies and Rainforest Alliance Standards which cover Human Rights aspects.



The Rainforest Alliance Standard and Ethical Tea Partnership Standard cover the following criteria.

1. Freely chosen employment
2. Freedom of Association and the Right to Collective Bargaining
3. Health and Safety
  - Workplace Safety
  - Sanitation
  - Health & Welfare
  - Accommodation/housing
4. Child labour and young workers
5. Wages and Benefits
6. Working hours
7. Discrimination
8. Regular employment
9. Disciplinary Procedures
10. Environment
  - Environmental Management Systems
  - Agro chemical application
  - Soil conservation
  - Ecosystem conservation
  - Water conservation
  - Energy conservation
  - Integrated Waste management
  - Wildlife protection

### Non-Discrimination

TTEPLC follows a policy of non-discrimination in recruitment, promotions and attempt to encourage the differently abled to apply for positions. We have not received any complaints of discriminations or being subject any legal for discrimination during the period.

## Sustainability Report Contd..

### Freedom of Association and Collective Bargaining

The freedom of association and the right to collective bargaining have been assured to all our employees, which is affirmed by the Company's Human Resource and Social policy.

Company does not transact with any suppliers who may violates freedom of association and collective bargaining.

### Child Labour

TTEPLC does not engage in nor is complicit in child labour or the deployment of minors in any activity paid or unpaid within our estates or production facilities and this criterion is affirmed by the Company's Human Resource and Social Policy which clearly states that minimum age for any recruitment is 18 years.

All employment is subject to verification of documentary proof of age.

Our Organisation's Human Resource & Social Policy is;

#### HUMAN RESOURCE & SOCIAL POLICY

- People will continue to be our **most valued resource** and we are committed to **nurture and develop** then consistently.
- "Treating people at all levels with **dignity and respect**" will be the **key guiding principle** of all our human resource management practices.
- We are committed to enhance the **quality of life, self-esteem and morale** of all our employees and create an environment in which people can use their **initiative, be creative, innovative** and unleash their **full potential**.
- **Training, empowerment, motivation and recognition** will be integral practices at all levels towards managing and developing human talents effectively.
- We are committed to provide **equal opportunities** for all employees and **prohibit any form of discrimination or discriminatory practices** in respect of all employment related activities.
- We **uphold and respect** the **freedom of association**, right to form and join trade unions and **bargain collectively**.
- We shall **prohibit any form of forced and bonded** labour in all our operations.
- We shall **not engage child and young workers** and the minimum age of employment would be **18 at all levels**.
- We shall comply with all applicable **labour laws, industry regulations and standards** on working conditions and payment of salaries, wages, overtime and other statutory dues.
- We shall **consult local communities** regarding plans for new projects, constructions, diversification, change of ownership or any other operational changes that affect the local communities and their views will be considered in the decisions making process.
- We shall give priority to **local workers** for training and employment on estates.

**Forced and Compulsory Labour**

TTEPLC does not engage in nor is complicit in forced and compulsory labour. All employment contracts are freely entered into between the parties and are in conformity with the legislation prevailing in Sri Lanka and have been declared to be in conformity with the standards required by the Ethical Tea Partnership, Rainforest Alliance and UTZ.

No grievances or incidents of violence have been recorded during the reporting period.

Company does not transact with any suppliers who may resort to engaging forced or compulsory labour.

**Security Practices**

All TTEPLC security personnel have been trained in the Organisation's policies and Rainforest Alliance 10 principles.

**Indigenous Rights**

No incidents reported during this period.

**Assessment**

No activities of TTEPLC have been subjected to human rights reviews or impact assessments.

**Remediation**

No complaints of human rights violation received.

**SOCIETY****Local Communities**

TTEPLC's commitment to the development of its community is covered under the section on indirect economic impact.

**Corruption**

There have been no reports of any statutory violations by the Company in this regard. However, in addition to being non-complicit in any activities related to corruption, TTEPLC through its parent company Hayleys PLC is required to be in compliance with the United Nations Global Compact, which effectively prohibits the engagement of any member Organisation in such activities.

**Public Policy**

No attempts have been made by TTEPLC to influence a public policy in anyway whatsoever accepting its participation in the Planters Association; an Organisation representing the plantation industry.

**Anti-Competitive Behaviour**

TTEPLC has not been subject to any legal action related anti-competitive behavior, anti-trust and monopoly practices and their outcomes.

**Compliance**

No fines significant or insignificant or any other sanctions were imposed on TTEPLC or non-compliance with laws and regulations.

**PRODUCTS RESPONSIBILITY****Customer Health and Safety**

As a responsible producer of high quality food product, TTEPLC is committed to ensuring that the higher standards of food safety and quality standards are maintained from the point of growing through harvesting and the processing of our teas.

In order to ensure this, we have adopted Good Agriculture Practices (GAP's) in our field operations; Good Manufacturing Practices (GMP's) in all factories and maintain conditions in conformity with HACCP/ISO 22000 criteria in harvesting and transport of green leaf, through to its manufacture, packaging and sale. Through these programmes tea samples are tested in accredited laboratories for Maximum Residue Levels (MRL's), heavy metals, micro biological and physical contaminations.

Further, in keeping with our philosophy of making our employees and service providers feel truly part of the process of producing quality, ethical and green products, their roles have been valorised according to the guiding principles of Rainforest Alliance, Ethical Tea Partnership and UTZ.

## Sustainability Report Contd..

We have achieved ISO 22000 FSMS Certification for all operational factories and Rainforest-Alliances Sustainable Agriculture Certification for all high grown factories and Kiruwanaganga to demonstrate our commitment and affirm our initiatives. Samples of each invoice of tea submitted for sale to the Colombo Auctions by TTEPLC, is tested by the Sri Lanka Tea Board for conformity to ISO 3720 standard.

Our Organisation's Health & Safety Policy is;

### HEALTH & SAFETY POLICY

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

### Product and Service Labeling

Labeling requirements as per Tea Board regulations are as Estate Name, Selling Mark, Grade, Manufacturing Number, Number of Packages in the Invoice and Net Weight.

No incidents of non-compliance with regulations concerning product/service labeling, during the reporting period.

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

### Marketing Communications

TTEPLC is not engaged in the direct marketing of our products and as such we are not involved in advertising promotion or sponsorship. Further, our product not being considered harmful is subject only to the Tea Board's Standards for black tea, Japan's

food sanitation laws and food regulation no 852/2004 of the European Union (EU).

### Customer Privacy

As all relations between the Company and its customer are through the intermediary of the broker, issues of violation of privacy do not arise. However, we respect and safe guard customer privacy of all our customers.

### Compliance

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

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Application Level C

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1.0	<b>Strategy and Analysis</b>		
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1.2	Description of key impacts, risks and opportunities	Sustainability Report	54-56
2.0	<b>Organisational Profile</b>		
2.1	Name of the Organisation	Corporate Information	Inner Back Cover
2.2	Primary brands, products and/or services.	AR of Board of Directors Our Estates	146-151 152
2.3	Operational structure of the Organisation, including main divisions, operating companies, subsidiaries and joint ventures	AR of Board of Directors Our Estates	146-151
2.4	Location of organisation's headquarters	Corporate Information	Inner Back Cover
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	Not Applicable	
2.6	Nature of ownership and legal form	Corporate Information	Inner Back Cover
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries)	MD&A	11-37
2.8	Scale of the reporting organisation	AR of Board of Directors Our Estates	146-151
2.9	Significant changes during the reporting period regarding size, structure or ownership	Chairman's Statement MD&A	6-10 11-37
2.10	Awards received in the reporting period	Sustainability Report	49-51

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3.4	Contact point for questions regarding the report or its contents	Sustainability Report	52
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3.6	Boundary of the Report (eg. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Sustainability Report	52
3.7	State any specific limitations on the scope or boundary of the report	Sustainability Report	52
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organisations	Financial Statements	158-216
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the Report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Not Applicable	
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (eg. mergers/acquisitions, change of base years/ periods, nature of business, measurement methods)	Not Applicable	
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Not Applicable	
3.12	Table identifying the location of the standard disclosures in the Report	Sustainability Report	89-101
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4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate Governance	137
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Corporate Governance	112-137
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Corporate Governance	112-137
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)	Corporate Governance	112-137
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Corporate Governance	112-137
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<i>Economic Performance</i>			
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EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Risk Management Report	102-111
EC3	Coverage of the organisation's defined benefit plan obligations	Sustainability Report	58

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EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Not Applicable	
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	<i>Principle 02</i>		
	Make sure that they are not complicit in human rights abuses	HR4, HR5, HR6, HR11	
<b>Labour</b>	<i>Principle 03</i>		
	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	LA4, LA5, HR5, HR6	
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## Risk Management

***Risk is inherent in all our business activities and is of different forms and magnitudes.***

***Being a mono crop agricultural undertaking, continuity and sustainability of the business are as important as growth and operations of the business to the stakeholders.***

An overview of TTE PLC’s Risk Management and Control Systems, including a brief description of important risks the Company is exposed to and the mitigating actions we undertake are presented below.

Risk Management at TTE PLC continues its proactive approach to business, aimed at enhancing shareholder value whilst ensuring an effective balance of the entrepreneurial attitude and the level of risk associated. Management of risk is implemented as an integral part of our business processes. A structured risk management approach is in place to achieve an optimum trade-off between risk and return.

TTE PLC identifies three main categories of risk:

Risk Category	Description
Strategic Risk	Risk associated with future business plans and strategies.
Operational Risk	Risks arising from regular business operations.
Financial Risk	Risk that the Company may not have sufficient funding for financial obligations.

Greater emphasis is placed on managing risks with prudence and discipline at strategic level, with the participation of the Board of Directors together with the Audit committee. The Board is responsible for setting goals and objectives annually after evaluating the overall risk profile of the Company.

The overall responsibility for the management of risk lies with the Management Committee and the Senior Management team. The front line managers are assigned with the primary responsibility of taking corrective action. The major risks are reported to the Board with an action plan, which includes key personnel identified for the implementation.

Our risk management process comprises of a multiple control mechanism and constitutes an important element in the corporate decision-making process. This mechanism includes recording of internal processes and business risks, management and controlling systems and planning processes. The Company’s policies, procedures and standards work in unison with the above framework in the risk management process.

The integrated approach to manage corporate risks, ensure effectiveness, transparency and aggregation within the framework of reporting and is implemented with consistency throughout our estates with a direct reporting line to the Chief Executive Officer.

TTE PLC Risk Management Framework is illustrated as follows:



**RISK MANAGEMENT PROCESS**

The Risk Management Process is designed to ensure identification of any circumstances that would adversely affect the goals of the Company. Our risk management process ensure, that we accept or manage unavoidable risks and uncertainties' are minimised. The Company has a systematic process of risk management that is aligned with its strategy.

*Objective Setting*

The Board sets goals and objectives annually after reviewing the overall risk profile of the Company. TTE PLC's tolerance of risks identified will ultimately determine the objectives agreed upon.

*Risk Identification*

TTE PLC's Risk Management system is designed to identify scenarios that would prevent achieving it's goals.

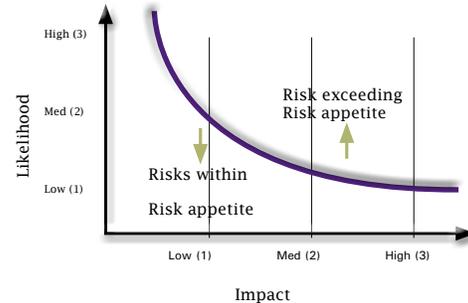
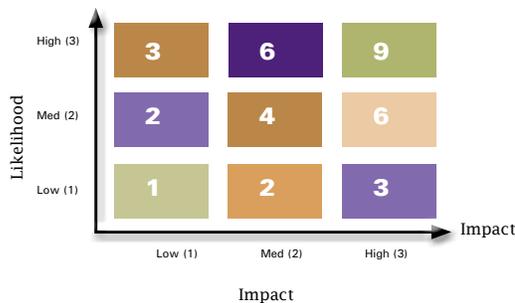
## Risk Management Contd..

### RISK PRIORITIZATION AND ASSESSMENT

All identified risks are rated based on the probability of occurrence and the impact. Risk rating matrix given below is used to facilitate

the rating process. The level of risk absorption is influenced by the Company's risk appetite.

Risk exceeding the risk tolerance level requires prompt management response. Management will evaluate the drivers.



Likelihood x Impact = Risk

### RISK RESPONSE AND MITIGATING ACTION

Based on the risk identified, Chief Executive Officer together with the management team initiates risk response strategies developed to manage risk by accepting, mitigating, transferring or avoiding it.

Based on risk response selected, gaps in Risk Management Capabilities are re-examined and adjusted with expert advice.

### INFORMATION AND COMMUNICATION

Documentation and reporting plays a key role in monitoring risks. Monthly and quarterly reports with key economic and performance indicators and relevant external reports are presented to the Audit Committee and to the Board to alert on possible risks. Internal and external audit reports on level of compliance with risk mitigating actions are tabled at the meetings of the Management and the Audit Committee, which are then

reviewed and acted upon. Strict compliance of internal control procedures ensures effective and efficient functioning of operations within the Company.

### MONITORING OF CONTROLS

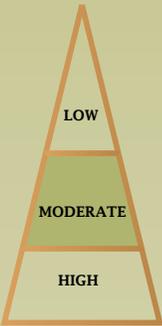
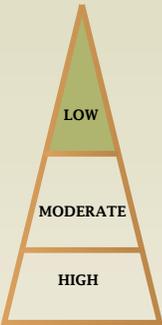
The ultimate responsibility for monitoring risk management lies with the Board of Directors and the Audit Committee. This includes monitoring the efficiency and effectiveness of internal controls.

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

RISK FACTORS	RISK ASSESSMENT	RATING	RISK MANAGEMENT STRATEGIES												
STRATEGIC RISK															
<p><b>Socio-Economic, Political &amp; Environmental Risks</b></p> <p>Volatility of the world economy, political and economic upheaval in key markets cause fluctuations in tea prices.</p>	<p>Fluctuating prices affect profitability and erode margins.</p> <p>Our principal line of business is cultivation and manufacture of black tea. Revenue from tea is 95 % of the total revenue. Hence, the Company's profitability is susceptible to changes in tea prices.</p> <p><b>NATIONAL GSA VS PBT</b></p> <table border="1"> <caption>NATIONAL GSA VS PBT</caption> <thead> <tr> <th>Year</th> <th>PBT (Rs.)</th> <th>GSA (National) (Rs.Mn)</th> </tr> </thead> <tbody> <tr> <td>2010</td> <td>370</td> <td>100</td> </tr> <tr> <td>2011</td> <td>360</td> <td>0</td> </tr> <tr> <td>2012</td> <td>385</td> <td>200</td> </tr> </tbody> </table>	Year	PBT (Rs.)	GSA (National) (Rs.Mn)	2010	370	100	2011	360	0	2012	385	200		<ul style="list-style-type: none"> <li>• Focus on producing 'Quality Teas'.</li> <li>• Product portfolio of teas grown in different agro climatic regions enable us to cater to different markets.</li> <li>• Increase production of low grown teas.</li> <li>• Converting low yielding tea lands to rubber.</li> <li>• Develop revenue streams from hydro power, timber, fuel wood and leisure projects.</li> <li>• Expand rubber extent in the low country and identify land outside the company for rubber cultivation on a joint venture model.</li> <li>• Value addition to our teas with 'Mabroc' expertise.</li> </ul>
Year	PBT (Rs.)	GSA (National) (Rs.Mn)													
2010	370	100													
2011	360	0													
2012	385	200													
<p><b>Impact of Climatic Change</b></p> <p>Crop production is seasonal and subject to the vagaries of weather.</p>	<p>Loss of crop and quality of the harvest affect the market share, earnings and profitability.</p>		<ul style="list-style-type: none"> <li>• Geographical distribution of the estates in the high and low grown elevations.</li> <li>• Monitoring of rainfall and temperatures trends.</li> <li>• Plant drought resistant cultivars.</li> <li>• Engage in sustainable agricultural practices.</li> <li>• Proactive participation of the small holder in the supply chain.</li> </ul>												

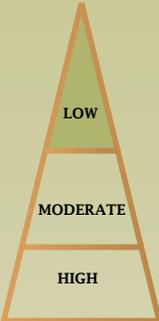
## Risk Management Contd..

RISK FACTORS	RISK ASSESSMENT	RATING	RISK MANAGEMENT STRATEGIES						
<p><b>Wage Structure</b> Trade Unions play an active role in determining wages. Wage structure not aligned to worker productivity.</p>	<p>High increases in wage rates affect the cost of production and gratuity Liability substantially, thereby the competitiveness and profitability.</p> <p>Collective Agreement is revised every two years.</p> <p>% increase in wage rates</p> <table border="1"> <tr> <td>2011</td> <td>27</td> </tr> <tr> <td>2009</td> <td>40</td> </tr> <tr> <td>2006</td> <td>26</td> </tr> </table> <p><b>Cost Structure</b></p> <p>■ Labour ■ Material ■ Other</p>	2011	27	2009	40	2006	26		<ul style="list-style-type: none"> <li>• Increase land and worker productivity.</li> <li>• Optimise deployment of labour to maximise productivity and outsource non value adding activities.</li> <li>• Motivate and empower Human Resources to unleash their potential.</li> <li>• Negotiate with trade unions and stakeholders to have a Wage structure in line with productivity.</li> <li>• Introduce an 'Out Grower' model on estates.</li> </ul>
2011	27								
2009	40								
2006	26								
<p><b>Market Risk</b> Changes in consumer preferences, global supply and Commodity price cycles.</p>	<p>Adverse impact on revenue and profitability</p>		<ul style="list-style-type: none"> <li>• Focus on producing a 'Quality Tea'.</li> <li>• Change grade mix to meet buyer / consumer preferences .</li> <li>• Expand product range from black tea to other varieties of tea.</li> <li>• Monitor market trends.</li> <li>• Obtain international certifications such as RFA, ISO, ETP.</li> </ul>						

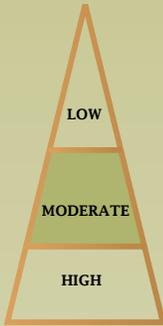
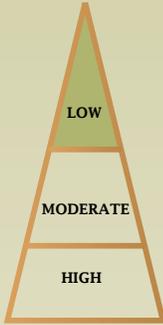
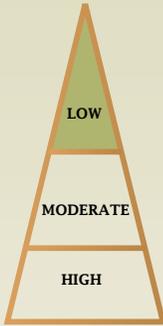
RISK FACTORS	RISK ASSESSMENT	RATING	RISK MANAGEMENT STRATEGIES
<p><b>Competition</b> Sri Lanka Tea Industry faces intense global competition mainly flowing from low cost producers and substitute beverages.</p>	<p>Competition results in loss of markets and erosion of margins.</p>		<ul style="list-style-type: none"> <li>• Strengthen the Company's brand Images.</li> <li>• Focus on quality and productivity.</li> <li>• Broaden and add value to the product range viz. Green Tea.</li> <li>• Marketing promotions with Mabroc Teas (Pvt) Limited.</li> <li>• Strengthen relationships with brokers and buyers.</li> </ul>
<p><b>Business Risk</b> Failure to implement strategic plans, revenue enhancing and cost saving measures and Initiatives on profitable investments.</p>	<p>Impede future growth.  Reduce revenue, cash flow and profitability.</p>		<ul style="list-style-type: none"> <li>• An Annual Corporate plan with Strategic and operational objectives/ action plan is submitted to the Board of Directors for review .</li> <li>• The Board of Directors, and the management committee holds regular meetings to formalise strategies and plans for the future.</li> <li>• Operations are monitored and controlled by a MIS and budgetary control system and remedial action is taken . This includes sector comparisons and monitoring performances of competitors.</li> <li>• Group regularly hold review meetings and share information on relevant areas.</li> </ul>
<p><b>Risks from natural or man-made disasters.</b></p>	<p>Human error, accidents, natural disasters may cause financial losses.</p>		<ul style="list-style-type: none"> <li>• Transferring risks to third party through insurance covers. Adequacy of the insurance covers are regularly reviewed and updated.</li> <li>• Sound internal control systems, compliance audits, Disaster Management systems are in place.</li> <li>• Standardisation of procedures, and policies to mitigate risks.</li> <li>• Employ suitable and qualified personnel.</li> </ul>

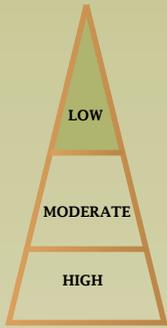
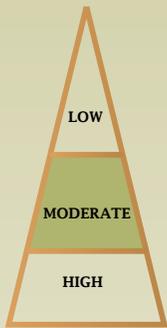
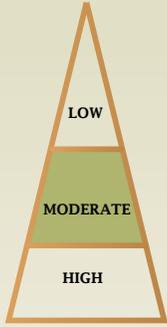
## Risk Management Contd..

RISK FACTORS	RISK ASSESSMENT	RATING	RISK MANAGEMENT STRATEGIES						
<b>OPERATIONAL RISK</b>									
<p><b>Product Quality</b> Inconsistency of product quality lowers demand.</p>	<p>Buyers curtailing purchases. Drop in market price and eroding market share.</p>		<ul style="list-style-type: none"> <li>• Adherence to a “Quality Policy”.</li> <li>• Adopt and implement quality assurance measures such as food hygiene standards and certification of factories under HACCP and ISO.</li> <li>• Maintain a regular dialogue with buyers and brokers to obtain feedback.</li> <li>• Take prompt and corrective action on broker reports.</li> </ul>						
<p><b>Human Resource</b>  Low productivity, Immobility within/between estates. Reduction in resident manpower.</p> <p>Retain competent management &amp; supervisory staff.</p>	<p>Human resource concerns will expose the Company to difficulties in achieving the targeted crop , disruption to operations and performance which will reflect on productivity and profitability.</p> <p style="text-align: center;">No. of Employees</p> <table border="0"> <tr> <td>Labour</td> <td style="text-align: right;">10,035</td> </tr> <tr> <td>Staff</td> <td style="text-align: right;">453</td> </tr> <tr> <td>Executives</td> <td style="text-align: right;">78</td> </tr> </table>	Labour	10,035	Staff	453	Executives	78		<ul style="list-style-type: none"> <li>• Ensure industrial peace by the Collective Agreement entered in to with the Trade Unions in the Company’s capacity as a member of the Employers Federation.</li> <li>• Maintain a close dialogue with employees.</li> <li>• Training and development programs to improve performance</li> <li>• Increase productivity and norms, of tasks.</li> <li>• Prioritise human resources management viz performance management, training and development, motivation and empowerment to attract and retain high caliber employees.</li> <li>• Determine remuneration in line with the industry and not on an ad-hoc basis.</li> </ul>
Labour	10,035								
Staff	453								
Executives	78								

RISK FACTORS	RISK ASSESSMENT	RATING	RISK MANAGEMENT STRATEGIES
<p><b>Reputation</b> Legal and statutory requirements and ethical practices.</p>	<p>Non compliance may lead to loss of reputation, fines, and even litigation.</p>		<p>Reputation is considered as the most valued intangible asset of the Company and the following measures are taken to ensure highest standards of business conduct:</p> <ul style="list-style-type: none"> <li>• Adoption of the Code of Corporate Governance by all employees, senior management and Board of Directors,</li> <li>• Seek expert legal advice to incorporate risk mitigatory clauses in drafting legal contracts and agreements especially those of new ventures and investments.</li> <li>• Maintain internal control systems and procedures to minimise fraud and malpractices,</li> <li>• Implement Company's Policies on health, safety and environmental to ensure best practices in the industry,</li> <li>• Adopt ethical and sustainable practices viz. RFA , Ethical Tea Partnership member.</li> <li>• Corporate membership in Employers Federation, Ceylon Chamber of Commerce and Planters Association of Ceylon.</li> <li>• Close dialogue with the Golden Shareholder.</li> </ul>

## Risk Management Contd..

RISK FACTORS	RISK ASSESSMENT	RATING	RISK MANAGEMENT STRATEGIES
<p><b>Investments</b> Investments are necessary for the sustainability of the business.</p>	<p>Investments made without proper feasibility may impact future profitability and sustainability.</p>		<ul style="list-style-type: none"> <li>• An annual investment plan is formulated and included in the corporate plan.</li> <li>• Subject proposed investments to a rigorous evaluation and feasibility process, which require a minimum return on investment.</li> <li>• Seek Board approval prior to embarking on a proposed investment.</li> <li>• Closely monitor the progress to ensure project deliverables are achieved within the given budgets and timelines.</li> </ul>
<p><b>Information &amp; Information Systems</b> Accurate and timely information from information systems is vital for decision making and control.</p>	<p>Disruption caused by ineffective or failed systems could result in loss of critical information required for management decisions and even lead to financial losses. Loss of business opportunities. Breach of system security.</p>		<ul style="list-style-type: none"> <li>• Sound IT Policy, internal controls including IT security, privacy and confidentiality .</li> <li>• Disaster recovery plans, sound backup system to gear for system failure.</li> <li>• Monitoring of internet &amp; e-mail usage.</li> <li>• Enter into maintenance contracts for hardware and software with a well-established information Technology company.</li> <li>• Use of licensed software.</li> </ul>
<p><b>Fraud Risk</b> Break down of internal control systems, processes and procedures .</p>	<p>Disruptions to normal course of operations. Operational and financial loss.</p>		<ul style="list-style-type: none"> <li>• Review of effectiveness of internal control systems by Internal Auditors as well as third party auditors regularly and by external auditors annually.</li> <li>• Standardise procedures and policies.</li> <li>• Employ suitable and qualified personnel.</li> <li>• Close monitoring and supervision of operations and personal.</li> </ul>

RISK FACTORS	RISK ASSESSMENT	RATING	RISK MANAGEMENT STRATEGIES
<p><b>Contractual Risk</b></p> <p>Entering in to legal contracts contravening law.</p> <p>Contracts which are not commercially viable.</p>	<p>Oversight on contractual obligations may lead to loss of reputation, litigation and financial losses.</p>		<ul style="list-style-type: none"> <li>• Subject all agreements to professional legal review and advice.</li> <li>• Board review and approval of all major contracts.</li> </ul>
<b>FINANCIAL RISK</b>			
<p><b>Liquidity</b></p> <p>Availability of sufficient funds is crucial as the industry is cyclical with long gestation periods for returns.</p>	<p>Inadequacy of funds would affect sustainability of operations, funding at higher costs or postponement of critical investments.</p>		<ul style="list-style-type: none"> <li>• Suitably structuring borrowings to ensure their maturity profile is not beyond the Company's ability to repay or re-finance.</li> <li>• Set borrowing limits and gearing levels in the financial objectives.</li> <li>• Priorities Capital Investments.</li> <li>• Maintain cash flow and budgetary controls systems for effective monitoring.</li> </ul>
<p><b>Finance Costs</b></p> <p>Fluctuating interest rates</p>	<p>Impacts on profitability and cash flows due to high interest costs.</p>		<ul style="list-style-type: none"> <li>• Employ a mix of floating and fixed rates of interest to reduce the impact of any upward movement of finance cost while benefitting from a downward movement.</li> <li>• Increase share of equity funding in total capital employed.</li> <li>• Resort to concessionary funding from available sources.</li> </ul>

## Corporate Governance

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

Through the years, our “Code of Corporate Conduct” setting out governance guidelines has given a blueprint to all our employees, senior management and the Board of Directors and has assumed prominence in the Company ethos.

We at Talawakelle Tea Estates PLC are dedicated to uphold the highest standards of integrity, transparency, accountability and professionalism to take the Company to greater heights of corporate values. We affirm that there has not been any material violation during the year under review of the “Code of Corporate Conduct”.

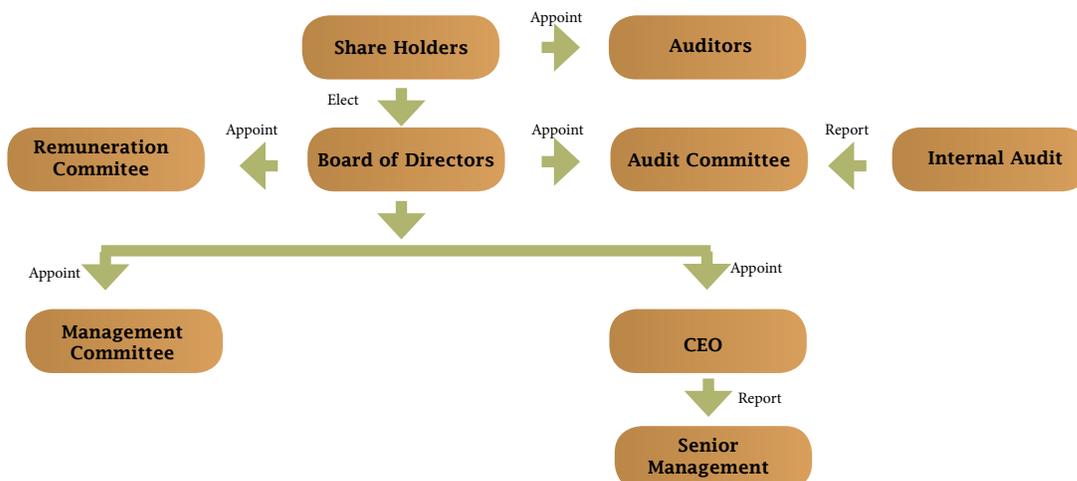
“Good Governance is...a core value at TTE PLC”.

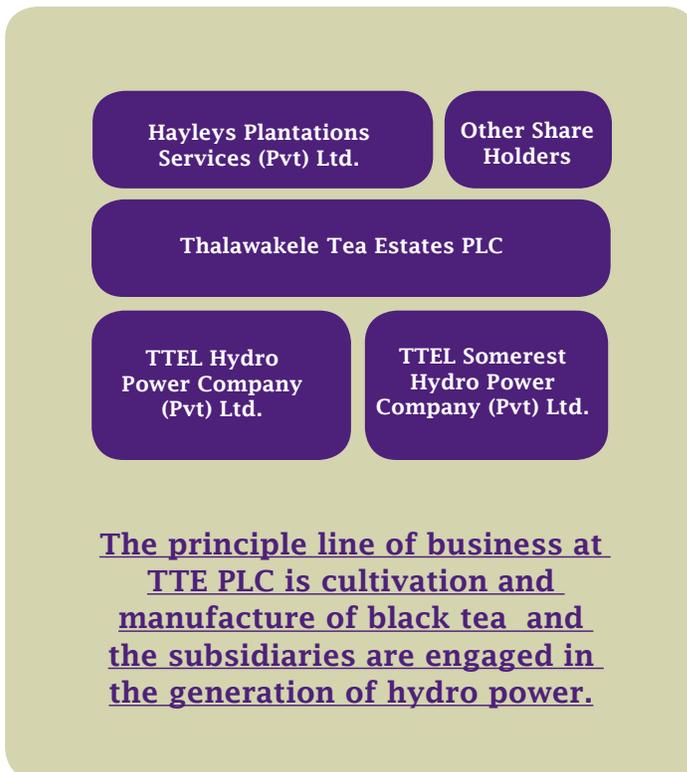
We believe that good governance is an uncompromising pursuit that provides assurance and comfort for the creation of long term sustainable stakeholder value. The Board of Directors of TTE PLC is committed to follow the best practices in Corporate Governance in its attempt to

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

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

TTE PLC’s Governance Framework is depicted in the following diagram.





## ORGANISATION

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

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

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

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

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



## Corporate Governance Contd..

### MANAGEMENT COMMITTEE

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

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

### CORPORATE MANAGEMENT

The Board has delegated the primary authority to the Chief Executive Officer (CEO) for the implementation of policy and

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

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

### MONTHLY REVIEW COMMITTEE

The Group Finance Cluster Meetings enable representatives from different sectors of the group to communicate relevant matters, areas of special interests and concerns, and share best practices. The Chief Financial Officer of the Company works closely with

the Group CFO of Hayleys PLC in identifying operational and financial risks and initiating prompt action to mitigate such risks.

### INFORMATION TECHNOLOGY (IT) GOVERNANCE

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

### IT VALUE AND ALIGNMENT

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

**IT RISK MANAGEMENT**

Management of IT related risks and Information Security Management Systems (ISMS) are assessed in the process of Enterprise Risk Management. TTE PLC comply with Hayleys Group’s IT Usage Policy, covering IT discipline, use of licensed software, closer monitoring of usage of internet, email and mail server and the use of antivirus and firewall servers/software.

Critical business information and systems are backed up/replicated at regular intervals and kept in secure off-site locations to meet a worst case scenario of system failure.

**CORPORATE GOVERNANCE**

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

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

We tabulate in two sections as set out in the diagram the Corporate Governance practices adopted

and practiced by the Company and the extent of compliance to the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri

Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Rules set out in Section 7.10 of the Colombo Stock Exchange’s (CSE) Listing Rules on Corporate Governance.

**Section 1: Levels of Compliance to the Code of Governance  
Issued jointly by ICASL and SEC**



## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
<b>1: THE COMPANY</b>			
<b>A. DIRECTORS</b>			
<b>A.1. The Board</b>			
<p>TTE PLC is headed by an effective Board of Directors with professionals and business leaders drawn from diverse fields and their profiles are given on pages 138 to 141 of this Annual Report. As at 31.12.2012 the Board comprised of 12 directors including the Chairman, the Chief Executive Officer and 3 Non Executive Independent Directors. The Board with their multidisciplinary acumen and leadership directs the Company in achieving goals within a budgetary framework and a responsible governance structure.</p>			
Board Meetings	A 1.1	Compliant	<p>The Board discharges its responsibilities through quarterly scheduled meetings to make strategic decisions and to review the performance of the Company. Ad-hoc meetings are also held to address exigencies. These meetings enhance shareholder value and all stakeholder interests are considered in corporate decisions.</p> <p>Details of the meetings and attendance of the members are set out in the page 137 of this Report.</p>
Responsibilities of the Board	A 1.2	Compliant	<p>The Board of Directors formulates, implements, monitors and communicates business policy and strategy considering all stakeholder interests to ensure sustainability. It ensures that the Chief Executive Officer and the management team possess the requisite skills, experience and knowledge to implement the strategy and manage operations effectively with proper succession arrangements in place.</p> <p>The Board ensures effective systems to secure integrity of information, internal controls and risk management, compliance with all applicable statutes, regulations and ethical standards.</p> <p>The Board directs the Company to adopt appropriate accounting policies and comply with financial regulations.</p>

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

## Corporate Governance Contd..

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

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
<b>A.4. Financial Acumen</b>			
The Code requires that the Board comprise members with sufficient financial acumen and knowledge to offer guidance on matters related to finance.			
Availability of sufficient financial acumen	A.4.1	Compliant	Two Directors of the Board are Fellow Members of the Institute of Chartered Accountants of Sri Lanka and one serves as the Chairman of the Audit Committee. These Directors possess the necessary knowledge, competence and skills to guide the Board on matters related to finance and investment.
<b>A.5. Board Balance</b>			
The Code requires the Board to have a balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision making.			
Presence of Non-Executive Directors	A.5.1	Compliant	Seven out of ten Directors are Non-Executive Directors which is well-above the minimum prescribed by the Code i.e. two or one third of the total number of Directors, whichever is higher. This ensures that the views of Non-Executive Directors carry a significant weight in the Board's decisions.  The total number of Directors is based on the number as at the conclusion of 2011 Annual General Meeting which is as per the requirement of the Code.  Throughout the year, the balance has been maintained between Executive and Non-Executive Directors of the Board
Independent Non- Executive Directors	A.5.2	Compliant	Three out of seven Non-Executive Directors are independent which is above the minimum prescribed by the code i.e. two or one-third of the Non-Executive Directors appointed to the Board whichever is higher.
Independence of Non- Executive Directors	A.5.3	Compliant	All independent Non-Executive Directors are independent of management and free of any business or other relationships that could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.
Annual Declaration of Non-Executive Directors	A.5.4	Compliant	Each Non-Executive Director submits a declaration of independence/non- independence in a prescribed format annually which is in line with the requirements of Schedule H of this Code. This information is made available to the Board.

## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Determination of independence of the Directors	A.5.5.	Compliant	The Board has determined the independence of Directors based on the declarations submitted by the Non-Executive Directors as to their independence, as a fair representation and will continue to evaluate their independence on this basis annually. Independent Non-Executive Directors are: <ul style="list-style-type: none"> <li>• Prof. U Liyanage</li> <li>• Dr. S S S B D G Jayawardena</li> <li>• Mr L N De S Wijeyeratne</li> </ul>
Requirement to appoint a 'Senior Non Executive Director' and making himself/herself available for confidential discussions	A.5.6 & A.5.7	Not Applicable	This does not arise as the roles of the Chairman and the Chief Executive Officer are clearly segregated.
Chairman conducting meetings with Non-Executive Director	A.5.8	Compliant	The Chairman meets with Non-Executive Directors without the presence of the Executive Directors whenever necessary.
Recording of concerns in the Board Minutes	A.5.9	Compliant	Concerns raised by the Directors during the year which could not be unanimously resolved are duly recorded in the Board Minutes.
<b>A.6. Supply of Information</b>			
The Code requires the management to provide the Board with appropriate and timely information to enable them to discharge their duties.			
Management's obligation to provide appropriate and timely information to the Board	A 6.1	Compliant	Directors are provided with monthly reports on performance, minutes of review meetings and other relevant reports and documents as necessary. The Chairman ensures that all Directors are adequately briefed on issues arising at the management meetings.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Adequate time for effective conduct of the Board meetings	A.6.2	Compliant	The minutes, agenda and papers required for Board meetings are circulated well in advance to facilitate individual directors to effectively participate at the Board meetings.
<b>A.7. Appointments to the Board</b>			
The Code requires having a formal and transparent procedure for the appointment of new Directors to the Board.			
Nomination Committee	A.7.1	Compliant	The Board as a whole decides on all new Board appointments in accordance with the Articles of Association of the Company.
Assessment of Board- composition by the Nomination Committee /Board as a whole	A.7.2	Compliant	The Board as a whole annually assesses board composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment are taken into account when new Board appointments are considered.
Disclosure of required details of new Directors to shareholders	A.7.3	Compliant	Upon the appointment of a new director to the Board the Company discloses the following to the Colombo Stock Exchange <ul style="list-style-type: none"> <li>• a brief resume of each such Director including the nature of his expertise in relevant functional areas,</li> <li>• the names of companies in which the Director holds directorships, memberships in Board Committees etc.,</li> <li>• Independence of such Director</li> </ul>
<b>A.8 Re-election</b>			
The Code requires that all Directors including the Chairman should be required to submit themselves for re-election at regular intervals at least once in every three years.			

## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Appointments of Non-Executive Directors, Chief Executive Officer and Directors in the Board	A.8.1 & A.8.2	Compliant	The Directors are elected by the Shareholders of the Company as per the Company's Articles of Association. The Company's Articles provide for the Board to appoint additional directors or fill in a casual vacancy. A director appointed by the Board to hold office until the next Annual General Meeting and seek re-appointment by the shareholders at that meeting. The Articles call for one-third of the directors in office to retire at each Annual General Meeting. The directors who retire are those who have served for the longest period after their appointment/re-appointment. Retiring directors are eligible for re-election. The names of directors submitted for election or re-election is accompanied by a resume to enable shareholders to make an informed decision on their election. The Chief Executive Officer does not retire by rotation.
<b>A.9. Appraisal of Board Performance</b>			
The Code requires that the Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.			
Annual performance evaluation of the Board and its Sub Committees	A.9.1 & A.9.2	Compliant	The Chairman and the Remuneration Committee evaluate the performance of the Executive Directors. The Board undertakes an annual self-evaluation of its own performance and of its Committees.
Disclosure of performance evaluation criteria	A.9.3	Compliant	Performance evaluation criteria is given in the Remuneration Committee Report on page 145 of this Report

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
<b>A.10. Disclosure of Information in Respect of Directors</b>			
The Code requires that the shareholders should be kept advised of relevant details in respect of Directors in the Annual Report.			
Details in respect of Directors	A 10.1	Compliant	<p>The following information in relation to Directors with page references is disclosed in the Annual Report.</p> <ul style="list-style-type: none"> <li>• Name, qualifications and brief profile - (please refer pages 138 to 141).</li> <li>• Nature of expertise (please refer page 138 to 141).</li> <li>• Directors' interest in contracts (please refer page 214 to 216).</li> <li>• Number of meetings (The Board and Committees) held and attendance (please refer page 137).</li> <li>• Names of Committees in which the Director serves as the Chairman or member (please refer page 124 and 130).</li> </ul>
<b>A. 11 Appraisal of Chief Executive Officer</b>			
The Code requires the Board to assess the performance of the Chief Executive Officer.			
Setting annual targets and appraisal of the performance of the Chief Executive Officer by the Board	A.11.1 & A.11.2	Compliant	<p>Prior to the commencement of each financial year, the Board in consultation with the Chief Executive Officer, sets reasonable financial and non-financial performance targets which are in line with short, medium and long-term objectives of the Company. Performance evaluation of the Chief Executive Officer is carried out by the Board quarterly and annually to ensure that pre-agreed targets have been achieved.</p> <p>The Chief Executive Officer is responsible to provide the Board with explanations for any adverse variances together with actions to be taken.</p>

## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance									
<b>B. DIRECTORS' REMUNERATION</b>												
<b>B.1. Remuneration Procedure</b>												
The Code requires the Company to have a well established formal and transparent procedure for developing policy on executive remuneration and for fixing remuneration packages of individual directors. No director is involved in deciding his/her remuneration.												
Establishment of the Remuneration Committee	B.1.1	Compliant	The Remuneration Committee decides on the remuneration of Executive Directors and sets guidelines for the remuneration of the management staff of the Company. The Chairman and the Chief Executive Officer are not members of this Committee.									
Composition of the Remuneration Committee	B.1.2	Compliant	The Remuneration Committee consists of two Non-Executive Directors and the Chairman of this Committee is appointed by the Board. Remuneration Committee is chaired by Prof. U Liyanage- an Independent Director.									
Chairman and the members of the Remuneration Committee	B.1.3	Compliant	The Remuneration Committee consists of the following Non- Executive Directors: <table border="1" data-bbox="771 1375 1429 1627"> <thead> <tr> <th>Name of Member</th> <th>Position</th> <th>Status</th> </tr> </thead> <tbody> <tr> <td>Prof.U. Liyanage</td> <td>Chairman</td> <td>Independent Non-Executive Director</td> </tr> <tr> <td>Mr.L.N.De. S Wijeyeratne</td> <td>Member</td> <td>Independent Non-Executive Director</td> </tr> </tbody> </table>	Name of Member	Position	Status	Prof.U. Liyanage	Chairman	Independent Non-Executive Director	Mr.L.N.De. S Wijeyeratne	Member	Independent Non-Executive Director
Name of Member	Position	Status										
Prof.U. Liyanage	Chairman	Independent Non-Executive Director										
Mr.L.N.De. S Wijeyeratne	Member	Independent Non-Executive Director										
Determination of remuneration of Non-Executive Directors	B.1.4	Compliant	The Board as a whole determines the remuneration of the Non-Executive Directors including the members of the Remuneration Committee which the Board believes is in line with current market rates and which is within the limits set in the Articles of Association.									
Consultation of the Chairman and access to professional advice	B.1.5	Compliant	Remuneration Committee consults the Chairman about its proposals relating to the remuneration of other Executive Directors and has access to professional advice from within and outside the Company in discharging their responsibilities.									

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

## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Levels of remuneration for Non-Executive Directors	B.2.9	Compliant	Remuneration for Non-Executive Directors reflects the time commitment and responsibilities of their role, taking into consideration market practices. The fees are as explained in section B.1.4 of this table.
<b>B.3 Disclosure of Remuneration</b>			
The Code requires that the Company's Annual Report contain a statement of remuneration policy and details of remuneration of the Board.			
Disclosure of Remuneration	B.3.1	Compliant	Please refer Section B.1.3 on page 124 for the names of members in the Remuneration Committee, page 145 in the Remuneration Committee Report for the remuneration policy and page 148 for the total Directors' Remuneration.
<b>C. RELATIONS WITH SHAREHOLDERS</b>			
<b>C.1. Constructive Use of the Annual General Meeting (AGM) and Conduct of General Meetings</b>			
The Code requires the Board to use the Annual General Meeting as a platform to communicate with shareholders and encourage their participation.			
Use of Proxy votes	C.1.1	Compliant	TTE PLC has in place an effective mechanism to count all proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands, except where a poll is called.
Separate resolution for all separate issues at the Annual General Meeting	C.1.2	Compliant	TTE PLC proposes a separate resolution at the Annual General Meeting on each substantially separate issue. Further, adoption of the Annual Report of the Board of Directors on the affairs of TTE PLC, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered as a separate resolution.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Availability of all Board Sub-Committee Chairmen	C.1.3	Compliant	The Chairman of TTE PLC ensures that the Chairmen of the Audit and Remuneration Committees are available to answer questions at the Annual General Meeting if so required.
Adequate notice of the Annual General Meeting	C.1.4	Compliant	A copy of the Annual Report including Financial Statements, Notice of the Meeting, Agenda and the Form of Proxy are sent to shareholders 15 working days prior to the date of the Annual General Meeting, as required by the statute, in order to provide the opportunity to all the shareholders to prepare and attend the same.
Procedures of voting at the Annual General Meeting	C.1.5	Compliant	A summary of the procedures governing voting at the Annual General Meeting is circulated to shareholders with every Notice of the Annual General Meeting.
<b>C.2. Major Transactions</b>			
The Code requires the Directors to disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter the TTE PLC net assets and the consolidated Group net asset base.			
Disclosure on 'major transactions'	C.2.1	Compliant	During the year, there were no major transactions as defined by Section 185 of the Companies Act No. 07 of 2007 which materially affect the net asset base of TTE PLC or consolidated Group net asset base. Transactions, if any, which materially affect the net asset base of TTE PLC, are disclosed in the Quarterly/Annual Financial Statements.
<b>D. ACCOUNTABILITY AND AUDIT</b>			
<b>D. 1. Financial Reporting</b>			
The Code requires the Board to present a balanced and understandable assessment of TTE PLC's financial position, performance and prospects.			

## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Board's responsibility for statutory and regulatory reporting	D.1.1	Compliant	The Board recognises the responsibility to present regulatory and statutory reporting in a balanced and understandable manner. The Company has strictly complied with the requirements of the Companies Act No.07 of 2007 in the preparation of Quarterly and Annual Financial Statements which are prepared and presented in conformity with Sri Lanka Accounting Standards prescribed by the Institute of Chartered Accountants of Sri Lanka. The financial statements of the Company are audited by Messers. Ernst & Young , Chartered Accountants.
Directors' Report in the Annual Report	D.1.2	Compliant	The Report of the Board of Directors on the affairs of the Company is given on pages 146 to 151 of this Annual Report covering the following: <ul style="list-style-type: none"> <li>• The Company has not engaged in activities that contravene laws and regulations of Sri Lanka (please refer page 146).</li> <li>• Directors' interests in contracts with the Company (please refer page 147).</li> <li>• Equitable treatment to shareholders (please refer page 150).</li> <li>• Going concern of the business (please refer page 151).</li> <li>• Review of Internal Controls and reasonable assurance of effectiveness (please refer page 151).</li> </ul>
Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	Compliant	The "Statement of Directors' Responsibilities" is given on page 153 and the Auditor's responsibilities are set out in the "Independent Auditors' Report" on page 157 of this Annual Report.
Management Discussion and Analysis	D.1.4	Compliant	Please refer to the "Management Discussion and Analysis" on pages 11 to 37 of this Annual Report.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Declaration by the Board on the going concern of the business	D.1.5	Compliant	Please refer page 146 to 151 of the "Annual Report of the Board of Directors" and the "Statement of Directors' Responsibility" on page 153 for the required declarations.
Summon an Extraordinary General Meeting to notify serious loss of capital	D.1.6	Not Applicable	Reason for such an Extraordinary General Meeting has not arisen as yet but would be complied with if such situation arises.
<b>D.2. Internal Control</b>			
The Code requires the Board to maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.			
Directors to review internal controls	D.2.1	Compliant	<p>The Board is responsible for the Company's system of internal control and in assessing its effectiveness. Internal control is established with emphasis placed on safeguarding assets, making available accurate and timely information and imposing greater discipline on decision making. It covers all controls, including financial, operational, compliance control and risk management. It is important to state, however, that any system can ensure only reasonable, and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time.</p> <p>The Company's internal audit function and outsourcing of internal audits to independent professional accounting firms play a significant role in assessing the effectiveness and successful implementation of existing controls and strengthening these and establishing new controls where necessary. The internal audit reports are made available to the Chairman, Chief Executive Officer, the Chairman of the Audit Committee and the Board. The Board reviews the effectiveness of the system of financial controls for the period up to the date of signing the accounts.</p>

## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Reviewing the need for internal audit function	D.2.2	Not Applicable	This is not applicable as the Company has its own internal audit function and also employs independent professional accounting firms to complement the work done by them.
<b>D.3. Audit Committee</b>			
The Code requires the Board to establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting, internal control principles and maintaining an appropriate relationship with the external auditors.			
Composition of the Audit Committee	D.3.1	Compliant	<p>Audit Committee consists of :</p> <p><b>Chairman</b> Mr. L N De S Wijeyeratne Independent Non- Executive Director</p> <p><b>Names of members</b> Dr. S S S B D G Jayawardena Independent Non-Executive Director Ms. MDA Perera Non-Executive Director</p> <p>The Company Secretaries Hayleys Group Services (Pvt) Ltd serves as its Secretary. The Director /CEO and the Chief Financial Officer(CFO) attend meetings. The Chairman, and other Executive Directors are invited to attend meetings. The input of the statutory auditors is obtained where necessary. The Audit Committee helps the Group achieve to a balance between conformance and performance.</p>

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Duties of the Audit Committee	D.3.2	Compliant	<p>The duties and responsibilities of the Audit Committee are aligned to the Code of Best Practice on Audit Committees issued by the Institute of Chartered Accountants of Sri Lanka and the Code of Best Practice on Corporate Governance jointly issued by Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.</p> <p>The Audit Committee assists the Board to ensure that the Company's internal controls and operations are in line with the best governance practices. The Audit Committee reviews and evaluates the scope, results, effectiveness of the audit and the independence and objectivity of the Auditors. Audit Committee reviews the nature and extent of non-audit services provided by the Auditors to seek balance objectivity and independence.</p>
Terms of Reference of the Audit Committee	D.3.3	Compliant	<p>The Terms of Reference (please refer page 155) of the Audit Committee have been agreed to by the Board. This addresses the purpose of the Committee, its duties and responsibilities including the scope and functions of the Committee.</p>
Disclosures of the Audit Committee	D.3.4	Compliant	<p>Names of the members of the Audit Committee are given in this table under reference D.3.1 and the independence of the Auditors is disclosed on page 156 under the Section on the "External Audits" in the "Audit Committee Report" on pages 155 to 156 of this Report.</p>
<p><b>D.4 Code of Business Conduct &amp; Ethics</b></p> <p>The Code requires the Company to adopt a Code of Business Conduct &amp; Ethics for Directors, and members of senior management team and to promptly disclose any waivers or material violations of the Code.</p>			

## Corporate Governance Contd..

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
Disclosure of Code of Business Conduct and Ethics	D.4.1	Compliant	A comprehensive Corporate Governance and Code of Conduct and Business Governance has been adopted by the Board and is in compliance and any violations are taken for consideration. The Board strictly ensures that the Directors and all employees adhere to the Code of Conduct and Business Governance.
Affirmation Statement by Chairman	D.4.2	Compliant	Refer the Chairman's Statement on page 6 of this Annual Report.
<b>D.5 Corporate Governance Disclosures</b>			
The Code requires the Directors to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.			
Disclosure of Corporate Governance	D.5.1	Compliant	This Report from pages 112 to 137 sets out the manner and extent to which TTE PLC has complied with the principles and provisions of the Code.
<b>2: SHAREHOLDERS</b>			
<b>E. INSTITUTIONAL INVESTORS</b>			
<b>E.1 Shareholder Voting</b>			
The Code requires Institutional Shareholders to make use of their votes and encourages them to ensure their voting intentions are translated to practice			
Communication with shareholders	E.1.1	Complied	There are regular discussions with shareholders (based on their requests) on matters which are relevant and of concern to the general membership. Voting of the shareholders is critical in carrying out a resolution at the Annual General Meeting. The Chairman ensures the views of the shareholders are communicated to the Board. Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Group considers as its principal communication with them and other stakeholders. These reports are also made available on the TTE PLC's website and are provided to the Colombo Stock Exchange. Any information that the Board considered as price sensitive is disseminated to the shareholders as necessary. Shareholders may bring up concerns they have, either with the Chairman or the Chief Executive Officer or the Company Secretaries as appropriate.

Corporate Governance Principles	Reference to code	Compliance status	Details of Compliance
<b>E.2 Evaluation of Governance Disclosures</b>			
The Code requires the Institutional investors to give due weight to all relevant factors drawn to their attention.			
Due weight by Institutional Investors	E.2.1	Compliant	The Institutional Investors are encouraged to give due weight to all relevant matters relating to the Board structure and composition.
<b>F. Other Investors</b>			
<b>F.1 Investing and Divesting Decision</b>			
Individual shareholders	F.1.1	Compliant	Individual investors are encouraged to carry out adequate analysis or seek independent advice in making investing or divesting decisions.
<b>F.2 Shareholder Voting</b>			
Individual shareholders voting	F.2.1	Compliant	Individual shareholders are encouraged to actively participate in Annual General Meetings of the Company and exercise their voting rights. The Annual General Meeting gives an ideal platform for all shareholders to meet with the directors and obtain information and clarifications on the performance and the way forward of the Company.

## Corporate Governance Contd..

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

Rule No.	Corporate Governance Principles	Compliance Status	Details
7.10.(a)	Non-Executive Directors	Compliant	At the conclusion of the preceding Annual General Meeting and , at 31 December 2012, nine out of twelve Directors were Non-Executive Directors.
7.10.2(a)	Independent Directors	Compliant	At the conclusion of the preceding Annual General Meeting, three out of nine Non-Executive Directors were Independent. As at 31 December 2012 three out of nine Non-Executive Directors are independent.
7.10.2 (b)	Independent Directors	Compliant	Non-Executive Directors have submitted the declaration in line with the regulatory requirements.
7.10.3(a)	Disclosure relating to Directors	Compliant	The Board assessed the independence declared by the directors and determined the directors who are independent and disclosed same in the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference A.5.5 on page 120 of this Report.
7.10.3.(b)	Disclosure relating to Directors	Compliant	The Board has determined that all Non-Executive Directors except for Messrs Merrill J Fernando, Malik J Fernando, G K Seneviratne, K I M Ranasoma, W D N H Perera and M D A Perera satisfy the criteria for “independence” set out in the Listing Rules.
7.10.3(c)	Disclosure relating to Directors	Compliant	A Brief resume of each Director is given in pages 138 to 141 of this Report.

Rule No.	Corporate Governance Principles	Compliance Status	Details
7.10.3(d)	Disclosure relating to Directors	Compliant	Brief resumes of new Directors appointed have been provided to the Colombo Stock Exchange
7.10.5(a)	Composition of Remuneration Committee	Compliant	At the conclusion of the preceding Annual General Meeting, the Remuneration Committee comprised two Independent Non-Executive Directors. As at 31 December 2012, the Committee consists of two Independent Non-Executive Directors.
7.10.5(b)	Functions of the Remuneration Committee	Compliant	Please refer to the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference B.1.1 on page 124 for the details of the functions of the Remuneration Committee.
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	Compliant	Names of the Committee members are given in the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference B.1.3 on page 124.  Report of the Remuneration Committee is given on page 145 of this Report.  The remuneration paid to the Directors is given in Note 9 to the Financial Statements on page 192.

## Corporate Governance Contd..

Rule No.	Corporate Governance Principles	Compliance Status	Details
7.10.6(a)	Composition of the Audit Committee	Compliant	<p>As at the conclusion of the immediately preceding Annual General Meeting and as at 31 December 2012 the Audit Committee comprised three non-executive directors of which two are independent.</p> <p>Chairman of the Audit Committee is an Independent Non-Executive Director and is appointed by the Board.</p> <p>The Chief Executive Officer and Chief Financial Officer attend meetings by invitation.</p> <p>Chairman of the Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. Please refer page 139 of this Annual Report.</p>
7.10.6(b)	Audit Committee Functions	Compliant	<p>Please refer to the above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference to D.3.2 on page 131 for the details of the functions of the Audit Committee. The terms of reference of the Audit Committee have been agreed by the Board.</p>
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	<p>Compliant</p> <p>Compliant</p>	<p>Please refer above table in relation to the Code of the Securities and Exchange Commission and Institute of Chartered Accountants of Sri Lanka with reference D.3.1 on page 130 for the details of the names of members of the Audit Committee</p> <p>The basis of determination of the independence of the Auditors is given in the Audit Committee Report on page 156 of this Report.</p>

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

Name of Director	Directorship status	Attendance
Mr. A M Pandithage (Chairman )	Executive	4/4
Mr. S T Gunatilleke (Chief Executive Officer) (resigned - 31/12/12)	Executive	4/4
Mr. R Rajadurai (Managing Director) (appointed - 01/01/13)	Executive	0/0
Mr. J A G Anandarajah	Executive	4/4
Mr. Merrill J Fernando	Non-Executive	0/4
Mr. Malik J Fernando	Non-Executive	2/4
Mr. D C Fernando (Alternate to Mr. Malik J Fernando)	Non-Executive	0/4
Mr. G K Seneviratne	Non-Executive	4/4
Dr. K I M Ranasoma	Non-Executive	4/4
Mr. W D N H Perera	Non-Executive	4/4
Ms. M D A Perera	Non Executive	4/4
Pro. U Liyanage	Independent Non-Executive	4/4
Dr. S S S B D G Jayawardena	Independent Non-Executive	4/4
Mr. L N De S Wijeyeratne	Independent Non-Executive	4/4

## Directors Profiles

### MR A M PANDITHAGE\*

*Chairman*

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

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

### MR W G ROSHAN RAJADURAI\*

*Managing Director*

*(Appointed w.e.f. 01.01.2013)*

Mr W G Roshan Rajadurai joined Talawakelle Tea Estates PLC as Managing Director in January 2013 and was also appointed

as Managing Director of Kelani Valley Plantations PLC. He serves on the Board of Hayleys Group Management Committee.

An experienced planter with over thirty years of experience in plantation management, he was the Chief Executive Officer of a reputed Regional Plantation Company.

He is the Deputy Chairman of the Planters' Association of Ceylon. He serves in the Board of Tea Small Holdings Development Authority (TSHDA) and in the Tea Council of Sri Lanka.

### MR MERRILL J FERNANDO \*\*

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

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

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

### MR MALIK J FERNANDO \*\*

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

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

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

### MR S T GUNATILLEKE\*

*Chief Executive Officer*

*(Retired w.e.f. 31.12.2012)*

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

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

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

#### **PROF. UDITHA LIYANAGE \*\*\***

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

He is presently the Director of the Postgraduate Institute of Management (PIM) and the Chairman of its Board of Management. He counts over fifteen years experience in the industry, having held senior marketing management positions in leading companies in Sri Lanka and a leading Marketing Consultant. He is a member of the Board of Study of The Institute of Chartered Accountants of Sri Lanka, and a Council Member of the National

Institute of Business Management (NIBM). He is also a member of the Standing Committees on Staff Development and Management Studies of the University Grants Commission and a member of the Presidential Task Force on National Productivity Improvement. He was the Chairman of the CIM Sri Lanka, and a member of the International Board of CIM. He is on the Boards of Directors of a number of leading companies.

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

#### **DR S S S B D G JAYAWARDENA**

\*\*\*

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

He is the Chairman of the Tea Research Institute. He is a Board Member of Sri Lanka Tea Board (SLTB), Tea Small Holdings Development Authority (TSHDA) and Tea Shakthi and also a member of the Advisory Committee on

Tea of the Ministry of Plantation Industries. He is currently a member of the Research & Development Committee of National Science Foundation. He is a member of the Presidential Commission on National Salaries & Cadre Commission.

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. He has served as FAO Consultant on Biodiversity and JICA Consultant on Horticulture Development to the Government of Ghana.

#### **MR L N DE S WIJEYERATNE \*\*\***

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

He is a fellow of The Institute of Chartered Accountants in Sri Lanka and counts over thirty-five years of experience in Finance and General Management both in Sri Lanka and overseas. He was the Group Finance Director of Richard Pieris PLC from

## Directors Profiles Contd..

January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Limited. He is presently a Director of several listed and unlisted Companies.

**MR J A G ANANDARAJAH \***

Joined DPL in 1980. Director, Dipped Products PLC since 1989 and Managing Director from January 2007 to March 2011. Appointed to the Hayleys Group Management Committee in 2001 and to the Board of Hayleys PLC in 2007.

Director of Kelani Valley Plantations PLC since acquisition in 1996 and Talawakelle Tea Estates PLC from 2010. Managing Director of DPL Plantations (Pvt) Ltd., Hayleys Plantations Services (Pvt) Ltd., the owning companies of Kelani Valley Plantations PLC and Talawakelle Tea Estates PLC. Managing Director of Mabroc Teas (Pvt) Ltd.

Member of the Board of Management, Industrial Technology Institute, Sri Lanka. Chemistry (Honours) Graduate, University of Peradeniya, Sri Lanka.

**MR G K SENEVIRATNE \*\***

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

He joined DPL Plantations Limited in 1992 and to the Board in 1995. Served as the Chief Executive Officer of Kelani Valley Plantations PLC from 1994 to 2012; appointed as Director in 1996 and as Managing Director in May 2004. Appointed to the DPL Board in 1998 and to the Hayleys Group Management Committee in January 2007. Joined the Plantation Industry in 1970.

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

**DR K I M RANASOMA \*\***

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

Joined DPL in August 2010 as an Executive Director and took over as Managing Director from April 2011. Appointed to the Hayleys Group Management Committee

in January 2011 and to the Board of Hayleys in April 2011. Former Country Chairman/Managing Director of Shell Gas Lanka Ltd. and Shell Terminal Lanka Ltd. Holds First Class Honours Degree in Engineering from the University of Peradeniya, Sri Lanka, a Doctorate from Cambridge University, UK and an MBA with Distinction from Wales University, UK.

**MR W D N H PERERA \*\***

Mr W D N H Perera was appointed to the Board of Talawakelle Tea Estates PLC in October 2011.

Director of Hayleys PLC, Haycarb PLC, Amaya Leisure PLC. Chairman of Pan Asia Banking Corporation PLC, Executive Deputy Chairman of Vallibel One PLC, Managing Director of Royal Ceramics Lanka PLC, Chairman of Don Wilbert Capital Ltd. Director of Louis Brown & Co. Ltd., LB Finance PLC, Vallibel Finance PLC, Hotel Services (Ceylon) PLC. Chairman of N Sports (Pvt) Ltd. and N Capital (Pvt) Ltd.

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

Professional Affiliations & Memberships - Sri Lanka Institute of Marketing.

**MS MINETTE D A PERERA\*\***

Ms Minette D A Perera was appointed to the Board of Talawakelle Tea Estates PLC in January 2012.

She is 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.

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

\* *Executive*

\*\* *Non-Executive*

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

## Corporate Management Profile

### Talawakelle Tea Estates PLC

Principal Activity: Cultivation and manufacture of Black tea

Incorporated in 1992 in Sri Lanka

Stated Capital : Rs 350mn

DIRECTORS	
Mr. A M Pandithage	Chairman
Mr. S T Gunatilleke	Chief Executive Officer (Retired - 31/12/2012)
Mr. W G R Rajadurai	Executive Director/Managing Director (Appointed 01/01/2013)
Mr. Merrill J Fernando	
Mr. Malik J Fernando	(Alternate - Mr. D C Fernando)
Mr. M M M De Silva	(Resigned - 05/01/2012)
Mr. J A G Anandarajah	(Will be retiring- 31/03/2013)
Mr. G K Seneviratne	(Will be retiring- 08/04/2013)
Prof. U Liyanage	
Dr. S S S B D G Jayawardena	
Mr. L N De S Wijeyeratne	
Dr. K I M Ranasoma	
Mr. W D N H Perera	
Ms. M D A Perera	(Appointed - 05/01/2012)

MANAGEMENT TEAM	
<b>Directors</b>	
Mr. A M Pandithage	Chairman
Mr. J A G Anandarajah	Managing Director - HPSL (Will be retiring - 31/03/2013)
Mr. S T Gunatilleke	Director/Chief Executive Officer (Retired - 31/12/2012)
Mr. W G R Rajadurai	Executive Director/Managing Director (Appointed - 01/01/2013)

HEAD OFFICE MANAGEMENT TEAM	
Mr. D S Seneviratne	Deputy Chief Executive Officer
Mr. L H Munasinghe	General Manager - Plantations
Mr. T Dharmaratne	General Manager - Human Resource & Quality Management Development
Mrs. A R Wijesekera	Deputy General Manager - Finance
Mr. H H Jayasundera	Manager - Resource Development
Mr. M T D Rodrigo	Senior Manager - Estate
Mrs. V A Perera	Manager - Finance
Mr. D M Wickramaratne	Manager - Marketing

ESTATE MANAGEMENT TEAM		
Mr. S B Alawattegama	Deputy General Manager	Bearwell Estate
Mr. N P Abeysinghe	Deputy General Manager	Dessford Estate
Mr. L N Ratnayake	Group Manager	Logie Estate
Mr. D M H U Mahadivulwewa	Group Manager	Kiruwanganga Estate
Mr. G K Wijesekera	Group Manager	Great Western Estate
Mr. P G G Jayathilake	Group Manager	Mattakelle Estate
Mr. H P W Vithanage	Group Manager	Moragalla Estate
Mr. H P W Vithanage	Group Manager	Pitiyagoda Factory
Mr. H R J C Senanayake	Senior Manager	Calsay Estate
Mr. A C M Bandaranayake	Senior Manager	Somerset Estate
Mr. M W S S K Wijewardena	Senior Manager	Wattegoda Estate
Mr. G P G K Pathirana	Senior Manager	Deniyaya Estate
Mr. D M G B Dassanayake	Manager	Holyrood Estate
Mr. D M A S Dissanayake	Manager	Clarendon Estate
Mr. E S B A Egodawela	Manager	Radella Estate
Mr. C D Sabaragamuwa	Manager	Handford Factory
Mr. W D Jayasinghe	Manager	Indola Estate
Mr. U B Udawatte	Deputy Manager In Charge	Palmerston Estate

## Corporate Management Profile Contd..

**T T E L HYDRO POWER COMPANY (PRIVATE) LIMITED**

Principal Activity: Generation of Hydro Power  
 Incorporated in 2008 in Sri Lanka  
 Stated Capital : Rs 69.0Mn

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

**DIRECTORS**

Mr. A M Pandithage	(Chairman)
Mr. M M M De Silva	
Mr. S T Gunatilleke	(Retired - 31.12.2012)
Mr. Merrill J Fernando	
Mr. Malik J Fernando	
Mr. J A G Anandarajah	(Will be retiring- 31/03/2013)
Mr. N Y Fernando	(Resigned - 27.06.2012)
Mr. A R De Zilva	(Appointed - 27.06.2012)
Mr .W G R Rajadurai	(Appointed - 01.01.2013)

**T T E L SOMERSET HYDRO POWER (PRIVATE) LIMITED**

Principal Activity: Generation of Hydro Power  
 Incorporated in 2008 in Sri Lanka  
 Stated Capital :Rs 60.0Mn

Site	Location	Capacity
Somerset Hydro Power Project	Nanu oya	1.2 MW

**DIRECTORS**

Mr. A M Pandithage	(Chairman)
Mr. M M M De Silva	
Mr. S T Gunatilleke	(Retired - 31.12.2012)
Mr. Merrill J Fernando	
Mr. Malik J Fernando	
Mr. J A G Anandarajah	(Will be retiring- 31/03/2013)
Mr. N Y Fernando	(Resigned - 27.06.2012)
Mr. A R De Zilva	(Appointed - 27.06.2012)
Mr. W G R Rajadurai	(Appointed - 01.01.2013)

## Remuneration Committee Report

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

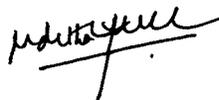
The Committee is responsible for determining the compensation package of the Director/CEO. In addition, they lay down guidelines and parameters for the compensation structure of the management staff of TTE PLC.

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

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

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

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



**Prof U Liyanage**  
*Chairman*  
Remuneration Committee  
13 February 2013

## Annual Report of the Board of Directors on the affairs of the Company

The Board of Directors of Talawakelle Tea Estates PLC (TTE PLC) has pleasure in presenting their Report on the affairs of the Company together with the audited Consolidated Financial Statements for the year ended 31st December 2012.

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

The Financial statements were reviewed and approved by the Board of Directors on 13 March 2013.

### PRINCIPAL ACTIVITIES

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

There were no material changes in the nature of the principal activities of the Company and the Group during the year under review.

### BUSINESS REVIEW/FUTURE DEVELOPMENTS

A review of the Group's business and its performance during the year, with comments on financial results and future strategic developments, is contained in the Chairman's Statement (pages 6 to 11) and Management Discussion & Analysis (pages 11 to 37) sections of this Annual Report. These reports together with the 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 duly signed by the Chief Financial officer and two directors of the Board are given on pages 158 to 216.

### AUDITOR'S REPORT

The Company's Auditors Ernst and Young, Chartered Accountants carried out an audit on the Financial Statements of the company and on the consolidated financial statements of the group as at 31st December 2012, and their Report on the Financial Statements of the Company and the Group is given on page 157.

### ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of the Financial Statements of the company and the group and the impact from the revised Sri Lanka Accounting Standards which have become effective from 01st January 2012 are given on pages 164 to 181.

### GROUP REVENUE

The revenue of the Group during the year was Rs 3,318.1 Mn (2011- Rs 2,744.5 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 revenue in respect of tea increased by Rs 642.5 Mn (2011- decreased by Rs 264.0 Mn) , rubber decreased by Rs 14.9 Mn (2011- increased by Rs 18.6 Mn ) and hydro power decreased by Rs 50.4 Mn (2011- decreased by Rs 7.3 Mn ) during the year.

Trade between Group Companies is conducted at fair market prices.

### RESULTS AND DIVIDENDS

The Group profit before taxation, amounted to Rs. 239.9 Mn (2011- loss Rs.22.1 Mn) in the year under review. After charging Rs.5.9 Mn (2011 - charging -Rs.10.5 Mn) for taxation and a consolidation profit of Rs10.7 Mn (2011-Rs18.6 Mn) for

non controlling interests, the Group profit attributable to equity holders of the company for the year was Rs. 223.3 Mn (2011-loss Rs. 51.4 Mn). A sum of Rs.59.3 Mn (2011- Nil) has been set aside for proposed dividend.

The Consolidated Income Statement along with the company's income statement for the year are given on page 158.

The Directors have confirmed that the Company satisfies the solvency test requirement under section 56 of the Companies Act No. 07 of 2007 for the first and final dividend proposed. A solvency certificate has been sought in respect of the first and final dividend of Rs. 2.50 per share (2011-Nil) proposed to be paid to the holders of issued ordinary shares of the Company as at the close of business on 22 April 2013. This dividend will be liable for dividend tax of 10%.

#### **GROUP INVESTMENT**

Total capital expenditure of the Group including investments in field development during the year amounted to Rs.151.3 Mn (2011-Rs. 171.0 Mn)

#### **PROPERTY, PLANT & EQUIPMENT**

Investment on Property, Plant & Equipment of the Group during the year amounted to Rs. 79.8

Mn (2011-Rs.68.8 Mn) whilst that of the Company was Rs.79.8 Mn (2011-Rs68.0 Mn ). The Company's investment on replanting of Tea , Rubber and Timber during the year amounted to Rs.54.0 Mn (2011-Rs 89.3 Mn) , Rs.15.2 Mn (2011- Rs.8.9 Mn) and Rs.2.3 Mn(2011-Rs.4.0 Mn) respectively.

Information relating to movement in Property, Plant & Equipment and Replanting is given in Notes 12, 13, 14A, 14B & 14C to the Financial Statements.

#### **MARKET VALUE OF PROPERTIES**

The Group does not possess any freehold land.

#### **STATED CAPITAL AND RESERVES**

The stated capital of the Company, consisting of 23.75 Mn Ordinary Shares and one Golden Share amounts to Rs.350 Mn. There was no change in the stated capital during the year.

Total Group Reserves at 31st December, 2012 amounts to Rs.1,005.4 Mn (2011-Rs.782.1 Mn) comprising Retained Earnings of Rs.865.6 Mn (2011-Rs.664.8 Mn) and Timber Reserves of Rs.139.7 Mn (2011-Rs.117.2 Mn).The composition of Reserves is shown in the Statement of Changes in Equity in the Financial Statements.

#### **PREFERENCE SHARES**

As at 31st December 2012 the company holds 14% Redeemable Cumulative Preference Shares in TTEL Hydro Power Company (Pvt) Limited and in TTEL Somerset Hydro Power (Pvt) Limited amounting to Rs.53.1Mn (2011-Rs.53.1Mn) and Rs.16.0Mn (2011-Rs.16.0Mn) 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 Interests Register. Particulars of entries in the Interests Register maintained by the Company are detailed below.

#### *Directors' Interests in Transactions:*

The Directors of the Company have made the general disclosures provided for in Section 192(2) of the Companies Act No.07 of 2007. Note 34 to the Financial Statements dealing with related party disclosures include details of their interests in transactions.

**Annual Report of the Board of Directors on the affairs of the Company Contd..****Directors' Interests in Shares:**

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

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

**Insurance & Indemnity:**

Hayleys Plantation Services (Private) Limited (HPSL) the Parent Company obtained a Corporate Guard Insurance Policy from Chartis Insurance Limited, providing worldwide cover to indemnify all past, present and future Directors and Officers (D&O) of the Company and its subsidiaries. The policy is extended worldwide with a total cover of US\$ 1.0 Mn up to 29 April 2012. There after Directors and Officers (D&O) of the Company and its subsidiaries has been covered by the Corporate Guard Insurance Policy obtained by the Hayleys Group from Chartis Insurance Limited. The policy is extended worldwide with a total cover of US\$ 5.0 Mn.

**Payment of Remuneration to Directors:**

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

The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The total remuneration for Executive Directors for the year ended 2012 is Rs.5.3 Mn (2011-Rs. 6.4 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 2012 is Rs.1.8 Mn (2011-Rs.1.7 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 (2011- 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 138 to 141.

**Executive Directors**

Mr. A M Pandithage (Chairman)  
Mr. S T Gunatilleke (Chief Executive (Retired - 31st December 2012))  
Mr. J A G Anandarajah

**Non- Executive Directors**

Mr. Merrill J Fernando  
(Alternate Ms. M D A Perera\*)  
Mr. Malik J Fernando  
(Alternate Mr. D C Fernando)  
Mr. G K Seneviratne  
Dr. K I M Ranasoma  
Mr. W D N H Perera  
Ms. M D A Perera  
(Appointed - 5th January 2012)

**Independent Non- Executive Directors**

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

Mr. M M M De Silva resigned from the Board with effect from 5th January 2012.

\*Ms. M D A Perera resigned as an alternate Director and was appointed to the Board on 5th January 2012.

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

Mr. S T Gunatilleke retired from the Board with effect from 31st December 2012 and Mr. W G R Rajadurai was appointed with effect from 1st January 2013 as the Managing Director. In terms of the Article 28(2) of the Articles of Association of the Company, shareholders will be requested to re-elect Mr. W G R Rajadurai at the Annual General Meeting.

Mr. A M Pandithage, Prof. U Liyanage and Dr. S S S B D G Jayawardena retire by rotation and being eligible, offer themselves for re-election.

Notice has been given pursuant to Section 211 of the Companies Act No 07 of 2007, of the intention to propose an ordinary resolution for re-election of Mr. Merrill J Fernando, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act. Mr. Fernando is 82 years old.

#### Management Fees

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

#### CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance rules laid down under the Listing Rules of the Colombo Stock Exchange and the

Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The Corporate Governance section on pages 112 to 137 discusses this further.

#### AUDITORS

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

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

The Auditors Messrs Ernst & Young Chartered Accountants were paid Rs.2.8 Mn (2011-Rs.2.4 Mn) as audit fees and audit related work of the company and Rs.0.16 Mn (2011-Rs 0.16 Mn) as audit fees by the two subsidiaries, TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Ltd.

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 218 and 219.

#### 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

## Annual Report of the Board of Directors on the affairs of the Company Contd..

the Golden Shareholder and the concurrence of a majority of the shareholders.

- The Company shall obtain the written consent of the Golden Shareholder prior to sub-leasing, ceding or assigning its rights in part or all of the lands set out in the Article of Association of the Company.
- The Golden Shareholder shall be entitled to call upon the Board of Directors of the Company once in every three month period if desired to meet with the Golden Shareholder and or his nominees, and the Directors if so called upon shall meet with the Golden Shareholder and or his nominees to discuss matters of the Company of interest to the State of the Democratic Socialist Republic of Sri Lanka.
- The Golden Share shall only be held by the Secretary to the Treasury in his official capacity and not in his own name, for and on behalf of the State of the Democratic Socialist Republic of Sri Lanka, or by a company in which the State of the Democratic Socialist Republic of Sri Lanka owns ninety nine (99) per centum or more of the issued share capital.
- The Golden Shareholder and/or his nominee shall be entitled to inspect the books of accounts of the Company after giving two weeks written notice to the Company.
- 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 213.

### EMPLOYMENT

The number of persons employed by the Company at year end was 10,566 (2011 -10,049) of which 10,532 (2011- 10,019) are engaged in employment outside the District of Colombo.

### SHAREHOLDERS

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

### STATUTORY PAYMENTS

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 153.

### 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 48 to 101.

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**

The details of related party transactions of the Company and the Group are given in note 34 and 35 into the Financial Statements.

**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. Therefore the going concern basis has been adopted in the preparation of the Financial Statements.

**Directors' Shareholdings**

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

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

Mr. Merrill J Fernando - 1,184,700 (2011 -1,184,700). These shares are held through Merrill J Fernando & Sons (Private) Limited.

Mr G K Seneviratne -300 (2011 - 300 shares)

Dr K I M Ranasoma -500 (2011 - 500 shares)

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

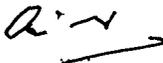
**Major Shareholdings**

The twenty major shareholders as at 31st December, 2012 are given on page 219 of this report.

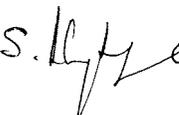
**ANNUAL GENERAL MEETING**

The Annual General Meeting will be held at the Registered Office of the Company, No.400, Deans Road, Colombo 10 at 3.00 pm on 22 April 2013. The Notice of the Annual General Meeting appears on page 222.

For and on behalf of the Board

  
A.M.Pandithage  
Chairman

  
W G R Rajadurai  
Director

  
S. Lytle

Hayleys Group Services (Pvt) Ltd.  
Secretaries

13 March 2013

Location	Name of Estate	Brand/ Mark	Total Extent		Area in Tea		Area in Rubber		Other Cultivations	Total Cultivated	Buildings Bunglows Garden & Roads	Name of Manager	No. of Workers	Crop With B/L	Yield	Factory Elevation	Type Factory	Factory Capacity
			Immature	Mature	Immature	Mature	Fu.Res./ Jun	Ha.										
<b>Talawakelle/Nanu Oya</b>																		
	Bearwell		423.41	21.16	319.17		33.01	373.34	50.07 S B	Alawattegama	678	572	1,791	1,280	Ortho	720		
	Calsay	Maha Eliya	282.25	21.95	182.55		32.05	236.55	45.70 H R J C	Senanayake	448	217	1,187	1,463	Ortho	430		
	Clarendon		191.42	15.81	148.04		-	163.85	27.57 D M A S	Dissanayake	277	375	1,133	1,555	Ortho	600		
	Dessford		431.99	31.16	293.63		45.55	370.34	61.65 N P	Abeyasinghe	801	417	1,422	1,382	Ortho	720		
	Great Western		628.48	25.98	393.85		66.97	486.80	141.68 G K	Wijesekera	848	618	1,569	1,448	Ortho	720		
	Holyrood		465.96	27.00	320.70		62.69	410.39	55.57 D G B	Dassanayake	701	461	1,437	1,341	Ortho	720		
	Logie		329.88	17.63	210.59		29.68	257.90	71.98 L N	Rathnayake	431	344	1,634	1,220	Ortho	500		
	Mattakelle		361.96	24.08	235.08		43.34	302.50	59.46 P G G	Jayathilake	747	527	2,215	1,372	Ortho	720		
	Palmerston		203.11	12.25	150.36		17.00	179.61	23.50 C B	Udawatte (Dpty.Mgr.)	324	272	1,808					
	Radella		458.76	27.60	242.98		105.09	375.67	83.09 E S B A	Egodawela	783	448	1,846	1,402	Ortho/Gr. T	720		
	Somerset		458.90	32.36	304.46		39.31	376.13	82.77 A C M	Bandaranayake	830	523	1,718	1,102	Ortho	720		
	Wattegoda		529.89	22.25	295.50		99.90	417.65	112.24 M W S S K	Wijewardena	729	496	1,678	1,219	Ortho	720		
	Sub Total		4,766.01	279.23	3,096.91		574.59	3,950.73	815.28		7,597	5,270	1,633			7,290		
<b>Galle</b>																		
	Moragalla		384.78	25.80	81.01	29.04	126.00	377.84	6.94 H P W V	ithanage	346	523	1,901	38	Ortho	600		
	Pityagoda	Sithakandura							H P W V	ithanage	12				Ortho	400		
	Sub Total		384.78	25.80	81.01	29.04	126.00	377.84	6.94		358	523	1,901			1,000		
<b>Deniyaya/Urubokka</b>																		
	Deniyaya	New Deniyaya	578.15	44.80	200.41		72.40	317.61	260.54 G P G K	Pathirana	418	568	1,285	310	Ortho	600		
	Handford								C D Sabaragamuwa		57	374	400	Ortho	600			
	Indola		282.16	9.50	85.77	31.15	59.20	227.68	54.48 W D	Jayasinghe	243	107	1,247					
	Kiruwanaganga	New Kiruwanaganga	482.71	17.81	339.51	12.00	87.15	456.47	26.24 D M H U	Mahadivulwewa	713	813	1,330	310	Ortho	1,050		
	Sub Total		1,343.02	72.11	625.69	43.15	59.20	201.61	341.26		1,431	1,861	1,373			2,250		
	Grand Total		6,493.81	377.14	3,803.61	72.19	185.20	892.19	1,163.48		9,386	7,655	1,585			10,540		

## Statement of Directors' Responsibilities

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

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

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

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Financial

Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS), Companies Act No. 7 of 2007 and the Listing Rules of The Colombo Stock Exchange. Further the Financial Statements provide the information required by the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are of the opinion, based on their knowledge of the Company, Key operations and specific inquires, 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.

As required by Section 56 (2) of the companies Act the Board of Directors has authorized distribution of the proposed dividends, being satisfied based on information available to it that the company would satisfy the solvency test after such distributions in accordance with section 57 of the companies Act, have sought in respect of dividend proposed certificates of solvency from its Auditors.

The Directors have taken reasonable measures to safeguard the assets of the Company and the Group and, in that context, have

instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

The External Auditors, Messrs Ernst & Young, reappointed at the last annual general meeting in terms of section 158 of the Companies Act 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 page 157 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 end of Financial year have been paid or where relevant, provided for.

By order of the Board



**Hayleys Group Services (Pvt) Ltd**  
Secretaries  
13 March 2013

“The race is not always to the swift, but to those who keep on running.”

## Financial Information

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## Financial Calendar

- |   |                        |
|---|------------------------|
| <b>Q1</b> Report                                  | 14th May 2012          |
| <b>Q2</b> Report                                  | 26th July 2012         |
| <b>Q3</b> Report                                  | 5th November 2012      |
| <b>Q4</b> Report                                  | 26th February 2013     |
| <b>2013 Annual Report</b>                         | <b>13th March 2013</b> |
| 21st Annual General Meeting 22nd April 2013       |                        |
| First and Final Dividend Proposed 22nd April 2013 |                        |
| First and Final Dividend Payable 2nd May 2013     |                        |

## Audit Committee Report

### ROLE OF THE AUDIT COMMITTEE

The role of the Committee, which has specific terms of reference, is described in the Corporate Governance Report on page 112-137.

### COMPOSITION OF THE AUDIT COMMITTEE

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

The Chairman of the Audit Committee is a Senior Qualified Accountant.

Mr. Malik J Fernando resigned with effect from 04 January 2012. Ms. M D A Perera Non - Executive Director was appointed with effect from 05 January 2012. The names of the members of the committee are given below and their brief profiles are given on pages 138 to 141 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 4 times during the year. The attendance of the members at these meetings is as follows:

Mr. L N de S Wijeyeratne	4/4
Dr. S S S B D G Jayawardena	4/4
Mr. Malik J Fernando (resigned w e f 04/01/2012)	0/0
Ms. M D A Perera (appointed w e f 05/01/2012)	4/4

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

### TASKS OF THE AUDIT COMMITTEE

**Financial Reporting System**  
The Committee reviewed the financial reporting system adopted by the Company in the preparation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted in the change over and compliance with the Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS).

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. Hayleys Group Management Audit & Systems Review Department reports on key control element and procedures that are selected according an annual plan were reviewed.

Internal Audits are outsourced to leading audit firms in line with 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.

## Audit Committee Report Contd..

### SUBSIDIARY COMPANY AUDIT COMMITTEES

Subsidiaries have appointed their own Audit Committees comprising Independent Directors. These Audit committees function independently of the Audit committee of Talawakelle Tea Estates PLC, but have similar terms of reference. The minutes of their Audit Committee meetings are reviewed by the Hayleys Group Audit Committee.

### External Audits

The committee held meeting with the External Auditors to review the nature, approach and scope of Audit and the Audit Management Letters of the Company. Actions taken by the management in response to the issues raised, as well as the effectiveness of the internal controls in place, were discussed with the Company. Remedial action was recommended wherever necessary.

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

### APPOINTMENT OF EXTERNAL AUDITORS

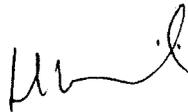
The Audit Committee has recommended to the Board of Directors that Messrs Ernst & Young continue as Auditors for the Year ending 31st December 2013.

### 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.

### CONCLUSION

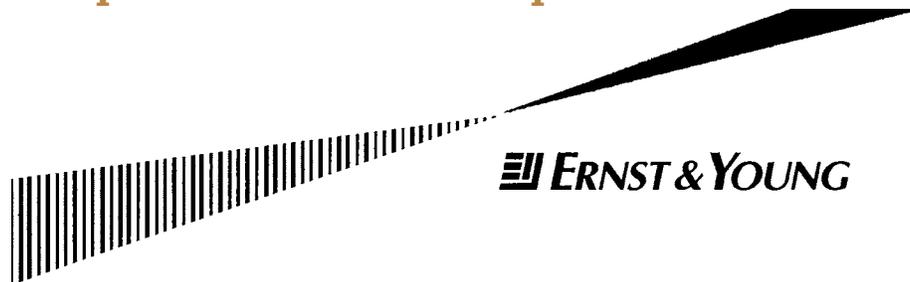
The Audit Committee is satisfied that the Company's accounting policies and operational controls provide reasonable assurance that the affairs of the Company are managed in accordance with the company policies and that Company assets are properly accounted for and adequately safeguarded.



**L N De S Wijeyaratne**  
*Chairman*  
Audit Committee

13 March 2013

## Independent Auditors' Report



**ERNST & YOUNG**

### Chartered Accountants

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

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
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ADBT/GP/NDS

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

#### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying Financial Statements of Talawakelle Tea Estates PLC and the consolidated Financial Statements of the Company and its subsidiaries which comprise the Statements of Financial Position as at December, 31 2012 and the Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Cash Flow Statements for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

#### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and Statements of Recommended Practices. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatements, whether due to fraud

or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### SCOPE OF AUDIT AND BASIS OF OPINION

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

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

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

#### OPINION

##### - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records

for the year ended December 31, 2012, and the financial statements give a true and fair view of the Company's state of affairs as at December, 31 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and Statements of Recommended Practices.

##### - Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December, 31 2012 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) and Statements of Recommended Practices, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

13 March 2013  
Colombo

## Income Statement

Year Ended 31 December	Notes	Company		Group	
		2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
Revenue	6	3,259,211	2,635,174	3,318,149	2,744,505
Cost of Sales		(2,855,905)	(2,573,167)	(2,886,237)	(2,603,856)
Gross Profit		403,306	62,007	431,912	140,649
Gains on Fair Value of Biological Assets		22,476	16,636	22,476	16,636
Other Income and Gains	7	45,197	48,126	43,176	35,982
Administrative Expenses		(89,517)	(92,258)	(96,065)	(98,505)
Management Fee		(27,253)	(5,922)	(27,253)	(5,922)
Government Lease Interest	8 a	(22,783)	(21,180)	(22,783)	(21,180)
Finance Cost	8 b	(89,934)	(69,693)	(111,466)	(89,858)
Profit/ (Loss) Before Tax	9	241,492	(62,284)	239,997	(22,198)
Income Tax Expense	10	(27,139)	4,197	(5,959)	(10,532)
Profit/ (Loss) for the Year		214,353	(58,087)	234,038	(32,730)
<b>Attributable to:</b>					
Owners of the Parent		214,353	(58,087)	223,290	(51,420)
Non - Controlling Interest		-	-	10,748	18,690
		214,353	(58,087)	234,038	(32,730)
Basic Earnings/ (Loss) per Share	11	9.03	(2.45)	9.40	(2.17)

The Accounting Policies and Notes on pages 164 to 214 form an integral part of the Financial Statements.

## Statement of Comprehensive Income

As at 31 December	Notes	Company		Group	
		2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
Profit/ (Loss) for the year		214,353	(58,087)	234,038	(32,730)
Other comprehensive income		-	-	-	-
Other comprehensive income for the year, net of tax		-	-	-	-
<b>Total comprehensive income for the year, net of tax</b>		<b>214,353</b>	<b>(58,087)</b>	<b>234,038</b>	<b>(32,730)</b>
Attributable to:					
Owner of the Parent		214,353	(58,087)	223,290	(51,420)
Non - controlling Interest		-	-	10,748	18,690
		<b>214,353</b>	<b>(58,087)</b>	<b>234,038</b>	<b>(32,730)</b>

The Accounting Policies and Notes on pages 164 to 214 form an integral part of the Financial Statements.

## Statements of Financial Position

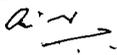
As at 31 December	Notes	Company			Group		
		2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
<b>ASSETS</b>							
<b>Non Current Assets</b>							
Right-to-use of Land	12	171,960	177,171	182,382	171,960	177,171	182,382
Property, Plant & Equipment Immovable estate assets on finance lease (other than Right-to-use of Land)	13	112,918	123,902	134,886	112,918	123,902	134,886
Tangible assets other than							
Immature/Mature Plantations	14A	667,277	626,387	595,586	1,078,424	1,053,588	1,038,099
Immature/Mature Plantations	14B	1,697,202	1,688,598	1,648,268	1,697,202	1,688,598	1,648,268
Biological Assets	14C	166,844	142,062	121,386	166,844	142,062	121,386
Development Cost		-	-	-	10,580	12,540	13,759
Investments	15	134,933	134,933	119,054	-	-	-
		2,951,134	2,893,053	2,801,562	3,237,928	3,197,861	3,138,780
<b>Current Assets</b>							
Inventories	16	486,278	383,704	327,235	486,278	383,704	327,235
Trade and Other Receivables	17	69,400	71,560	70,120	99,098	94,780	115,818
Amounts due from Related Companies	18	2,478	4,495	17,169	6,048	8,351	-
ACT Recoverable		7,473	7,473	7,473	7,473	7,473	7,473
Short Term Investments	19	-	-	-	5,000	5,000	-
Cash and Bank Balances		12,473	21,206	30,089	16,143	33,110	32,155
		578,102	488,438	452,086	620,040	532,418	482,681
<b>TOTAL ASSETS</b>		<b>3,529,236</b>	<b>3,381,491</b>	<b>3,253,648</b>	<b>3,857,968</b>	<b>3,730,279</b>	<b>3,621,461</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Stated Capital	20	350,000	350,000	350,000	350,000	350,000	350,000
Timber Reserves		139,743	117,267	100,631	139,743	117,267	100,631
Retained Earnings		853,304	661,427	795,526	865,662	664,848	792,279
Equity attributable to owners of the parent		1,343,047	1,128,694	1,246,157	1,355,405	1,132,115	1,242,910
Non-controlling interests	21	-	-	-	136,921	128,330	122,623
<b>Total Equity</b>		<b>1,343,047</b>	<b>1,128,694</b>	<b>1,246,157</b>	<b>1,492,326</b>	<b>1,260,445</b>	<b>1,365,533</b>
<b>Non Current Liabilities &amp; Deferred Income</b>							
Interest Bearing Loans & Borrowings	22	407,068	453,577	484,895	546,552	615,813	669,225
Retiring Benefit Obligations	24	888,170	826,914	730,622	888,170	826,914	730,622
Deferred Tax Liability	10.2	8,077	487	7,783	12,772	26,574	20,511
Deferred Income	25	210,292	226,532	250,474	210,292	226,532	250,474
Liability to make Lease Payment after one year	26	171,072	171,503	171,873	171,072	171,503	171,873
		1,684,679	1,679,013	1,645,647	1,828,858	1,867,336	1,842,705
<b>Current Liabilities</b>							
Trade and Other Payables	27	338,307	286,055	292,206	350,430	293,781	305,236
Interest Bearing Loans & Borrowings	22	64,009	31,318	43,413	91,507	62,976	79,854
Liability to make Lease Payment within one year	26	431	370	303	431	370	303
Amounts due to Related Companies	28	12,405	14,317	10,602	8,057	3,607	12,510
Short Term Borrowings	23	60,000	218,200	-	60,000	218,200	-
Bank Overdraft		26,358	23,524	15,320	26,358	23,564	15,320
		501,510	573,784	361,844	536,783	602,498	413,223
<b>TOTAL LIABILITIES</b>		<b>2,186,189</b>	<b>2,252,797</b>	<b>2,007,491</b>	<b>2,365,641</b>	<b>2,469,834</b>	<b>2,255,928</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3,529,236</b>	<b>3,381,491</b>	<b>3,253,648</b>	<b>3,857,968</b>	<b>3,730,279</b>	<b>3,621,461</b>

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



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

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



**A.M. Pandithage**  
Chairman/Director



**W.G.R. Rajadurai**  
Managing Director

The Accounting Policies and Notes on pages 164 to 214 form an integral part of the Financial Statements.

## Statement of Changes in Equity

As at 31 December	Attributable to owners of the parent					
	Stated Capital	Retained Earnings	Timber Reserve	Total	Non Controlling Interest	Total Equity
Company	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
<b>As at 01 January 2011</b>	350,000	795,526	100,631	1,246,157	-	1,246,157
Profit/ (Loss) for the year	-	(74,723)	16,636	(58,087)	-	(58,087)
Total comprehensive income	-	(74,723)	16,636	(58,087)	-	(58,087)
Dividends	-	(59,375)	-	(59,375)	-	(59,375)
<b>Balance as at 31 December 2011</b>	350,000	661,427	117,267	1,128,694	-	1,128,694
Profit/ (Loss) for the year	-	191,877	22,476	214,353	-	214,353
Total comprehensive income	-	191,877	22,476	214,353	-	214,353
Dividends	-	-	-	-	-	-
<b>Balance as at 31 December 2012</b>	350,000	853,304	139,743	1,343,047	-	1,343,047
<b>Group</b>						
<b>As at 01 January 2011</b>	350,000	792,279	100,631	1,242,910	122,623	1,365,533
Profit/ (Loss) for the year	-	(68,056)	16,636	(51,420)	18,690	(32,730)
Total comprehensive income	-	(68,056)	16,636	(51,420)	18,690	(32,730)
Dividends	-	(59,375)	-	(59,375)	(12,983)	(72,358)
<b>Balance as at 31 December 2011</b>	350,000	664,848	117,267	1,132,115	128,330	1,260,445
Profit/ (Loss) for the year	-	200,814	22,476	223,290	10,748	234,038
Total comprehensive income	-	200,814	22,476	223,290	10,748	234,038
Dividends	-	-	-	-	(2,157)	(2,157)
<b>Balance as at 31 December 2012</b>	350,000	865,662	139,743	1,355,405	136,921	1,492,326

The Accounting Policies and Notes on pages 164 to 214 form an integral part of the Financial Statements.

## Cash Flow Statement

Year ended 31 December

	Notes	Company		Group	
		2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net Profit/ (Loss) before Taxation		241,492	(62,284)	239,997	(22,198)
Other Comprehensive Income for the year, net of tax		-	-	-	-
		241,492	(62,284)	239,997	(22,198)
<b>ADJUSTMENTS FOR</b>					
Provision For Defined Benefit Plan Costs	24	130,622	160,566	130,622	160,566
Depreciation/Amortisation	9	118,083	111,277	136,097	128,587
Amortisation of Grants	25	(19,847)	(27,398)	(19,847)	(27,398)
Finance Costs	8b	89,934	69,693	111,466	89,858
Government Lease Interest	8a	22,783	21,180	22,783	21,180
(Profit)/Loss on disposal of Assets	7	(16,121)	(2,506)	(16,121)	(2,506)
(Gains)/Losses on Fair Value of Biological Assets		(22,476)	(16,636)	(22,476)	(16,636)
<b>Operating Profit before Working Capital Changes</b>		544,470	253,892	582,521	331,453
(Increase)/Decrease in Inventories		(102,574)	(56,469)	(102,574)	(56,469)
(Increase)/Decrease in Trade and Other Receivables		2,160	(1,439)	(4,318)	21,038
Increase/(Decrease) in Trade and Other Payables		37,485	(1,209)	41,671	(7,883)
(Increase)/Decrease in amounts due from Related Companies		2,017	12,673	2,303	(8,351)
Increase/(Decrease) in amounts due to Related Companies		(1,912)	3,714	4,450	(8,903)
<b>Cash Generated from Operations</b>		481,646	211,162	524,053	270,885
Finance Costs Paid	8b	(89,934)	(69,693)	(111,466)	(89,858)
Payment of ESC / Income Tax / SRL		(7,087)	(8,042)	(7,087)	(8,042)
Defined Benefit Plan Costs paid	24	(69,367)	(64,274)	(69,367)	(64,274)
<b>Net Cash from Operating Activities</b>		315,258	69,153	336,133	108,711
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Long Term Investment		-	(15,878)	-	-
Grant Received	25	3,607	3,457	3,607	3,457
Proceeds from Disposal of Property, Plant & Equipment		16,121	2,506	16,121	2,506
Field Development Expenditure (Note A)	14B	(71,541)	(102,216)	(71,541)	(102,216)
Purchase of Property, Plant & Equipment (Note B)		(79,841)	(68,038)	(79,841)	(68,816)
<b>Net Cash used in Investing Activities</b>		(131,654)	(180,169)	(131,654)	(165,069)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividend Paid		-	(59,375)	(2,157)	(72,358)
Payment of Government lease rentals		(23,153)	(21,483)	(23,153)	(21,483)
Proceeds from loans		17,500	-	17,500	-
Repayment /Transfer of loans		(31,318)	(43,413)	(58,230)	(70,290)
<b>Net Cash from Financing Activities</b>		(36,971)	(124,271)	(66,040)	(164,131)
<b>Net Increase / (Decrease) in Cash &amp; Cash Equivalents</b>		146,633	(235,287)	138,439	(220,489)
<b>C. Cash &amp; Cash Equivalents at the beginning of the year</b>		(220,518)	14,769	(203,654)	16,835
<b>D. Cash &amp; Cash Equivalents at the end of the year</b>		(73,885)	(220,518)	(65,215)	(203,654)

The Accounting Policies and Notes on pages 164 to 214 form an integral part of the Financial Statements.

## Cash Flow Statement

Year ended 31 December	Company				
	Tea Rs.000'	Rubber Rs.000'	Unallocated Rs.000'	Hydro Rs.000'	Total Rs.000'

### NOTE A: Investment in field development expenditure

Investment in Immature Plantations and field development 2011	93,291	8,925	-	-	102,216
Investment in Immature Plantations 2012	56,327	15,214	-	-	71,541

### NOTE B: Investment in Property, Plant & Equipment

Investment in Property, Plant & Equipment 2011	68,038	-	-	-	68,038
Investment in Property, Plant & Equipment 2012	79,841	-	-	-	79,841

	Group				
	Tea Rs.000'	Rubber Rs.000'	Unallocated Rs.000'	Hydro Rs.000'	Total Rs.000'

### NOTE A: Investment in field development expenditure

Investment in Immature Plantations and field development 2011	93,291	8,925	-	-	102,216
Investment in Immature Plantations 2012	56,327	15,214	-	-	71,541

### NOTE B: Investment in Property, Plant & Equipment

Investment in Property, Plant & Equipment 2011	68,038	-	-	778	68,816
Investment in Property, Plant & Equipment 2012	79,841	-	-	-	79,841

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>NOTE C</b>				
Cash & Cash Equivalents at the beginning of the year				
Cash & Bank Balances	21,206	30,089	33,110	32,155
Short term Investments	-	-	5,000	-
Bank Overdrafts	(23,524)	(15,320)	(23,564)	(15,320)
Short term Loans	(218,200)	-	(218,200)	-
	(220,518)	14,769	(203,654)	16,835
<b>NOTE D</b>				
Cash & Cash Equivalents at the end of the year				
Cash & Bank Balances	12,473	21,206	16,143	33,110
Short term Investments	-	-	5,000	5,000
Bank Overdrafts	(26,358)	(23,524)	(26,358)	(23,564)
Short term Loans	(60,000)	(218,200)	(60,000)	(218,200)
	(73,885)	(220,518)	(65,215)	(203,654)

### NOTE

During the Financial Year, the Company & the Group acquired Property, Plant & Equipment to the aggregate value of Rs.79,841,205/- .

The Accounting Policies and Notes on pages 164 to 214 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, as at and for the year ended 31 December 2012 comprise 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').

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.

The Financial Statements of the Company and the Group comprise the Statement of Income, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes to Financial Statements.

The Financial Statements of the Parent Company are prepared for a financial year which ends on 31 December, whereas the two Subsidiary Companies end on 31 March. To be in line with the Parent, a limited review audit of the two Subsidiaries covering a 12 month period ending 31 December has been carried out for the purpose of consolidation.

#### 1.1 Date of Authorization for issue.

The financial statements of Talawakelle Tea Estates PLC for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 13 March 2013.

### 2. BASIS OF PREPARATION

#### 2.1 Statement of Compliance

The Financial Statements of Talawakelle Tea Estates PLC 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 (SLFRS

and LKAS) promulgated by The Institute of Chartered Accountants of Sri Lanka (ICASL) and with the requirements of the Companies Act No. 07 of 2007.

For all periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLAS). These financial statements for the year ended 31 December 2012 are the first set of Financial Statements the Group has prepared in accordance with SLFRS and LKAS Accordingly, the Group has prepared Financial Statements which comply with SLFRS and LKAS applicable for period, ending 31 December 2012, together with the comparative data as at and for the year ended 31 December 2011. Refer to Note 5.4 for information on how the Group adopted SLFRS/LKAS.

#### 2.2 Basis of Measurement

These Financial Statements have been prepared in accordance with the historical cost convention other than bare land and leased assets of SLSPC, which have been revalued as described in Note 12 to the Financial Statements, managed biological assets, derivative financial instruments and available-for-sale financial assets that have been measured at fair value. Where appropriate, specific policies are explained in the succeeding Notes.

No adjustments have been made for inflationary factors in the Financial Statements.

### 2.3 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies except the policies given under Note 3.1 set out below are consistent with those used in the previous year. Accounting policies of subsidiaries and associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Comparative information has where necessary been reclassified to conform to the current year's presentation. The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of trading.

### 3.1 Changes to the Accounting Policies & Estimates

- LKAS 16 - Property, Plant & Equipment

#### • *Nature of the change*

The Group revisited the useful lives and residual values of Plant & Machinery and Motor Vehicles. Electronic machineries are segregated from Plant & Machinery, as a separate class of asset, and retained its useful life to 13 years as those assets have a distinguishable useful life due to technical obsolescence. The useful lives of rest of the Plant & Machineries are increased into 20 years. The motor vehicles are segregated into two classes i.e. utility and supervisory. The useful lives of the utility vehicles were increased to 10 years while the useful life of supervisory vehicles remained unchanged.

#### • *Reason for change*

The Group is using a material value of fully depreciated assets in commercial operations. This indicates objective evidence that those estimates were in error in terms of LKAS 8. The Plant & Machinery and Motor Vehicles are identified as the class of assets which contributes to a major part of fully depreciated assets. The allocation of depreciation and the carrying value of the assets will be reliably stated in the financial statements without under or over estimation through changing the depreciation policy.

- *Impact to the financial statements*

The transitional provisions allowed retrospective application for changes in estimation in terms of SLFRS 1. The carrying value of Freehold Property, Plant & Equipment has increased by Rs. 24,134,644 in 2010 (Rs.38,114,055 in 2011). Refer Note 5.4 (D) to the reconciliation of equity for more details.

- *Amortisation period of Machinery*

The amortization period of the machinery taken over from SLSPC has been retained at 15 years in conformity with the provisions of LKAS 17, to be consistent with the normal depreciation policy for similar assets, as calculated in terms of LKAS 16. However, the impact for year 2012 is nil (2011 - nil) as the Machinery was fully amortised by year 2005.

### 3.2 Basis of Consolidation

The Consolidated Financial Statements (referred to as the 'Group') comprise the Financial Statements of the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. 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:

## Notes to the Financial Statements Contd..

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative transaction differences, recorded in equity
- Recognises the fair value of consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassify the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

### 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 on acquisition date at 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 costs incurred are expensed 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. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date's fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

After the control of an entity is obtained, changes in ownership interest that do not result in a loss of control are accounted as equity transactions and gain or loss from these changes are not recognised in the Income Statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with LKAS 39 either in profit or loss or as a charge to other comprehensive income.

### 3.2.2 Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities which is evident when the Group controls the composition of the Board of Directors of the entity or holds more than 50% of the issued shares of the entity or 50% of the voting rights of the entity or entitled to receive more than half of every dividend from shares carrying unlimited right to participate in distribution of profits or capital.

The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are disclosed in Note 15 to the Financial Statements.

### 3.2.3 Transaction with Non-Controlling interest

The profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the parent, directly or indirectly through subsidiaries, is disclosed separately under the heading 'non-controlling interest'.

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group.

### 3.2.4 Transactions Eliminated on Consolidation

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3.2.5 Profits and Losses

The total profits and losses for the period of the Company and its subsidiaries included in consolidation are shown in the Consolidated Income Statement, with the proportion of the profit or loss after taxation applicable to non-controlling interest of the subsidiaries being separately mentioned as 'Non-controlling Interest/(Loss)'.

### 3.2.6 Assets and Liabilities

All assets and liabilities of the Company and its subsidiaries are included in the Consolidated Statement of Financial Position. The proportionate interest of non-controlling interest in the net assets employed by the Group is disclosed separately in the Consolidated Statement of Financial Position as 'non-controlling'.

## 3.3 Assets and Bases of their Valuation

Assets classified as current assets in the Statement of Financial Position are cash and bank balances and those which are expected to be realised in cash during the normal operating cycle of the Company's business or within one year from the reporting date whichever is shorter. Assets other than current assets are those, which the Company intends to hold beyond a period of one year from the Statement of Financial Position date.

### 3.3.1 Property, Plant & Equipment

#### 3.3.1.1 Recognition and Measurement

Items of Property, Plant & Equipment are measured at cost (or at fair value in the case of land), less accumulated depreciation and accumulated impairment losses, if any.

#### 3.3.1.2 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.

When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognises such parts as individual assets 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 income statement 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.

Revaluation of land is done with sufficient frequency to ensure that the fair value does not differ materially from the carrying amount and is undertaken by professionally qualified valuers. Increases in the carrying amount on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity and all other decreases are expensed in the Income Statement.

## Notes to the Financial Statements Contd..

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve retaining to the particular asset being sold is transferred to retained earnings.

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.

### 3.3.1.3 Leased Assets

Assets obtained under the finance lease, which effectively transfer to the Company substantially, all of the risks and benefits incidental to ownership of the leased assets, are treated as if they have been purchased outright and are capitalised at their cash price. Assets acquired by way of a finance lease are measured at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception, less accumulated depreciation and accumulated impairment losses.

Assets held under finance lease are amortised over the shorter of the lease period or the useful lives of equivalent-owned assets, unless ownership is not transferred at the end of the lease period. The principal/capital elements payable to the lessor are shown as liability/obligation. The lease rentals are treated as consisting of capital and interest elements. The capital element in the rental that is applied to reduce the outstanding obligation and interest element is charged against profit, in proportion to the reducing capital element outstanding.

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

### 3.3.1.4 Subsequent Cost

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition policy given below. The costs of the day-to-day servicing of Property, Plant & Equipment are recognised in profit or loss as incurred.

### 3.3.1.5 Derecognition

The carrying amount of an item of Property, Plant & Equipment is derecognised on disposal; or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognised in profit or loss and gains are not classified as revenue.

### 3.3.1.6 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 Income Statement in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

### 3.3.1.7 Biological Asset

#### Immature and Mature Plantations

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, interplanting 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. Expenditure incurred on consumable biological assets is recorded at cost at initial recognition and thereafter at fair value at the end of each reporting period.

Permanent impairments to Biological Asset are charged to the Income Statement in full and reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

### 3.3.1.8 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.

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

### 3.3.1.9 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 Income Statement.

The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with LKAS 23 - 'Borrowing Costs'.

### 3.3.1.10 Depreciation and Amortisation

#### (a) Depreciation

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment. 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	40 (Over the remaining lease period)
Roads	5
Plant & Machinery	20
Electronic Machinery	13
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)

	No. of Years
Mature Plantations	
Tea	33 1/3
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.

## Notes to the Financial Statements Contd..

## (b) Amortisation

The leasehold rights of assets taken over from SLSPC are amortised in equal amounts over the useful lives as follows:

	No. of Years
Bare land	53
Improvements to land	30
Mature Plantations (Tea & Rubber)	30
Buildings	25
Machinery	20
Development Cost	10

*3.3.1.11 Non-current assets held for sale and discontinued operations*

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

## 3.3.2 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 asset includes tea plants, those that are not intended to be sold or harvested, however used to grow for harvesting agriculture produce. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce from biological assets 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 event, it is possible 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. 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 as per the ruling issued by ICASL.

The managed timber trees are 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, as per the ruling issued by ICASL. 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 a 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 spices in different geographical regions. Factor all the prevailing statutory regulations enforced for harvesting of timber coupled with forestry plan of the company.
Economic useful life	Estimated based on the normal life span of each spices by factoring the forestry plan of the Company.

Selling price	Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be fulfilled in bringing the trees in to saleable condition.
Planting cost	Estimated costs for the further development of immature areas are deducted.
Discount Rate	Future cash flows are discounted at following discount rates: Timber trees 17.5%

Nursery cost includes the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for overgrown plants.

The gain or loss arising on initial recognition of biological assets at fair value less cost to sell and from a change in fair value less cost to sell of biological assets are included in profit or loss for the period in which it arises.

### 3.3.3 Intangible Assets

Intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rental or for administrative purpose.

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise

and the cost of the asset can be measured reliably in accordance with LKAS 38 on 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 as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The amortization period and method of intangible assets with a finite and indefinite useful life are reviewed annually.

#### 3.3.3.1 Goodwill

Goodwill arising on the acquisition represents the excess of the cost of the identifiable assets and liabilities of the acquired entity at the date

of acquisition. Negative goodwill arising on an acquisition represents the excess of the Group's interest in the fair value of the assets and liabilities acquired over the cost of acquisition. Negative goodwill is recognised immediately in Income Statement.

Goodwill arising on an acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets, acquired at the date of exchange.

Goodwill is tested annually for impairment and is measured at cost less accumulated impairment losses.

#### Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the

## Notes to the Financial Statements Contd..

asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost, less accumulated amortisation and accumulated impairment losses.

### 3.3.4 Financial Instruments

#### 3.3.4.1 Financial assets

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. The Group's financial assets include cash and short-term deposits, short term investments, and trade and other receivables.

#### 3.3.4.2 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include

financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

#### 3.3.4.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Loans and receivables comprise of trade receivables, amounts due from related parties, deposits, advances and other receivables and cash and cash equivalents.

#### 3.3.4.4 Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

The Group did not have any held-to-maturity investments during the years ended 31 December 2012 and 2011.

#### 3.3.4.4.1 Available for sale financial investments

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of the financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are

recognised in other comprehensive income and presented in the fair value reserve in equity. Interest income on available-for-sale debt securities is calculated using the effective interest rate method and is recognised in profit or loss. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Available for sale comprise of investment in quoted and unquoted shares.

#### 3.3.4.2 *Impairment of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired and if such has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows.

#### 3.3.4.3 *Financial liabilities*

Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the

case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

##### 3.3.4.3.1 *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 acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

##### 3.3.4.3.2 *Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortization process.

Other financial liabilities comprise interest bearing loans and borrowings, trade payables, other payables, income tax payables and amounts due to related parties.

##### 3.3.4.3.3 *Offsetting of financial instruments*

Financial assets and financial liabilities are offset 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.

The fair value of the financial instruments is determined in terms of LKAS 39. The Company derecognises a financial liability when its contractual obligations are discharged cancelled or expired.

#### 3.3.5 *Financial Risk Management objectives and policies*

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables, and financial guarantee contracts. 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 arrive directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.

## Notes to the Financial Statements Contd..

The Group has exposure to the following 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.

- **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.

- **Trade and Other Receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and the country in which the customers operate, as these factors may have an influence on credit risk.

The Group reviews external ratings and bank references of the customer when available. Purchase limits are established for each customer, which are reviewed quarterly. In monitoring credit

risk, customers are categorised according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale or retail customer, geographical location, industry, aging profile, maturity and existence of previous financial difficulties.

- **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.

- **Interest Rate Risk**

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.

### 3.3.6 Investments

#### 3.3.6.1 Short-Term Investments

Short-term investments are measured at the lower of cost and market value on an aggregate portfolio basis, with any resultant gain or loss recognised in profit or loss.

#### 3.3.6.2 Long-Term Investments

Quoted and unquoted investments in shares held on long-term basis are measured at cost, less impairment losses.

In the Parent Company's Financial Statements, investments in subsidiaries and associates are carried at cost, less impairment losses under the Parent Company's Accounting Policy for long-term investments.

Provision for impairment is made when, in the opinion of the Directors there has been a decline other than temporary in the value of the investment.

### 3.3.7 Inventories

Finish goods manufactured from agricultural produce of biological assets

These are valued at the lower of cost and estimated net realisable value, after making due allowance for obsolete and slow moving items. 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

These are measured at their fair value less cost to sell at the point of harvest. The finished and semi-finished inventories from agricultural produces are valued by adding the cost of conversion to the fair value of the agricultural produce.

### 3.3.8 Trade and Other Receivables

Trade and other receivables are stated at their estimated realisable amounts inclusive of provisions for bad and doubtful debts.

### 3.3.9 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 Statement of Cash Flows.

### 3.3.10 Impairment of Assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amounts are estimated at each reporting date or more frequently, if events or changes in circumstances indicate that they might be impaired.

#### 3.3.10.1 Calculation of Recoverable Amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less costs to sell. In assessing value in use, 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.

A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

#### 3.3.10.2 Impairment/reversal of Impairment

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses re recognised in profit or

loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the group of other assets in the unit on pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 3.4 Liabilities and Provisions

Liabilities classified as current liabilities on the Statement of Financial Position are those which fall due for payment on demand or within one year from the Statement of Financial Position date. Non-current liabilities are those balances that fall due for payment after one year from the Statement of Financial Position date. All known liabilities have been accounted for in preparing these Financial Statements. Provisions and liabilities are recognised when the Company has a legal or constructive

## Notes to the Financial Statements Contd..

obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

## 3.4.1 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 and 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 income and expense in the period in which they arise. Past service costs are recognised immediately in Income Statement.

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.

## 3.4.2 Trade and Other Payables

Trade and other payables are stated at their costs.

## 3.4.3 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the Group have been disclosed in the respective Notes to the Financial Statements.

## 3.4.4 Events Occurring after the Balance Sheet Date

All material post Balance Sheet events have been considered where appropriate; either adjustments have been made or adequately disclosed in the Financial Statements.

## 3.4.5 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.

## 3.4.6 Deferred Income

## 3.4.6.1 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 income statement 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 favourable interest is regarded as additional government grant. Assets are amortized over their useful lives as follows.

Buildings	40 years
Roads	5 Years

### 3.5 Income Statements

For the purpose of presentation of Income Statement, the function of expenses method is adopted, as it represents fairly the elements of the Group's performance.

#### 3.5.1 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.

(a) Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue is recorded at invoice value net of brokerage, sale expenses and other levies related to revenue.

(b) Gains and losses on disposal of an item of Property, Plant & Equipment are determined by comparing the net sales proceeds with the carrying amounts of Property, Plant & Equipment and are recognised within 'other operating income' in the Income Statement.

(c) Interest income is recognised on accrual basis.

(d) Dividend income is recognised in Income Statement on the date the entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(e) Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

#### 3.5.2 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/(loss) for the year.

##### 3.5.2.1 Financing Income and Expenses

Finance income comprises interest income on funds invested, and gains on translation of foreign currency. Interest income is recognised in Statement of Income as it accrues.

Finance expenses comprise interest payable on borrowings and losses on translation of foreign currency. 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.

##### 3.5.2.2 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

Current Tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the Balance Sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following

## Notes to the Financial Statements Contd..

temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax withheld on dividend income from subsidiaries and associates is recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

### 3.6 Statement of Cash Flow

The Cash Flow Statement has been prepared using the 'indirect method'. Interest paid is classified as operating cash flows and investing while dividends paid and Government grants received are classified as financing cash flows, for the purpose of presenting the Cash Flow Statement.

### 3.7 Segment Reporting

Segmental information is provided for the different business segments of the Group. Business segmentation has been determined based on the nature of goods provided by the Group after considering the risk and rewards of each type of product.

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 pages 190 and 191 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.

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.

## 4. Use of Estimates and Judgments

The preparation of Financial Statements in conformity with SLFRS requires management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

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:

- Note 24 - Measurement of the Defined Benefit Obligations
- Note 26 - Liability to make Lease Payment
- Note 10.2 - Deferred Taxation
- Note 14.B - Biological Assets

#### 4.1 Income Taxes

The Group recognise liabilities for anticipated tax base on estimates of taxable Income. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

#### 4.2 Retirement Benefit Obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the retirement benefit obligations are given in Note 24. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

#### 4.3 Biological Assets

The fair value of managed timber trees depends on a 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 14 C.

### 5 FIRST-TIME ADOPTION OF SLFRS

These financial statements, for the year ended 31 December 2012, are the first the Group has prepared in accordance with SLFRS. For periods up to and including the year ended 31 December 2011, the Group prepared its financial statements in accordance with Sri Lanka Accounting Standards (SLAS).

Accordingly, the Group has prepared financial statements which comply with SLFRS applicable for periods ending on or after 31 December 2012, together with the comparative period data as at and for the year ended 31 December 2011, as described in the accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2011, the Group's date of transition to SLFRS. This note explains the principal adjustments made by the Group in restating its SLASs statement of financial position as at 1 January 2011 and its previously published SLASs financial statements as at and for the year ended 31 December 2011.

#### 5.1 Exemptions Applied

SLFRS 1 First-Time Adoption of Sri Lanka Accounting Standards allows first-time adopters certain exemptions from the retrospective application of certain SLFRS.

The group has applied the following exemptions:

- Business Combination  
SLFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries, which are considered businesses for SLFRS, or of interests in associates and joint ventures that occurred before 1 January 2011. Use of this exemption means that the carrying amounts of assets and liabilities as per SLAS, which are required to be recognised under SLFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with SLFRS. Assets and liabilities that do not qualify for recognition under SLFRS are excluded from the opening SLFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of SLFRS recognition requirements.

SLFRS 1 also requires that the carrying amount of goodwill as per SLAS must be used in the opening SLFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with SLFRS 1, the Group has tested

## Notes to the Financial Statements Contd..

goodwill for impairment at the date of transition to SLFRS. No goodwill impairment was deemed necessary at 1 January 2011.

- Fair value or revaluation as deemed cost  
Freehold property, plant & equipment, were carried in the statements of financial position prepared in accordance with the SLAS, using the cost model. The Group has elected to use the fair value as deemed cost of the bare Land.
- Cumulative translation difference  
Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2011.
- Employee benefits  
Employee benefit was carried at the statement of financial position prepared in accordance with the SLAS. The Group has not elected the corridor approach to recognize the employee benefit.
- Designation of previously recognised financial instruments  
The Group has not designated any financial assets or liability upon initial recognition at fair value through profit or loss.
- Estimates  
The estimates at 1 January 2011 and at 31 December 2011 are consistent with those made for the same dates in accordance with SLAS

(after adjustments to reflect any differences in accounting policies) apart from the following items where application of SLAS did not require estimation:

- . *Biological assets - managed timber*
- . *Net Liability to Lessor*
- . *Available-for-Sale Financial Assets - unquoted equity shares*

The estimates used by the Group to present these amounts in accordance with SLFRS reflect conditions at 1 January 2011, the date of transition to SLFRS and as at 31 December 2011 except the following.

Freehold Property, plant & equipment - useful life and residual value

The Group is using a material value of fully depreciated assets in commercial operations. This indicates objective evidence that those estimates were in error. The Plant & Machinery and Motor Vehicles are identified as the class of assets which contributes to a major part of fully depreciated assets. The Group revisited the useful lives and residual values of those classes of assets and adjusted retrospectively. Details of the changes and financial effect are given in Changes to the Accounting Policies and estimates in Note 3.1 and Notes to the Financial Statements 5.4

## 5.2 Withdrawal of UITF Rulings

The Urgent Issue Task Force (UITF) rulings issued prior to 1 January 2012 have been superseded by the Sri Lanka Accounting Standards (SLFRS/LKAS) with effect from 1 January 2012. Consequently it is now required to treat transactions in which any of UITF rulings applied, in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) effective from 1 January 2012.

The Group has recorded Leasehold Property (Leasehold Right to the Land) and correspondent liability in terms of UITF ruling issued by The Institute of Chartered Accountants of Sri Lanka prior to 1 January 2012. It has been superseded by the Statement of Recommended Practice (SoRP) for Right-To-Use of Land on Lease which was approved by the Council of The Institute of Chartered Accountants of Sri Lanka on 19 December 2012. Accordingly, the Leasehold Property is re-classified as "Right-To-Use of Land". Corresponding net liability to lessor re-classified as "Liability to make lease payment". If facts or circumstances indicate that there would be a significant change in the Liability to make Lease Payment since the previous reporting period, and the group would elect to reassess the Liability to make Lease Payment and right to use land and the assessment is carried out at sufficient frequency to ensure

that the fair value of such liability and asset does not differ materially from its carrying amount. Refer Note 5.4 for the SLFRS/LKAS Reconciliation.

### 5.3 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's interim 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 9 Financial Instruments: Classification and Measurement**  
SLFRS 9 as issued reflects the first phase of the IASB's work on the replacement of LKAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in LKAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. The adoption of the first phase of SLFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

- **SLFRS 10 - Consolidated Financial Statements**

SLFRS 10 replaces the portion of LKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standing Interpretations Committee - SIC-12 Consolidation - Special Purpose Entities.

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by SLFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in LKAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

- **SLFRS 13 - Fair Value Measurement**

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not state when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or

permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### 5.4 Explanations to the transition of SLFRS

To comply with the SLFRS 1, the Group provides explanations to the transition to SLFRS from SLAS. The explanations include brief descriptions about the background of the change and a quantification of change. This also includes reconciliation of Group's equity as at the date of transition 1 January 2011 and end of latest reported period for year ended 31 December 2011. Reconciliation also includes for the total comprehensive income for the financial year ended 31 December 2011.

## Notes to the Financial Statements Contd..

## 5.4 Explanations to the transition of SLFRS

## Reconciliation of Total Comprehensive Income for the year ended 31.12.2011

		Company			Group		
		SLFRS/LKAS Rs.000'	Remeasurements Rs.000'	SLAS Rs.000'	SLFRS/LKAS Rs.000'	Remeasurements Rs.000'	SLAS Rs.000'
Revenue	A	2,635,174	(47,841)	2,683,015	2,744,505	(47,841)	2,792,346
Cost of Sales	B	(2,573,167)	66,631	(2,639,798)	(2,603,856)	66,631	(2,670,486)
Gross Profit		62,007	18,790	43,217	140,649	18,790	121,860
Other Income and Gains		48,126	-	48,126	35,982	-	35,982
Gain/(Loss) on Fair Value of Biological Assets	B	16,636	16,636	-	16,636	16,636	-
Administrative Expenses		(92,258)	-	(92,258)	(98,505)	-	(98,505)
Management Fee		(5,922)	-	(5,922)	(5,922)	-	(5,922)
Government Lease Interest	C	(21,180)	(1,567)	(19,614)	(21,180)	(1,567)	(19,614)
Finance Cost		(69,693)	-	(69,693)	(89,858)	-	(89,858)
Profit/ (Loss) Before Tax		(62,284)	33,859	(96,144)	(22,198)	33,859	(56,057)
Income Tax Expense		4,197	7,297	(3,100)	(10,532)	7,297	(17,829)
Profit/ (Loss) for the Year		(58,087)	41,156	(99,244)	(32,730)	41,156	(73,886)

## Other Comprehensive Income Statement

Other Comprehensive Income for the Year, net of Tax	-	-	-	-	-	-
Total Comprehensive Income for the Year, net of Tax	(58,087)	41,156	(99,244)	(32,730)	41,156	(73,886)

#### 5.4 Explanations to the transition of SLFRS Company

Reconciliation of Financial Position	SLFRS/LKAS	Remeasurements	SLAS	SLFRS/LKAS	Remeasurements	SLAS
	As at 31/12/2011 Rs.000'		As at 31/12/2011 Rs.000'	As at 01/01/2011 Rs.000'		As at 01/01/2011 Rs.000'
<b>ASSETS</b>						
<b>Non Current Assets</b>						
Right-to-Use of Land	D 177,171	37,192	139,979	182,382	38,286	144,096
Property, Plant & Equipment Immovable estate assets on finance lease (other than Right-to-Use of Land)	123,902	-	123,902	134,886	-	134,886
Tangible assets other than Immature/Mature Plantations	D 626,387	38,114	588,273	595,586	24,135	571,451
Immature/Mature Plantations	D 1,688,598	(24,795)	1,713,393	1,648,268	(20,756)	1,669,024
Biological Assets	142,062	142,062	-	121,386	121,386	-
Development Cost	-	-	-	-	-	-
Investments	134,933	-	134,933	119,054	-	119,054
	2,893,053	192,573	2,700,480	2,801,562	163,051	2,638,511
<b>Current Assets</b>						
Inventories	E 383,704	(26,510)	410,214	327,235	(32,414)	359,649
Trade and Other Receivables	71,560	-	71,560	70,120	-	70,120
Amounts due from Related Companies	4,495	-	4,495	17,169	-	17,169
ACT Recoverable	7,473	-	7,473	7,473	-	7,473
Short Term Investments	-	-	-	-	-	-
Cash and Bank Balances	21,206	-	21,206	30,089	-	30,089
	488,438	(26,510)	514,948	452,086	(32,414)	484,500
<b>TOTAL ASSETS</b>	3,381,491	166,063	3,215,428	3,253,648	130,637	3,123,012
<b>EQUITY AND LIABILITIES</b>						
<b>Capital and Reserves</b>						
Stated Capital	350,000	-	350,000	350,000	-	350,000
Timber Reserves	117,267	117,267	-	100,631	100,631	-
Retained Earnings	G 661,427	8,457	652,970	795,526	(16,063)	811,589
Equity	1,128,694	125,724	1,002,970	1,246,157	84,568	1,161,589
Non-controlling Interest	-	-	-	-	-	-
<b>Total Equity</b>	1,128,694	125,724	1,002,970	1,246,157	84,568	1,161,589
<b>Non Current Liabilities &amp; Deferred Income</b>						
Interest Bearing Loans & Borrowings	453,577	-	453,577	484,895	-	484,895
Retiring Benefit Obligations	826,914	-	826,914	730,622	-	730,622
Deferred Tax Liability	487	487	-	7,783	7,783	-
Deferred Income	226,532	-	226,532	250,474	-	250,474
Liability to make Lease Payment after one year	F 171,503	41,427	130,076	171,873	39,853	132,021
	1,679,013	41,914	1,637,099	1,645,647	47,636	1,598,012
<b>Current Liabilities</b>						
Trade and Other Payables	286,055	-	286,056	292,206	-	292,206
Liability to make Lease Payment within one year	F 370	(1,574)	1,944	303	(1,567)	1,869
Amounts due to Related Companies	14,317	-	14,317	10,602	-	10,602
Interest Bearing Loans & Borrowings	31,318	-	31,318	43,413	-	43,413
Short Term Borrowings	218,200	-	218,200	-	-	-
Bank Overdraft	23,524	-	23,524	15,320	-	15,320
	573,784	(1,574)	575,359	361,844	(1,567)	363,411
<b>TOTAL EQUITY AND LIABILITIES</b>	2,252,797	40,339	2,212,458	2,007,491	46,069	1,961,423
	3,381,491	166,063	3,215,428	3,253,648	130,637	3,123,012

## Notes to the Financial Statements Contd..

## Group

Reconciliation of Financial Position	SLFRS/LKAS	Remeasurements	SLAS	SLFRS/LKAS	Remeasurements	SLAS	
	As at 31/12/2011 Rs.000'	As at 31/12/2011 Rs.000'	As at 31/12/2011 Rs.000'	as at 01/01/2011 Rs.000'	As at 01/01/2011 Rs.000'	As at 01/01/2011 Rs.000'	
<b>ASSETS</b>							
<b>Non Current Assets</b>							
Right-to-Use of Land	D	177,171	37,192	139,979	182,382	38,286	144,096
Property, Plant & Equipment Immovable estate assets on finance lease (other than Right-to-Use of Land)		123,902	-	123,902	134,886	-	134,886
Tangible assets other than Immature/Mature Plantations	D	1,053,588	38,114	1,015,474	1,038,099	24,135	1,013,964
Improvements to leasehold property Immature/Mature	D	1,688,598	(24,795)	1,713,393	1,648,268	(20,756)	1,669,024
Biological Assets		142,062	142,062	-	121,386	121,386	-
Development Cost		12,540	-	12,540	13,759	-	13,759
Investments in Subsidiaries		-	-	-	-	-	-
		3,197,861	192,573	3,005,288	3,138,780	163,051	2,975,729
<b>Current Assets</b>							
Inventories	E	383,704	(26,510)	410,214	327,235	(32,414)	359,649
Trade and Other Receivables		94,780	-	94,780	115,818	-	115,818
Amounts due from Related Companies		8,351	-	8,351	-	-	-
ACT Recoverable		7,473	-	7,473	7,473	-	7,473
Short Term Investments		5,000	-	5,000	-	-	-
Cash and Bank Balances		33,110	-	33,110	32,155	-	32,155
		532,418	(26,510)	558,928	482,681	(32,414)	515,095
<b>TOTAL ASSETS</b>		3,730,279	166,063	3,564,216	3,621,461	130,637	3,490,824
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Stated Capital		350,000	-	350,000	350,000	-	350,000
Timber Reserves		117,267	117,267	-	100,631	100,631	-
Retained Earnings	G	664,848	8,457	656,391	792,279	(16,063)	808,342
Equity attributable to owners of the parent		1,132,115	125,724	1,006,391	1,242,910	84,568	1,158,342
Non-controlling interests		128,330	-	128,330	122,623	-	122,623
<b>Total Equity</b>		1,260,445	125,724	1,134,721	1,365,533	84,568	1,280,965
<b>Non Current Liabilities &amp; Deferred Income</b>							
Interest Bearing Loans & Borrowings		615,813	-	615,813	669,225	-	669,225
Retiring Benefit Obligations		826,914	-	826,914	730,622	-	730,622
Deferred Tax Liability		26,574	486	26,088	20,511	7,783	12,728
Deferred Income		226,532	-	226,532	250,474	-	250,474
Liability to make Lease Payment after one year	F	171,503	41,427	130,076	171,873	39,853	132,021
		1,867,336	41,913	1,825,423	1,842,705	47,636	1,795,070
<b>Current Liabilities</b>							
Trade and Other Payables		293,781	-	293,781	305,236	-	305,236
Interest Bearing Loans & Borrowings		62,976	-	62,976	79,854	-	79,854
Liability to make Lease Payment within one year	F	370	(1,574)	1,944	303	(1,567)	1,869
Amounts due to Related Companies		3,607	-	3,607	12,510	-	12,510
Short Term Borrowings		218,200	-	218,200	-	-	-
Bank Overdraft		23,564	-	23,564	15,320	-	15,320
		602,498	(1,574)	604,072	413,223	(1,567)	414,789
<b>TOTAL LIABILITIES</b>		2,469,834	40,339	2,429,496	2,255,929	46,069	2,209,860
<b>TOTAL EQUITY AND LIABILITIES</b>		3,730,279	166,063	3,564,216	3,621,461	130,637	3,490,825

#### 5.4 Explanations to the transition of SLFRS

Notes to the reconciliation Total Comprehensive Income ("CI") for the year ended 31 December 2011

##### A Revenue

###### 1 Revenue recognition on Produce stock

Profit & Loss of the perennial crop has been recognized in the financial period of harvesting in terms of SLAS 32. Thus the unsold stocks were treated as a part of revenue. The scope of revenue recognition was changed to LKAS 18. Accordingly, the revenue is recognized based on the date of auction where the recognition criterias are met and therefore the quantity which is sold at auction is treated as the sales.

"This classification does not effect on the net assets for the Statement of Financial Position as at 01 January 2011, 31 December 2011. The turnover in the Statement of Comprehensive Income for the year ended 31 December 2011 was decreased by Rs. 47.8 Mn.

Nature of Adjustment	CI for year ended
	31 December 2011
	Rs. 000
Removal of unsold stock as at the year end	(358,127)
Recognition of turnovers of last year's stock	310,285
Total	(47,842)

##### B Cost of sales

###### 1 Matching the cost of sales against revenue

Recognition of the cost of sales has been changed simultaneous to the changes to the revenue recognition. Thus, cost of sales consists of the directly attributable cost of the goods sold. Cost of opening stocks and the closing stocks were adjusted to the cost of production in arriving this. Further, the measurement of unsold tea and rubber stocks have been changed.

###### 2 Changes to the estimation of new useful lives and residual values

The depreciation charge for the year has been changed as a result of changes of the useful lives and residual values. As a result, cost of sales for year ended 31 December 2011 has been decreased by Rs. 13.9 Mn.

###### 3 Increase in amortization due to re-assessment of Right-to-use land

The amortization of Right-to-use Land for the year increased due to recording the Contingent Liability of Liability to Make Lease Payment and corresponding asset (Rs.1.09 Mn). Overall, cost of sales for the year has been decreased by Rs.66.6 Mn.

Nature of Adjustment	Company	Group
	CI for year ended 31 December 2011	CI for year ended 31 December 2011
	Rs. 000	Rs. 000
Open stock adjustment - recongnition of stocks at cost or NRV which ever is lower	277,871	277,871
Closing stock adjustment - recongnition of stocks at cost or NRV which ever is lower	(331,617)	(331,617)
Effect on depreciation for the year due to changes in useful lives at assets	(13,979)	(13,979)
Amortization of Right-to-use of Land in terms of SoRP	1,094	1,094
	(66,631)	(66,631)

#### SLFRS Adjustment to Gain on Fair Value of Biological Assets

Gain on Fair Value of Biological Assets	16,636	16,636
Total	16,636	16,636

Valuation was done by a licenced valuer on the managed timber. The fair value gain has been recognised in the Income statement as per LKAS 41.

**Notes to the Financial Statements Contd..**

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011 and total comprehensive income ("CI") for the year ended 31 December 2011.

**C Change to Government lease Interest**

Nature of Adjustment	Company	Group
	CI for year ended 31 December 2011 Rs. 000	CI for year ended 31 December 2011 Rs. 000
Change to Government lease Interest	1,567	1,567
<b>Total</b>	<b>1,567</b>	<b>1,567</b>

The increase in interest component of the lease rental charge arising consequent to the reassessment of the government lease liability as per SoRP issued by the CA Sri Lanka has been charged to Income statement.

**D Free Hold Property, Plant & Equipment****1 Right-to-use of Land**

As per the provisions of SoRP for right-to-use land, the group has reassessed the liability to make payment as of 1 January 2011. As a result, right-to-use land has increased by Rs.38.3 Mn and amortisation for the year ended 31 December 2011 increased by Rs.1.1 Mn.

Nature of Adjustment	Net assets As at		CI for year ended
	31 December 2011 Rs. 000	01 January 2011 Rs. 000	31 December 2011 Rs. 000
As per SLAS	139,979	144,096	
Change arising from the revaluation of the government lease liability	38,286	38,286	-
Change arising from incremental amortisation of the revaluation component	(1,094)	-	(1,094)
<b>Total</b>	<b>177,171</b>	<b>182,382</b>	<b>(1,094)</b>

Consequent to the reassessment of the Lease liability as per SoRP issued by the UITF on 19 December 2012, the right to use of land has been enhanced by an equivalent amount of the change in the liability effective from 01.01.2011. This enhanced value has been amortised over a period of 33 years-balance lease period.

**2 Changes to the estimation of new useful lives and residual values**

High value of the fully depreciated assets that are been used in commercial operations provided an objective evidence of estimation error in allocation of depreciation. Hence, the management has reviewed the useful lives and the residual values of all classes of the assets and identified that Plant & Machinery and Vehicles mainly contributing to the deficiency. Therefore useful life periods of the said assets were reassessed as follows:

Electronic Machineries were segregated from Plant & Machinery, as a separate class of asset, and maintained its useful life as 13 years considering the distinguishable useful life due to technical obsolescences. The useful lives of rest of the Plant & Machineries were increased to 20 years. Motor vehicles too were segregated into two classes i.e. utility and supervisory. The useful life of the utility vehicles were increased to 10 years while the useful life of supervisory vehicles remained unchanged.

The changes were retrospectively adjusted to the Financial Statements in terms of transitional provisions in SLFRS 1. As a result, the net assets of opening Statement of Financial Position increased by Rs. 24,134,644 and 31 December 2011 increased by Rs. 38,114,055. The depreciation in CI for year ended 31 December 2011 has been decreased by Rs.13,979,411.

Nature of Adjustment	Net assets As at		CI for year ended
	31 December 2011	01 January 2011	31 December 2011
	Rs. 000	Rs. 000	Rs. 000
Accumulated Depreciation as per SLAS	535,232	484,016	51,215
Accumulated Depreciation as per SLFRS	497,118	459,882	37,236
Changes of the depreciation policy	38,114	24,134	13,979
Depreciation as per SLAS			51,215
Depreciation as per SLFRS			37,236
SLFRS Adjustment			13,979
<b>Company total</b>	<b>38,114</b>	<b>24,134</b>	<b>13,979</b>
<b>Group total</b>	<b>38,114</b>	<b>24,134</b>	<b>13,979</b>

### 3. Immature & Mature Plantations

The tea, rubber and other plantations were measured at cost less depreciation and amortization or impairment if any, under SLAS. The requirement of recognition the biological assets at its fair value under LKAS 41 has not been effected due to the ruling issued on 02 March 2012, by The Institute of Chartered Accountants of Sri Lanka. Accordingly, the Company has elected to measure the bearer biological assets i.e. tea & rubber using LKAS 16 - Property Plant & Equipment and continued the cost model of recording them. This measurement does not effect on the net assets in the Statement of Financial position as at 01 January 2011, 31 December 2011 and Comprehensive Income for year ended 31 December 2011

### 4. Biological Assets - Timber Plantations

LKAS 41 is only applicable for managed agricultural activity thus the fair value of managed trees was ascertained by professionally qualified valuers. As a result, the net assets of opening Statement of Financial position increased by Rs.100,630,470 and 31 December 2011 increased by Rs.16,636,308. The CI for the year ended 31 December 2011 has been increased by Rs.365,824 due to the gain on fair value of biological assets.

Nature of Adjustment	Net assets As at		CI for year ended
	31 December 2011	01 January 2011	31 December 2011
	Rs. 000	Rs. 000	Rs. 000
Cost of managed Timber Plantations	24,795	20,756	-
Gain or (loss) of fair value of managed trees	117,267	100,630	16,636
Total	142,062	121,386	16,636
Tax Effect	14,206	12,139	1,664

**Notes to the Financial Statements Contd..**

Notes to the reconciliation of equity as at 1 January 2011 and 31 December 2011 and total comprehensive income ("CI") for the year ended 31 December 2011.

**E INVENTORY****1 Changes of classification to Nursery Stocks**

The tea, rubber and other nurseries were classified as Inventory under SLAS. Since the living plants scoped under the definition of biological assets in terms of LKAS 41, those nurseries were classified as biological assets. However, those are presented under inventory as previously. This classification does not effect on the net assets in the Statement of Financial position as at 01 January 2011, 31 December 2011 and Comprehensive Income for year ended 31 December 2011.

**2 Produce stock**

The produce stock from biological assets i.e. tea & rubber were valued at estimated selling price or since realized price in terms of SLAS 32. With the conversion to new Accounting Standards, the agricultural produce that are harvested from biological assets i.e. green leaf is required to measure at its fair value less cost to sell at the point of harvest. Thereafter it is scoped under LKAS 2 and said fair value is the cost at the date of applying this standard. The cost of semi-finished and finished products was estimated through attributing the direct manufacturing cost in to the fair value of biological products. Finally the measurement of inventory is carried at the lower of cost and estimated net realizable value in accordance with LKAS 2.

As a result, the net assets of opening Statement of Financial Position decreased by Rs.32,414,334 and 31 December 2011 decreased by Rs.26,509,934. The cost of sales in CI for year ended 31 December 2011 has been decreased by Rs.5,904,400.

Nature of Adjustment	Net assets As at		CI for year ended
	31 December 2011 Rs. 000	01 January 2011 Rs. 000	31 December 2011 Rs. 000
B/f adjustment	32,414	-	32,414
change in Valuation of tea and rubber stock at lower of fair value and NRV	(5,904)	32,414	26,510
<b>Total</b>	<b>26,510</b>	<b>32,414</b>	<b>5,904</b>

**F LIABILITY TO MAKE LEASE PAYMENT**

As per provision of SoRP for right-to-use-of land, the group has reassessed the liability to make the lease payment as of at 1 January 2011

Nature of Adjustment Rs.	Net assets As at		CI for year ended
	31 December 2011 Rs. 000	01 January 2011 Rs. 000	31 December 2011 Rs. 000
As per SLAS	130,076	132,020	
Change arising from the revaluation of the government lease liability	39,853	38,286	-
Change in the capital component of the lease rent	1,574	1,567	1,567
<b>Total</b>	<b>171,503</b>	<b>171,873</b>	<b>1,567</b>

**RE ASSESSING OF NET LIABILITY TO THE LESSOR OF SLSPC ESTATES  
Company / Group**

	As at 2012 Rs.000'	As at 2011 Rs.000'	As at 01/01/2011 Rs.000'
<b>As per SLAS</b>			
Gross liability	234,627	241,852	249,077
Less : finance charges	(104,550)	(109,831)	(115,187)
Net liability	130,077	132,021	133,890
<b>As per SLFRS</b>			
Gross liability	737,529	759,534	779,830
Less : finance charges	(566,026)	(587,661)	(607,654)
Net liability	171,503	171,873	172,176
<b>Change</b>			
Gross liability	502,902	517,682	530,753
Less : finance charges	(461,476)	(477,829)	(492,468)
Net liability	41,426	39,853	38,285
Adjustment to the Leased Asset	38,285	38,285	38,285
Increase in interest charge 2011	1,567	1,567	-
Increase in interest charge 2012	1,574	-	-
	41,426	39,852	38,285

**G RETAINED EARNINGS**

Nature of Adjustment	Net Assets As at	
	31 December 2011 Rs.000'	01 January 2011 Rs.000'
Adjustment B/F	(16,063)	-
Reduce of depreciation charges- depreciation policy	13,979	24,135
Valuation of tea and rubber stock at lower of cost or NRV	5,904	(32,414)
Deferred tax effect on changes of depreciation policy	7,297	(7,783)
Amortization of Right-to-use of Land in terms of SoRP	(1,094)	-
Increase in Government Lease Interest	(1,567)	-
Company/ Group Total	8,456	(16,063)

**6 REVENUE****6.1 Summary**

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>Sale of Goods</b>				
Tea	3,200,507	2,557,993	3,200,507	2,557,993
Rubber	40,161	55,098	40,161	55,098
Mini Hydro Power	-	-	58,938	109,331
Others	18,543	22,083	18,543	22,083
	3,259,211	2,635,174	3,318,149	2,744,505

## Notes to the Financial Statements Contd..

## 6.2 Segment Information

## a) Segment Revenue

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>Tea</b>				
Revenue	3,200,507	2,557,993	3,200,507	2,557,993
Revenue Expenditure	(2,566,789)	(2,274,387)	(2,566,789)	(2,274,387)
Depreciation	(115,984)	(108,684)	(115,984)	(108,684)
Other Non Cash Expenditure	(130,622)	(160,566)	(130,622)	(160,566)
Segment Results	387,112	14,356	387,112	14,356
<b>Rubber</b>				
Revenue	40,161	55,098	40,161	55,098
Revenue Expenditure	(40,410)	(26,937)	(40,410)	(26,937)
Depreciation	(2,099)	(2,593)	(2,099)	(2,593)
Other Non Cash Expenditure	-	-	-	-
Segment Results	(2,348)	25,568	(2,348)	25,568
<b>Mini Hydro Power</b>				
Revenue	-	-	58,938	109,331
Revenue Expenditure	-	-	(12,317)	(13,443)
Depreciation	-	-	(18,014)	(17,246)
Other Non Cash Expenditure	-	-	-	-
Segment Results	-	-	28,607	78,643
<b>Unallocated</b>				
Revenue	18,543	22,083	18,543	22,083
Revenue Expenditure	-	-	-	-
Depreciation	-	-	-	-
Other Non Cash Expenditure	-	-	-	-
Segment Results	18,543	22,083	18,543	22,083
<b>Total</b>				
Revenue	3,259,211	2,635,174	3,318,149	2,744,505
Revenue Expenditure	(2,607,200)	(2,301,324)	(2,619,517)	(2,314,702)
Depreciation	(118,083)	(111,277)	(136,097)	(128,587)
Other Non Cash Expenditure	(130,622)	(160,566)	(130,622)	(160,566)
Segment Results	403,306	62,007	431,912	140,649
Gains on fair value of biological assets	22,476	16,636	22,476	16,636
Other Income and gains	45,197	48,126	43,176	35,982
Administrative Expenses	(89,517)	(92,258)	(96,065)	(98,505)
Management Fees	(27,253)	(5,922)	(27,253)	(5,922)
Government Lease Interest	(22,783)	(21,180)	(22,783)	(21,180)
Finance Cost	(89,934)	(69,693)	(111,466)	(89,858)
Operating Profit/(Loss) of the Company	241,492	(62,284)	239,997	(22,198)

## b) Segment Assets

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>Non Current Assets</b>				
Tea	2,739,086	2,693,623	2,739,086	2,693,623
Rubber	77,115	64,497	77,115	64,497
Mini Hydro Power	-	-	421,727	439,741
Investment	134,933	134,933	-	-
	2,951,134	2,893,053	3,237,928	3,197,861
<b>Current Assets</b>				
Tea	573,585	484,417	573,585	484,417
Rubber	4,517	4,022	4,517	4,022
Mini Hydro Power	-	-	41,938	43,979
Unallocated	-	-	-	-
	578,102	488,439	620,040	532,418
<b>Total Assets</b>	<b>3,529,236</b>	<b>3,381,492</b>	<b>3,857,968</b>	<b>3,730,279</b>
<b>c) Segment Liabilities</b>				
<b>Non Current Liabilities and Deferred Income</b>				
Tea	1,684,679	1,679,013	1,684,679	1,679,013
Rubber	-	-	-	-
Mini Hydro Power	-	-	144,179	188,323
	1,684,679	1,679,013	1,828,858	1,867,336
<b>Current Liabilities</b>				
Tea	501,510	573,784	501,510	573,784
Rubber	-	-	-	-
Mini Hydro Power	-	-	35,273	28,714
	501,510	573,784	536,783	602,498
<b>Total Liabilities</b>	<b>2,186,189</b>	<b>2,252,797</b>	<b>2,365,641</b>	<b>2,469,834</b>
<b>d) Segment Capital Expenditure</b>				
Cost				
Tea	136,168	161,328	136,168	161,328
Rubber	15,214	8,925	15,214	8,925
Mini Hydro Power	-	-	-	778
Unallocated	-	-	-	-
	151,382	170,253	151,382	171,031

## Notes to the Financial Statements Contd..

## 7. OTHER INCOME AND GAINS

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
Sale of Trees	3,859	4,585	3,859	4,585
Interest Income	2,789	1,464	2,789	1,493
Amortisation of Capital Grants	19,847	27,398	19,847	27,398
Profit on Disposal of Assets	16,121	2,506	16,121	2,506
Dividend Income	2,021	12,173	-	-
Lease of land for Towers	560	-	560	-
	45,197	48,126	43,176	35,982

## 8. FINANCE COST

8 a GOVERNMENT LEASE INTEREST	22,783	21,180	22,783	21,180
8 b Finance Cost				
Overdraft Interest	6,996	2,586	6,996	2,594
Short Term Loan Interest	26,182	8,567	26,182	8,695
Term Loan Interest	56,756	58,540	78,289	78,569
	89,934	69,693	111,466	89,858

## 9. PROFIT BEFORE TAX IS STATED AFTER CHARGING

Directors Emoluments	5,361	6,426	5,361	6,426
Key Management Compensation	10,537	11,736	10,537	11,736
Auditors Fees	2,856	2,736	2,856	2,891
Depreciation/Amortisation	118,083	111,277	136,097	128,587
Defined Benefit Plan Costs	130,622	160,566	130,622	160,566
Defined Contributions Plan Costs - EPF & ETF	164,102	151,908	164,102	151,908
Others - Staff Costs	1,422,115	1,390,539	1,422,115	1,390,539

**10. INCOME TAX EXPENSE**

The major component of income tax expenses for the year ended 31st December 2012 are as follows :

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>Current Tax Expenses</b>				
Current Income Tax Charges	(13,101)	(3,100)	(13,313)	(4,470)
Under provision in respect to current income tax of previous years	(6,447)	-	(6,447)	-
	(19,548)	(3,100)	(19,760)	(4,470)
<b>Deferred Tax Expense</b>				
Deferred Taxation (Charge) / Reversal	(7,591)	7,297	13,801	(6,062)
	(7,591)	7,297	13,801	(6,062)
<b>Total Tax Expense</b>	<b>(27,139)</b>	<b>4,197</b>	<b>(5,959)</b>	<b>(10,532)</b>

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

**10.1 Reconciliation Between Tax Expenses And The Product Of Accounting Profit Multiplied By The Statutory Effective Tax Rates Are As Follows:**

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
Profit before Tax	241,492	(62,284)	239,997	(22,198)
Effective Rate	11.22%	15.23%	11.22%	15.23%
Tax effect on Accounting Profit / (Loss) Before Tax	27,103	(9,485)	26,936	(3,381)
Tax effect on Aggregate disallowed items	30,470	46,375	30,470	46,375
Tax effect on Aggregate allowable items	(35,356)	(42,908)	(35,356)	(42,908)
Tax effect on Non Tax Receipt	22,217	(6,018)	22,050	86
Tax effect on Exempt Profit	(2,781)	-	(2,781)	-
Tax effect on Tax Loss B/F & Utilised	-	10,191	167	4,086
Tax effect on Tax Loss B/F & Utilised	(7,054)	(1,528)	(7,054)	(1,528)
Other Income	12,382	2,645	12,382	2,644
	719	410	719	410
SRL @ 1.5%	13,101	3,055	13,101	3,054
Dividend Tax @ 10%	-	45	-	45
Income Tax Charge/(Reversal)	-	-	212	1,371
	13,101	3,100	13,313	4,470

## Notes to the Financial Statements Contd..

## 10.2 Deferred Tax Assets And Liabilities

As at 31 December, <b>Company</b>	2012	2011		01/01/2011		
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
As at 1 January	55,006	486	93,750	7,783	30,195	10,568
Amount originating during the year	57,221	7,591	(38,744)	(7,297)	63,555	(2,785)
As at 31 December	112,227	8,077	55,006	486	93,750	7,783
Temporary difference of property, plant and equipment	341,264	53,783	326,268	51,420	270,499	42,631
Immature/Mature	1,697,202	267,479	1,688,598	266,123	1,648,268	259,767
Temporary difference of biological asset	166,844	16,684	142,062	14,206	121,386	12,138
Temporary difference of retirement benefit obligation	(888,170)	(139,976)	(826,914)	(130,322)	(730,622)	(115,146)
Deferred Income	(210,292)	(33,142)	(226,532)	(35,701)	(250,474)	(39,475)
Carried forward tax losses	(994,621)	(156,752)	(1,048,476)	(165,240)	(965,307)	(152,132)
As at 31st December	112,227	8,077	55,006	486	93,750	7,783
<b>Group</b>						
As at 1 January	173,673	26,573	151,606	20,512	88,050	23,296
Amount originating during the year	(40,255)	(13,801)	22,068	6,062	63,555	(2,785)
As at 31 December	133,418	12,772	173,674	26,574	151,605	20,511
Temporary difference of property, plant and equipment	362,454	58,479	444,936	77,508	328,354	55,359
Immature/Mature	1,697,202	267,479	1,688,598	266,123	1,648,268	259,767
Temporary difference of biological asset	166,844	16,684	142,062	14,206	121,386	12,138
Temporary difference of retirement benefit obligation	(888,170)	(139,976)	(826,914)	(130,322)	(730,622)	(115,146)
Deferred Income	(210,292)	(33,142)	(226,532)	(35,701)	(250,474)	(39,475)
Carried forward tax losses	(994,620)	(156,752)	(1,048,476)	(165,240)	(965,307)	(152,132)
As at 31 December	133,418	12,772	173,674	26,574	151,605	20,511

**11. EARNINGS PER SHARE**

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

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

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>Amounts used as the Numerator :</b>				
Net profit/(Loss) applicable to ordinary shareholders for basic earnings per share	214,353	(58,088)	223,291	(51,420)
	214,353	(58,088)	223,291	(51,420)
<b>Amounts used as the Denominator :</b>				
Weighted average number of ordinary shares in issue applicable to basic earnings per share	23,750	23,750	23,750	23,750
	23,750	23,750	23,750	23,750
<b>Earnings/(loss) Per Share</b>	<b>9.03</b>	<b>(2.45)</b>	<b>9.40</b>	<b>(2.17)</b>

**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 Recommended Practice (SoRP) issued by The Institute of Chartered Accountants of Sri Lanka dated 19 December 2012. Such leases have been executed for all estates for a period of 53 years.

This right-to-use 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 Recommended Practice (SoRP) for right-to-use land does not permit further revaluation of right-to-use 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 right to use 1992 Statement of Financial Position amortization of the right to use of land up to 31 December 2012 are as follows.

## Notes to the Financial Statements Contd..

	Company			Group		
	Balance As at 31/12/2012 Rs.000'	Balance As at 31/12/2011 Rs.000'	Balance As at 01/01/2011 Rs.000'	Balance As at 31/12/2012 Rs.000'	Balance As at 31/12/2011 Rs.000'	Balance As at 01/01/2011 Rs.000'
<b>Capitalised Value</b>						
As at 1st January	182,382	182,382	218,203	182,382	182,382	218,203
Accumulated Amortization	-	-	(74,107)	-	-	(74,107)
Net Book Value	182,382	182,382	144,096	182,382	182,382	144,096
Increase Due to the reassessment of Liability	-	-	38,286	-	-	38,286
As at 31st December	182,382	182,382	182,382	182,382	182,382	182,382
<b>Amortization</b>						
As at 1st January	5,211	-	74,107	5,211	-	74,107
Transferred due to reassessment of liability	-	-	(74,107)	-	-	(74,107)
Amortization charge for the year	5,211	5,211	-	5,211	5,211	-
As at 31st December	10,422	5,211	-	10,422	5,211	-
<b>Carrying amount</b>	<b>171,960</b>	<b>177,171</b>	<b>182,382</b>	<b>171,960</b>	<b>177,171</b>	<b>182,382</b>

**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 March 8, 1995 that these assets would be taken at their book values as they appear in the books of the SLSPC, on the day immediately preceding the date of formation of the Company. These assets are taken into the 22 June 1992 balance sheet and the amortisation of immovable estate assets to 31 December 2012 are as follows.

	Company					Group						
	Improvement to Land		Mature Plantations	Buildings	Plant & Machinery	Total	Improvement to Land		Mature Plantations	Buildings	Plant & Machinery	Total
	Rs.000'	Rs.000'					Rs.000'	Rs.000'				
*Revaluation as at 22.06.1992	9,084	243,838	63,826	12,007	328,755	9,084	243,838	63,826	12,007	328,755		
Cost/ Revaluation as at 31.12.2011	9,084	243,838	63,826	12,007	328,755	9,084	243,838	63,826	12,007	328,755		
Cost/ Revaluation as at 31.12.2012	9,084	243,838	63,826	12,007	328,755	9,084	243,838	63,826	12,007	328,755		
Accumulated Amortisation as at 01.01.2011	5,448	130,457	45,956	12,007	193,868	5,448	130,457	45,956	12,007	193,868		
Amortisation for the year	303	8,128	2,553	-	10,984	303	8,128	2,553	-	10,984		
Accumulated Amortisation as at 31.12.2011	5,751	138,585	48,509	12,007	204,852	5,751	138,585	48,509	12,007	204,852		
Amortisation for the year	303	8,128	2,553	-	10,984	303	8,128	2,553	-	10,984		
Accumulated Amortisation as at 31.12.2012	6,054	146,713	51,062	12,007	215,836	6,054	146,713	51,062	12,007	215,836		
Written down value as at 31.12.2012	3,030	97,125	12,764	-	112,918	3,030	97,125	12,764	-	112,918		
Written down value as at 31.12.2011	3,333	105,253	15,317	-	123,902	3,333	105,253	15,317	-	123,902		
Written down value as at 01.01.2011	3,636	113,381	17,870	-	134,886	3,635	113,381	17,870	-	134,886		

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

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

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

## Notes to the Financial Statements Contd..

## 14 A TANGIBLE ASSETS

## OTHER THAN IMMATURE/MATURE PLANTATIONS

## Company

Cost	Balance	Additions	Disposals	Balance	Balance	Additions	Disposals
	As at 01.01.2012	for the year	during the Year	As at 31.12.2012	As at 01.01.2011	for the year	during the Year
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Buildings	395,996	49,636	-	445,632	381,041	14,955	-
Motor Vehicles	114,182	26,284	(12,768)	127,698	110,606	3,576	-
Plant & Machinery	496,967	36,730	-	533,697	477,337	19,630	-
Furniture & Fittings	8,348	269	-	8,617	7,907	441	-
Equipment & Tools	63,994	1,335	-	65,329	61,173	3,008	(187)
	1,079,487	114,254	(12,768)	1,180,973	1,038,064	41,610	(187)
Depreciation	Balance	Charge	Accumulated	Balance	Balance	Charge	Accumulated
	As at 01.01.2012	for the Year	depreciation on disposals	As at 31.12.2012	As at 01.01.2011	for the Year	depreciation on disposals
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Buildings	64,408	11,349	-	75,757	54,401	10,007	-
Motor Vehicles	97,182	6,742	(12,768)	91,156	92,361	4,821	-
Plant & Machinery	272,440	18,631	-	291,071	254,358	18,082	-
Furniture & Fittings	5,478	458	-	5,936	5,037	441	-
Equipment & Tools	57,610	1,771	-	59,381	53,725	3,949	(64)
	497,118	38,951	(12,768)	523,301	459,882	37,300	(64)
Written Down Value	582,369			657,672	578,182		
Capital Work-in-Progress	Balance	Additions	Capitalised/ Disposed	Balance	Balance	Additions	Capitalised/ Disposed
	As at 01.01.2012	for the Year	during the Year	As at 31.12.2012	As at 01.01.2011	for the Year	during the Year
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Capital Work-in-Progress	44,016	20,245	(54,656)	9,605	17,402	47,204	(20,589)
Total Written Down Value	626,385			667,277	595,584		

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.

The useful lives of Plant & Machinery and Motor vehicles have been reassessed and the depreciation policy has been changed as per note D.2 and as set out in the accounting policies 3.3.1.10 on Depreciation and Amortisation, as required by the SLFRS.

## Group

Balance As at 31.12.2011 Rs.000'	Balance As at 01.01.2012 Rs.000'	Additions for the year Rs.000'	Disposals during the Year Rs.000'	Balance As at 31.12.2012 Rs.000'	Balance As at 01.01.2011 Rs.000'	Additions for the year Rs.000'	Disposals during the Year Rs.000'	Balance As at 31.12.2011 Rs.000'
395,996	395,996	49,636	-	445,632	381,041	14,955	-	395,996
114,182	114,182	26,284	(12,768)	127,698	110,606	3,576	-	114,182
496,967	978,373	36,730	-	1,015,103	955,887	22,486	-	978,373
8,348	8,348	269	-	8,617	7,907	441	-	8,348
63,994	64,024	1,335	-	65,359	61,203	3,008	(187)	64,024
1,079,487	1,560,923	114,254	(12,768)	1,662,409	1,516,644	44,466	(187)	1,560,923
Balance As at 31.12.2011 Rs.000'	Balance As at 01.01.2012 Rs.000'	Charge for the Year Rs.000'	Accumulated depreciation on disposals Rs.000'	Balance As at 31.12.2012 Rs.000'	Balance As at 01.01.2011 Rs.000'	Charge for the Year Rs.000'	Accumulated depreciation on disposals Rs.000'	Balance As at 31.12.2011 Rs.000'
64,408	64,408	11,349	-	75,757	54,401	10,007	-	64,408
97,182	97,182	6,742	(12,768)	91,156	92,361	4,821	-	97,182
272,440	326,663	34,678	-	361,341	292,498	34,165	-	326,663
5,478	5,478	458	-	5,935	5,037	441	-	5,478
57,610	57,622	1,778	-	59,400	53,729	3,956	(64)	57,621
497,118	551,353	55,006	(12,768)	593,590	498,026	53,390	(64)	551,352
582,369	1,009,572			1,068,820	1,018,618			1,009,571
Balance As at 31.12.2011 Rs.000'	Balance As at 01.01.2012 Rs.000'	Additions for the Year Rs.000'	Capitalised/ Disposed during the Year Rs.000'	Balance As at 31.12.2012 Rs.000'	Balance As at 01.01.2011 Rs.000'	Additions for the Year Rs.000'	Capitalised/ Disposed during the Year Rs.000'	Balance As at 31.12.2011 Rs.000'
44,016	44,016	20,244	(54,656)	9,604	19,479	47,983	(23,446)	44,016
626,387	1,053,588			1,078,424	1,038,097			1,053,588

No borrowing costs have been capitalised in to the 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 statements of financial position is Rs.276.1 Million (2011- 278.7Million)

## Notes to the Financial Statements Contd..

## 14 B IMMATURE/MATURE PLANTATIONS

Cost	Company					Group				
	Permanent	Roads	Immature	Mature	Total	Permanent	Roads	Immature	Mature	Total
	Land		Plantations	Plantations		Land		Plantations	Plantations	
	Development Cost					Development Cost				
Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
*At the beginning of the year 01/01/2011	21,691	81,225	484,004	1,313,309	1,900,229	21,691	81,225	484,004	1,313,309	1,900,229
Additions	-	-	98,177	166,805	264,982	-	-	98,177	166,805	264,982
Transfers	-	-	(166,805)	-	(166,805)	-	-	(166,805)	-	(166,805)
At the end of the year 31/12/2011	21,691	81,225	415,376	1,480,114	1,998,406	21,691	81,225	415,377	1,480,114	1,998,406
Additions	864	-	70,677	212,993	284,534	864	-	70,678	212,993	284,534
Transfers	-	-	(212,993)	-	(212,993)	-	-	(212,993)	-	(212,993)
Gain/(Loss) on Timber Valuation	-	-	-	-	-	-	-	-	-	-
At the end of the year 31/12/2012	22,555	81,225	273,060	1,693,107	2,069,947	22,555	81,225	273,060	1,693,107	2,069,947
Depreciation										
*At the beginning of the year 01/01/2011	6,554	22,224	-	223,183	251,961	6,554	22,224	-	223,183	251,961
Charge for the year	723	16,305	-	40,819	57,847	723	16,305	-	40,819	57,847
At the end of the year 31/12/2011	7,277	38,529	-	264,002	309,808	7,277	38,529	-	264,002	309,808
Charge for the year	759	16,304	-	45,874	62,937	759	16,304	-	45,875	62,937
At the end of the year 31/12/2012	8,036	54,833	-	309,876	372,745	8,036	54,833	-	309,876	372,746
Written Down Value - as at 31.12.2012	14,519	26,392	273,060	1,383,231	1,697,202	14,519	26,392	273,060	1,383,231	1,697,202
Written Down Value - as at 31.12.2011	14,414	42,696	415,376	1,216,112	1,688,598	14,414	42,696	415,376	1,216,112	1,688,598
Written Down Value - as at 01.01.2011	15,137	59,001	484,004	1,090,126	1,648,268	15,137	59,001	484,004	1,090,126	1,648,268

\*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 requirement of recognition of bearer biological assets at its fair value less cost to sell under LKAS 41 was superseded by the ruling issued on 2 March, 2012 by The Institute of Chartered Accountants of Sri Lanka. Accordingly, the Company has elected 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 year under Immature Plantations (2011- Nil).

## 14 C BIOLOGICAL ASSETS - TIMBER PLANTATIONS

	Company			Group		
	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
Consumable Biological Assets - Managed Trees						
As at 1st January	142,062	121,386	20,756	142,062	121,386	20,756
Increase due to development	2,306	4,040	-	2,306	4,040	-
Gain/(loss) arising from changes in fair value less cost to sell attributable to physical change	22,476	16,636	100,630	22,476	16,636	100,630
As at 31st December	166,844	142,062	121,386	166,844	142,062	121,386

Managed trees include commercial timber plantations cultivated in estates. The cost of immature trees is treated at 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 managed trees was ascertained since the LKAS 41 is only applicable for managed agricultural activity in terms of the ruling issued by The Institute of Chartered Accountants of Sri Lanka. The valuation was carried by Messers Sunil Fernando Associates, accredited chartered valuers, using Discounted Cash Flow (DCF) methods. In ascertaining the fair value of timber a physical verification was carried out covering all the estates.

Key assumptions used in valuation:

1. The harvesting is approved by the PMMD and Forestry Department based on the Forestry Department plan.
2. The prices adopted are net of expenditure.
3. Discount rate is 17.5%.
4. Though the replanting is a condition precedent for harvesting, yet the costs are not taken into 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 as included in this note allows every investor to reasonably challenge the financial impact of the assumptions used in the LKAS 41 valuations as included in the consolidated accounts against his own assumptions.

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 are nil for year 2012 (2011 - nil).

There are no commitments for the development or acquisition of biological assets.

## Notes to the Financial Statements Contd..

## 14.C.1 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:

	+10%	2012	-10%
Managed Timber	183,713	166,844	151,414
Total	183,713	166,844	151,414

**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:

	19%	17.50%	16%
Managed Timber	161,627	166,844	171,091
Total	161,627	166,844	171,091

**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 in, December 2015.

	Company		
	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
<b>Ordinary Shares</b>			
TTEL Hydro Power Company (Pvt) Ltd	35,190	35,190	35,190
TTEL Somerset Hydro Power (Pvt) Ltd	30,600	30,600	30,600
	65,790	65,790	65,790
<b>Preference Shares</b>			
TTEL Hydro Power Company (Pvt) Ltd			
As at 1 January	53,109	37,230	37,230
Issued During the year	-	15,879	-
As at 31 December	53,109	53,109	37,230
TTEL Somerset Hydro Power (Pvt) Ltd	16,034	16,034	16,034
	69,143	69,143	53,264
<b>Total Investment</b>	<b>134,933</b>	<b>134,933</b>	<b>119,054</b>

## 16. INVENTORIES

	Company			Group		
	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
Biological Assets - Nurseries	13,653	20,136	21,905	13,653	20,136	21,905
Biological Assets -Harvested Crop	449,877	333,042	282,829	449,877	333,042	282,829
Input Stocks, Consumables & spares	22,748	30,526	22,501	22,748	30,526	22,501
	486,278	383,704	327,235	486,278	383,704	327,235

## 17. TRADE AND OTHER RECEIVABLES

Produce Debtors	4,517	8,712	13,355	29,664	27,277	52,355
Advances & Prepayments	43,982	40,477	40,494	42,875	40,619	41,669
Other debtors	20,901	22,371	16,271	26,559	26,884	21,794
	69,400	71,560	70,120	99,098	94,780	115,818

## 18. AMOUNTS DUE FROM RELATED COMPANIES

	Relationship						
Hayleys Plantation Services (Pvt) Limited	Parent Enterprise	2,478	4,495	-	2,478	4,495	-
Hayleys Industrial Solutions (Pvt) Ltd	Group Company	-	-	-	3,570	3,856	-
TTEL Somerset Hydro Power (Pvt) Ltd	Subsidiary Company	-	-	2,933	-	-	-
TTEL Hydro Power Co. (Pvt) Ltd	Subsidiary Company	-	-	14,236	-	-	-
		2,478	4,495	17,169	6,048	8,351	-

## 19. SHORT TERM INVESTMENT

Fixed Deposits with Hatton National Bank PLC	-	-	-	5,000	5,000	-
	-	-	-	5,000	5,000	-

## Notes to the Financial Statements Contd..

## 20. STATED CAPITAL

Issued and Fully Paid Ordinary Shares

	Company			Group		
	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
Number of ordinary shares including one golden share held by the Treasury which has special rights	23,750	23,750	23,750	23,750	23,750	23,750
Stated Capital including one Golden Share held by the Treasury which has special rights	350,000	350,000	350,000	350,000	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.

## 21. NON-CONTROLLING INTEREST

	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
TTEL Hydro Power Company (Pvt) Ltd	71,816	70,581	68,003
TTEL Somerset Hydro Power ( Pvt) Ltd	65,105	57,749	54,620
	136,921	128,330	122,623

## 22. INTEREST BEARING LOANS AND BORROWINGS

Company	2012					2011					
	Repayable within 1 year	Repayable after one year less than five year	Repayable after five year	Sub Total	Total as at 31.12.2012	Repayable within 1 year	Repayable after one year less than five year	Repayable after five year	Sub Total	Total as at 31.12.2011	Total as at 01.01.2011
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
22.1 National Development Bank PLC	47,465	251,323	27,616	278,939	326,404	14,158	237,801	88,603	326,404	340,562	352,268
22.2 Sampath Bank PLC	13,044	93,126	21,003	114,129	127,173	13,044	80,526	46,647	127,173	140,217	150,688
22.3 Hatton National Bank PLC	3,500	14,000	-	14,000	17,500	-	-	-	-	-	-
22.4 Commercial Bank of Ceylon PLC	-	-	-	-	-	4,116	-	-	-	4,116	9,351
22.5 Indian Bank	-	-	-	-	-	-	-	-	-	-	16,000
	64,009	358,449	48,619	407,068	471,077	31,318	318,327	135,250	453,577	484,895	528,308
<b>Group</b>											
22.1 National Development Bank PLC	47,465	251,323	27,616	278,939	326,404	14,158	237,801	88,603	326,404	340,562	352,268
22.2 Sampath Bank PLC	23,304	193,454	21,003	214,457	237,761	26,274	153,291	79,722	233,013	259,287	276,727
22.3 Hatton National Bank PLC	20,738	53,156	-	53,156	73,894	18,429	56,396	-	56,396	74,825	94,732
22.4 Commercial Bank of Ceylon PLC	-	-	-	-	-	4,116	-	-	-	4,116	9,351
22.5 Indian Bank	-	-	-	-	-	-	-	-	-	-	16,000
	91,507	497,933	48,619	546,552	638,059	62,976	447,488	168,325	615,813	678,789	749,079

## 22.1 National Development Bank PLC

Company	Repayable	Repayable	Repayable	Total	Total as at 31.12.2011	Total as at 01.01.2011	Rate of Interest	Terms of Repayment	
	within one year	after one year less than five years	after five years	Sub Total					as at 31.12.2012
	Rs.000'	Rs.000'	Rs.000'	Rs.000'					Rs.000'
<b>National Development Bank PLC</b>									
<b>Field Development</b>									
4th Disbursement	11,706	46,822	11,676	58,498	70,203	81,908	93,614	9.42%	96 monthly instalments commencing from January 2011.
5th Disbursement	29,432	115,272	-	115,272	144,704	147,157	147,157	13.25%	60 monthly instalments commencing from December 2012.
<b>Process Development</b>									
3rd Disbursement	3,611	57,784	10,834	68,618	72,230	72,230	72,230	13.07%	60 monthly instalments commencing from October 2013.
4th Disbursement	496	7,929	1,487	9,415	9,911	9,911	9,911	13.07%	60 monthly instalments commencing from October 2013.
5th Disbursement	1,500	12,000	1,500	13,500	15,000	15,000	15,000	13.07%	60 monthly instalments commencing from July 2013.
6th Disbursement	405	6,477	1,174	7,651	8,056	8,056	8,056	13.07%	60 monthly instalments commencing from October 2013.
7th Disbursement	315	5,040	945	5,985	6,300	6,300	6,300	13.07%	60 monthly instalments commencing from October 2013.
	47,465	251,323	27,616	278,939	326,404	340,562	352,268		

## Notes to the Financial Statements Contd..

Group	Repayable	Repayable	Repayable	Sub Total	Total	Total	Total	Rate of	Terms of Repayment
	within one year	after one year less than five years	after five years		as at 31.12.2012				
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
<b>National Development Bank Plc</b>									
<b>Field Development</b>									
4th Disbursement	11,706	46,822	11,676	58,498	70,204	81,909	93,614	9.42%	96 monthly instalments commencing from January 2011.
5th Disbursement	29,432	115,272	-	115,272	144,704	147,157	147,157	13.25%	60 monthly instalments commencing from December 2012.
<b>Process Development</b>									
3rd Disbursement	3,611	57,784	10,835	68,619	72,230	72,230	72,230	13.07%	60 monthly instalments commencing from October 2013.
4th Disbursement	496	7,929	1,487	9,416	9,912	9,911	9,911	13.07%	60 monthly instalments commencing from October 2013.
5th Disbursement	1,500	12,000	1,500	13,500	15,000	15,000	15,000	13.07%	60 monthly instalments commencing from July 2013.
6th Disbursement	405	6,477	1,174	7,651	8,056	8,056	8,056	13.07%	60 monthly instalments commencing from October 2013.
7th Disbursement	315	5,040	945	5,985	6,300	6,300	6,300	13.07%	60 monthly instalments commencing from October 2013.
	47,465	251,323	27,616	278,939	326,404	340,562	352,268		

## 22.2 Sampath Bank PLC

Company	Repayable	Repayable	Repayable	Sub Total	Total	Total	Total	Rate of	Terms of Repayment
	within one year	after one year less than five years	after five years		as at 31.12.2012				
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
Replanting Loan	13,044	52,176	11,953	64,129	77,173	90,217	100,000	10.24%	92 monthly instalments commencing from April 2011.
Replanting Loan	-	40,950	9,050	50,000	50,000	50,000	50,000	10.76%	48 monthly instalments commencing from October 2014.
Loans for Boiler Units	-	-	-	-	-	-	688	6.50%	60 monthly instalments commencing from May 2006.
	13,044	93,126	21,003	114,129	127,173	140,217	150,688		
<b>Group</b>									
Replanting Loan	13,044	52,176	11,953	64,129	77,173	90,217	100,000	10.24%	92 monthly instalments commencing from April 2011.
Replanting Loan	-	40,950	9,050	50,000	50,000	50,000	50,000	10.76%	48 monthly instalments commencing from October 2014.
Loans for Boiler Units	-	-	-	-	-	-	688	6.50%	60 monthly instalments commencing from May 2006.
Mini Hydro	10,260	100,328	-	100,328	110,588	119,070	126,039	AWDR+5%	96 monthly instalments commencing from January 2010.
	23,304	193,454	21,003	214,457	237,761	259,287	276,727		

## 22.3 Hatton National Bank PLC

Company									
Factory Loan	3,500	14,000	-	14,000	17,500	-	17,500	Money Market	Payable in 5 years from 2012.
	3,500	14,000	-	14,000	17,500	-	17,500		
<b>Group</b>									
Factory Loan	3,500	14,000	-	14,000	17,500	-	-	Money Market	Payable in 5 years from 2012.
Mini Hydro - Radella	-	-	-	-	-	4,139	8,390	AWDR+4%	96 monthly instalments commencing from February 2005.
Mini Hydro - Somerset	17,238	39,156	-	39,156	56,394	70,686	86,342	AWDR+4%	96 monthly instalments commencing from January 2010.
	20,738	53,156	-	53,156	73,894	74,825	94,732		

## 22.4 Commercial Bank of Ceylon PLC

Company	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2012	Total as at 31.12.2011	Total as at 01.01.2011	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
<b>Company</b>									
Loans for Boiler Units	-	-	-	-	-	1,732	4,368	6.50%	60 monthly instalments commencing from September 2007.
E - Friends - ii Scheme	-	-	-	-	-	2,384	4,983	6.50%	60 monthly instalments commencing from December 2007.
	-	-	-	-	-	4,116	9,351		
<b>Group</b>									
Loans for Boiler Units	-	-	-	-	-	1,732	4,368	6.50%	60 monthly instalments commencing from September 2007.
E - Friends - ii Scheme	-	-	-	-	-	2,384	4,983	6.50%	60 monthly instalments commencing from December 2007.
	-	-	-	-	-	4,116	9,351		

## 22.5 Indian Bank

Company	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2012	Total as at 31.12.2011	Total as at 01.01.2011	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
<b>Company</b>									
2nd Disbursement	-	-	-	-	-	-	16,000	AWPLR+0.5%	24 monthly instalments commencing from April 2009.
	-	-	-	-	-	-	16,000		
<b>Group</b>									
2nd Disbursement	-	-	-	-	-	-	16,000	AWPLR+0.5%	24 monthly instalments commencing from April 2009.
	-	-	-	-	-	-	16,000		

## 23 SHORT TERM BORROWINGS

Company	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2012	Total as at 31.12.2011	Total as at 01.01.2011	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
<b>Company</b>									
Commercial Bank of Ceylon PLC	-	-	-	-	-	55,100	-	} Prevailing money market rates	
Hatton National Bank PLC	-	-	-	-	-	88,100	-		
The Hongkong and Shanghai Banking corporation Ltd .	60,000	-	-	-	60,000	60,000	-		
National Development Bank PLC	-	-	-	-	-	15,000	-		
	60,000	-	-	-	60,000	218,200	-		
<b>Group</b>									
Commercial Bank of Ceylon PLC	-	-	-	-	-	55,100	-	} Prevailing money market rates	
Hatton National Bank PLC	-	-	-	-	-	88,100	-		
The Hongkong and Shanghai Banking corporation Ltd .	60,000	-	-	-	60,000	60,000	-		
National Development Bank PLC	-	-	-	-	-	15,000	-		
	60,000	-	-	-	60,000	218,200	-		

## Notes to the Financial Statements Contd..

## 24 RETIRING BENEFIT OBLIGATIONS

	Company			Group		
	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
Provision for retiring gratuity						
At the beginning of the year	826,914	730,622	664,524	826,914	730,622	664,524
Interest Cost	82,692	73,062	66,452	82,692	73,062	66,452
Current Service Cost	56,646	52,624	42,413	56,646	52,624	42,413
Gratuity Payments for the year	(69,367)	(64,274)	(65,101)	(69,367)	(64,274)	(65,101)
Actuarial (Gain) / Loss	(8,715)	34,880	22,334	(8,715)	34,880	22,334
At the end of the year	888,170	826,914	730,622	888,170	826,914	730,622

The company changed its assumption on the rate of salary increase for workers from 18.5% to 20% every two years, thus the effect amounted to Rs 57,391,259/-. According to the actuarial valuation report issued by the actuarial valuer as at 31 December 2012 the actuarial present value of promised retirement benefits amounted to Rs. 888,169,783/-. 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. 811,552,895/-. Hence, there is a contingent asset of Rs. 76,616,888/- , 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 and discount that benefit using the Projected Unit Credit Method 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 Messers.Actuarial & Management Consultants (Pvt) Ltd include the following.

- |       |                         |                       |
|-------|-------------------------|-----------------------|
| (i)   | Rate of Interest        | 10% (per annum)       |
| (ii)  | Rate of Salary Increase |                       |
|       | Workers                 | 20% (every two years) |
|       | Staff                   | 10% (per annum)       |
| (iii) | Retirement Age          |                       |
|       | Workers                 | 60 years              |
|       | Staff                   | 55 years              |
| (iv)  | Daily Wage Rate         |                       |
|       | Tea                     | Rs. 380/-             |
|       | Rubber                  | Rs. 380/-             |

## 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'	Rs.000'	Rs.000'
As at 31 December 2012						
Rate of wage/salary increment in every two years	19%	20%	21%	9%	10%	11%
Retirement benefit obligation	756,261	795,131	836,589	88,338	93,039	98,280
As at 31 December 2012	756,261	795,131	836,589	88,338	93,039	98,280

### 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'	Rs.000'	Rs.000'
As at 31 December 2012						
Rate of discount	9%	10%	11%	9%	10%	11%
Retirement benefit obligation	882,526	795,131	720,828	98,765	93,039	87,994
As at 31 December 2012	882,526	795,131	720,828	98,765	93,039	87,994

## 25. DEFERRED INCOME

	Company			Group		
	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
Deferred Grants and Subsidies						
Balance at the beginning of the year	226,532	250,474	221,936	226,532	250,474	221,936
Add : Grants received / (refunded) during the year	3,607	3,456	34,443	3,607	3,456	34,443
Less : Amortisation for the year	(19,847)	(27,398)	(5,905)	(19,847)	(27,398)	(5,905)
Balance at the end of the year	210,292	226,532	250,474	210,292	226,532	250,474

The Company has received funding from the Tea board and Unilever Ceylon Ltd during the year for Replanting and Rainforest Alliance. The amounts spent are included under the relevant classification of property, plant & equipment and the grant component is reflected under Deferred Grants and Subsidies. Grants are amortised over the life of the assets for which they are being deployed.

## Notes to the Financial Statements Contd..

## 26. LIABILITY TO MAKE LEASE PAYMENT

Company	Company			2012 Total Rs.000'	Group	
	2012 Total Rs.000'	2011 Total Rs.000'	As at 01/01/2011 Total Rs.000'		2011 Total Rs.000'	As at 01/01/2011 Total Rs.000'
<b>Gross Liability</b>						
As at 31st December	737,529	759,534	779,830	737,529	759,534	779,830
Finance cost allocated to future periods	(566,026)	(587,661)	(607,654)	(566,026)	(587,661)	(607,654)
Net Liability	171,503	171,873	172,176	171,503	171,873	172,176
<b>Payable within one year</b>						
Gross liability	22,727	22,727	22,727	22,727	22,727	22,727
Finance cost allocated to future periods	(22,296)	(22,356)	(22,424)	(22,296)	(22,356)	(22,424)
Net liability transferred to current liabilities	431	371	303	431	371	303
<b>Payable within two to five years</b>						
Gross liability	90,907	90,907	90,907	90,907	90,907	90,907
Finance cost allocated to future periods	(88,543)	(88,815)	(89,068)	(88,543)	(88,815)	(89,068)
Net liability	2,364	2,092	1,839	2,364	2,092	1,839
<b>Payable after five years</b>						
Gross liability	623,896	645,900	666,197	623,896	645,900	666,197
Finance cost allocated to future periods	(455,188)	(476,489)	(496,163)	(455,188)	(476,489)	(496,163)
Net liability	168,708	169,411	170,034	168,708	169,411	170,034
Net liability payable after one year	171,072	171,503	171,873	171,072	171,503	171,873

Liability to make Lease Payment as above was previously titled as "Net Liability to lessor". The Change was in terms of the Statement of Recommended Practice (SoRP) issued by The Institute of Chartered Accountants of Sri Lanka on 19 December 2012. As described in accounting policy note 5.2 the group has reassessed the above liability as of 1 January 2011 as per the provisions of SoRP and the impact to the financial statements is given in note 5.4.

According to the reassessment, the base rental payable per year has increased from Rs.7,225,074/- to Rs.22,726,738/- to be line with the present rental and the implicit interest rate applicable for the lease liability has increased from 4% to 13% recognising the historical change in average GDP Deflator.

## 27. TRADE AND OTHER PAYABLES

	Company			Group		
	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
Trade creditors	68,692	69,383	96,349	68,692	77,109	109,379
Others	133,794	114,692	102,537	133,794	114,692	102,537
Accrued expenses	135,821	101,980	93,320	147,944	101,980	93,320
	338,307	286,055	292,206	350,430	293,781	305,236

## 28. AMOUNTS DUE TO RELATED COMPANIES

	Relationship	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'	2012 Rs.000'	2011 Rs.000'	As at 01/01/2011 Rs.000'
Hayleys PLC.	Group Company	4,523	3,607	2,357	4,523	3,607	2,357
Hayleys Industrial Solutions (Pvt) Ltd.	Group Company	-	-	-	2,980	-	1,908
Hayleys Plantation Services (Pvt) Limited.	Parent Enterprise	-	-	8,245	-	-	8,245
TTEL Hydro Power. Co. (Pvt.) Ltd	Subsidiory Company	7,878	8,925	-	-	-	-
TTEL Somerset Hydro Power (Pvt.) Ltd.	Subsidiory Company	-	1,785	-	-	-	-
Kelani Valley Plantations PLC	Group Company	4	-	-	4	-	-
Kiriweldola Hydro Power (Pvt) Ltd	Group Company	-	-	-	550	-	-
		12,405	14,317	10,602	8,057	3,607	12,510

## 29. DIVIDENDS PAID AND PROPOSED

	Company		Group	
	2012 Rs.000'	2011 Rs.000'	2012 Rs.000'	2011 Rs.000'
<b>Dividend on Ordinary Shares</b>				
Dividend Paid during the year (Final dividend for 2010 Rs. 2.50 per Share)	-	59,375	-	59,375
(Proposed- Final dividend for 2012 Rs. 2.50 per Share)	-	-	-	-
	-	59,375	-	59,375
Dividends per share	-	2.50	-	2.50

## Notes to the Financial Statements Contd..

## 30. ASSETS PLEDGED

Following assets have been pledged as security for liabilities.

Bank	Nature of Assets	Nature of Liability	Carrying Amount Pledged		
			As at 2012 Rs.000'	2011 Rs.000'	01/01/2011 Rs.000'
Hatton National Bank PLC	Primary floating mortgage for Rs. 109 Mn over lease hold rights of Radella, Palmerstone and Handford Estates.	Term Loan, Short Term Loan & Over Draft	33,552	35,646	37,740
Sampath Bank PLC	Primary mortgage over stock for Rs.45Mn & Primary mortgage bond for Rs.46 Mn over leasehold rights of Deniyaya Estate.	Over Draft	16,617	18,071	19,526
	Primary mortgage over lease hold rights to the value of Rs. 30 Mn of Clarendon Estate. Secondary mortgage over leasehold rights to the value of Rs. 20 Mn of Deniyaya Estate.	Term Loan	21,841	23,612	25,383
	Primary mortgage over lease hold rights of Matakelle Estate for Rs.100 Mn.	Term Loan	12,459	13,213	13,967
	Primary mortgage bond for Rs. 10.6 Mn over 3 numbers of Hot Water Generators of Bearwell, Holyrood and Great Western Estates.	Term Loan	-	21,422	22,600
National Development Bank PLC	Primary mortgage over lease hold rights of Somerset, Great Western, Holyrood, Logie and Dessford Estates.	Term Loan	76,951	81,571	86,192
Commercial Bank of Ceylon PLC	Concurrent mortgage over stock in trade and debtors for Rs. 100 Mn & additional mortgage over stocks and debtors for Rs. 50 Mn.	Over Draft, Money Market, Export packing/ Bill nego guaranty.	486,278	383,704	327,235
	Primary mortgage bond for Rs. 13 Mn. Over 2 numbers of hot water generators Radella and Wattagoda Estates.	Term Loan	-	11,135	12,527
	Primary mortgage bond for Rs. 14 Mn. Over 2 numbers of hot water generators Logie and Dessford Estates.	Term Loan	-	13,267	14,534
The HongKong & Shanghai Banking Corporation Ltd	Concurrent mortgage over stocks and debtors for Rs. 65 Mn.	OD/ Short Term Loan	486,278	383,704	327,235
Bank Of Ceylon	Guarantee by Hayles Plantation Services (Pvt) Ltd for Rs. 50 Mn.	Over Draft			

**31. CAPITAL COMMITMENTS**

Followings are the capital commitments as at the Statement of Financial Position date.

	2012 Rs. (Mn)	2011 Rs. (Mn)	As at 01/01/2011 Rs. (Mn)
Approved by the Board & Contracted for	-	-	-
Approved by the Board & not Contracted for	78	120	108
	78	120	108

**32. COMMITMENTS AND CONTINGENCIES**

Contingent liabilities that may result, depending of the timing of the taxability of certain fair value adjustments amount to approximately Rs. 2,247,649/-.

**33. POST BALANCE SHEET EVENTS**

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**

Details of Significant Related Party Disclosures are as follows.

## Notes to the Financial Statements Contd..

## 34.1 Transactions with the parent and related entities

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2012 Rs.000'	2011 Rs.000'
Hayleys Plantation Services (Pvt) Limited	Parent Enterprise	Mr. A.M. Pandithage Mr. S.T.Gunatileke (Retired w.e.f 31/12/12 ) Mr. Merrill J Fernando Mr. Malik J Fernando Mr. D.S.Senaviratne Mr. M.M.M.De Silva Mr. J.A.G.Anandarajah Mr. G.K.Senaviratne Mr. W.G.R. Rajadurai (Appointed w.e.f - 01/01/13)	Managing Agent's Fee Reimbursable of Insurance	18,678 -	18,662 713
Hayleys Travels & Tours (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage	Providing of Air Ticketing Services	-	657
Hayleys PLC	Related Company	Mr. A.M. Pandithage Mr. J.A.G.Anandarajah Dr. K.I.M. Ranasoma Mr. W.D.N.H. Perera	Data Processing Services Secretarial Services , Management Salaries & Office Rent	26,142	18,567
MIT Cargo (Pvt) Limited	Related Company	Mr. A.M. Pandithage	Providing of Warehousing Services	17	149
Hayleys Agriculture Holdings Limited.	Related Company	Mr. A.M. Pandithage Mr. M.M.M.De Silva	Purchase of Equipments & Chemicals	5,798	8,292
Hayleys Industrial Solutions (Private) Limited.	Related Company	Mr. A.M. Pandithage Mr. M.M.M.De Silva	Providing of Maintenance to Generator	-	219
Hayleys Agro Fertilizers (Pvt) Limited.	Related Company	Mr. A.M. Pandithage	Purchase of Fertilizer	91,738	145,399
TTEL Hydro Power Company (Pvt) Limited	Related Company	Mr. A.M. Pandithage Mr. S.T.Gunatileke (Retired w.e.f 31/12/12 ) Mr. Merrill J Fernando Mr. Malik J Fernando Mr. M.M.M.De Silva Mr. J.A.G.Anandarajah Mr. N.Y.Fernando (Resigned w.e.f. 27/06/12) Mr.A.R.De Zilva (Appointed w.e.f - 27/06/12) Mr. W.G.R. Rajadurai (Appointed w.e.f - 01/01/13)	Issue of Preference Shares	-	15,878
Mabroc Teas (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage Mr. S.T.Gunatileke (Retired w.e.f. 31/12/12) Mr. J.A.G.Anandarajah Mr. G.K.Senaviratne Mr. W.G.R. Rajadurai (Appointed w.e.f - 01/01/13)	Tea Blending & Packing Charges Share of office maintenance cost Receipts	- 387	99 -
Alumex (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage Mr. J.A.G.Anandarajah	Purchase of Aluminium Items	52	336

## 34.1 Transactions with the parent and related entities

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts	
				2012 Rs.000'	2011 Rs.000'
Dipped Products PLC	Related Company	Mr. A.M. Pandithage Mr. J.A.G.Anandarajah Mr. G.K.Senaviratne Dr. K.I.M. Ranasoma	Purchase of hand gloves	58	-
Alutec Anodizing & Machine Tools (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage Mr. J.A.G.Anandarajah	Purchase of Aluminium Bars	-	215
Kelani Valley Plantations PLC	Related Company	Mr. A.M. Pandithage Mr. J.A.G.Anandarajah Mr. G.K.Senaviratne Dr. K.I.M. Ranasoma Mr. S.T.Gunatilleke (Retired w.e.f. 31/12/12) Mr. W.G.R. Rajadurai (Appointed w.e.f - 01/01/13)	Share of office maintenance cost		
			- Payments	379	
			- Receipts	543	
Hayleys Business Solutions International (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage Mr. M.M.M.De Silva	Payroll processing cost and use of Hardware/Project Study Charges	110	114
HS Cargo (Pvt) Ltd.	Related Company	Mr. A.M. Pandithage	Providing of Warehousing Services	-	109
TTEL Somerset Hydro Power (Pvt) Ltd	Related Company	Mr.A M Pandithage Mr.S.T.Gunatilleke (Retired w.e.f. 31/12/12) Mr. Merrill J. Fernando Mr. Malik J. Fernando Mr.M.M.M. De Silva Mr. J.A.G.Anandarajah Mr. N.Y.Fernando (Resigned w.e.f. 27/06/12) Mr. A.R.De Zilva (Appointed w.e.f - 27/06/12) Mr. W.G.R. Rajadurai (Appointed w.e.f - 01/01/13)	Receipts of Dividend	2,020	-
Agro Technica Ltd	Related Company	Mr. A.M. Pandithage	Purchase of Chemicals	1,912	573
Logiwiz Ltd	Related Company	Mr. A.M. Pandithage	Providing of document Storing Service	450	386
Puritas (pvt) Ltd	Related Company	Mr. A.M. Pandithage	Purchases of Mask	55	-

## Notes to the Financial Statements Contd..

### 34.2 Transactions with the key management personnel of the company or parent

There were no material transactions with the Key Management Personnel of the Company and its parent other than those disclosed in Notes 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 on page 151.

### 35 RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 18, 28 & 34 to the financial statements.

#### 35.1 Pricing Policies

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

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

## 10 Year summary

	2012	** 2011	*** 2010	2009	2008	2007	2006	2005	2004	2003
	Rs.'000									
Group revenue	3,318,149	2,744,505	3,002,624	2,772,125	2,264,085	1,924,383	1,731,612	1,619,598	1,492,412	1,349,330
Profit before taxation	239,997	(22,198)	169,200	(27,887)	111,958	113,017	100,272	112,289	142,894	60,322
Taxation	(5,959)	(10,532)	(4,691)	(2,514)	(3,952)	(14,700)	(19,906)	(6,895)	(12,179)	-
Profit after taxation	234,038	(32,730)	164,509	(30,401)	108,006	98,317	80,366	105,394	130,715	60,322
Minority interest	(10,748)	18,690	(17,071)	(8,118)	(1,273)	(1,288)	7	-	-	-
Profit attributable to equity holders	223,290	(51,420)	147,438	(22,283)	109,279	99,605	80,359	105,394	130,715	60,322
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Capital reserve	139,743	117,267	100,630							
Revenue reserve	865,662	664,848	792,279	660,904	712,875	669,094	569,488	560,133	490,364	377,771
shareholders' fund	1,355,405	1,132,115	1,242,909	1,010,904	1,062,875	1,019,094	919,488	910,133	840,364	727,771
Minority interest	136,921	128,329	122,623	54,376	62,494	63,595	22,254	-	-	-
Borrowings (both short and long-term)	895,920	1,092,427	936,576	1,257,480	1,160,182	911,210	729,975	626,852	656,113	696,119
	2,388,246	2,352,871	2,302,108	2,322,760	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890
Non-current assets	3,237,928	3,197,861	3,138,780	2,923,602	2,782,252	2,285,360	2,027,207	1,874,245	1,808,168	1,743,455
Current assets	620,040	532,418	482,681	717,923	538,701	550,554	332,646	253,272	305,101	301,284
Current liabilities net of borrowings	(358,488)	(297,388)	(317,746)	(411,043)	(320,697)	(307,733)	(238,308)	(189,753)	(216,892)	(230,330)
Provisions	(900,942)	(853,488)	(751,133)	(685,786)	(516,788)	(403,161)	(329,804)	(258,881)	(257,808)	(238,774)
Deferred income	(210,292)	(226,532)	(250,474)	(221,936)	(197,917)	(131,121)	(120,024)	(141,898)	(142,092)	(151,745)
Capital employed	2,388,246	2,352,871	2,302,108	2,322,760	2,285,551	1,993,899	1,671,717	1,536,985	1,496,477	1,423,890
Net Cash inflow/(outflow) from operating activities	336,133	108,711	321,845	315,964	298,251	190,692	228,839	211,616	161,640	139,117
Net Cash inflow/(outflow) from investing activities	(131,654)	(165,069)	(170,378)	(231,723)	(530,418)	(334,118)	(223,975)	(118,626)	(121,337)	(88,825)
Net Cash inflow/(outflow) from finance activities	(66,040)	(164,131)	(249,640)	176,655	149,279	198,440	(51,480)	8,377	(3,976)	56,597
Increase/(decrease) in cash & cash equivalents	138,439	(220,489)	(98,173)	260,896	(82,888)	55,014	(46,616)	101,367	36,327	106,889
<b>Key Indicators</b>										
EPS (basic) (Rs.)	9.40	(2.17)	6.21	(0.94)	4.60	4.19	3.38	4.44	5.50	2.54
Net assets per share (Rs.)	57.07	47.67	52.33	42.56	44.75	42.91	38.72	38.32	35.38	30.64
Market price per share (Rs.)	24.00	29.70	46.40	25.25	13.00	35.75	25.25	17.00	16.25	*
Price earning ratio (times)	2.55	(13.72)	7.47	(26.86)	2.80	8.50	7.50	3.80	3.00	*
Current ratio (times)	1.16	0.88	1.17	1.17	0.90	0.90	0.70	0.70	0.70	0.60
Return on equity%	17.95	(4.33)	13.08	(2.15)	10.50	10.30	8.80	12.00	16.70	8.50
Debt to equity%	60.00	86.70	65.80	124.39	109.20	89.40	79.40	68.90	78.10	95.70
Dividends per share (Rs.)	-	-	2.50	-	1.25	2.50	2.50	1.50	0.75	0.75
Dividend payout ratio (times)	-	-	0.40	-	0.27	0.60	0.74	0.34	0.14	0.30

\* Was not quoted during this period

\*\* Restated- Income Statement, Statement of Financial Position , Statement of Cash Flows

\*\*\* Restated - Statement of Financial Position

## Investor Information

### 1. STOCK EXCHANGE

Interim Financial Statements of the 4th Quarter, for the year ended 31st December 2012, have been submitted to the Colombo Stock Exchange as required by the Listing Rules.

### 2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST DECEMBER 2012

Number of shareholders as at 31st December 2012 is 13,727 (2011-13,767)

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	13,497	2,198,599	9.2573	1	400	0.0017	13,498	2,198,999	9.2590
1,001 -10,000	188	582,283	2.4517	4	22,701	0.0956	192	604,984	2.5473
10,001 -100,000	29	949,617	3.9983	2	35,000	0.1474	31	984,617	4.1457
100,001 -1,000,000	4	1,026,700	4.3230				4	1,026,700	4.3230
Over 1,000,000	2	18,934,700	79.7251				2	18,934,700	79.7250
	13,720	23,691,899	99.7554	7	58,101	0.2446	13,727	23,750,000	100.0000

#### Category

Individuals	13,650	3,365,306	14.1698	5	33,101	0.1393	13,655	3,398,407	14.3091
Institutions	70	20,326,593	85.5856	2	25,000	0.1053	72	20,351,593	85.6909
	13,720	23,691,899	99.7554	7	58,101	0.2446	13,727	23,750,000	100.0000

Of the issued ordinary share capital, 99.75% is held by residents of Sri Lanka.

### 3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27 % (2011-20.27%).

### 4. MARKET VALUE

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

	2012 Rs.	2011 Rs.	2010 Rs.
Highest	35.00 (18th September 2012)	55.00 (7th January 2011)	55.00 (17th September 2010)
Lowest	12.70 (06th June 2012)	20.40 (14th November 2011)	24.75 (07th January 2010)
Year end	24.00	29.70	46.40

### 5. DIVIDEND PAYMENT

First and final dividend of Rs 2.50 per share is recommended by the Board to be paid on 2nd May 2013 (2011-Nil).

**6. SHARE TRADING**

	2012	2011	2010
No. of transactions	1,601	2,292	3,187
No. of shares traded	803,296	1,763,600	3,959,500
Value of shares traded (Rs.)	21,151,034	80,009,080	147,458,505

**7. TWENTY MAJOR SHAREHOLDERS**

	Name of the Shareholder	No. of Shares as at 31.12.2012	%	No. of Shares as at 31.12.2011	%
1	Hayleys Plantation Services (Private) Limited	17,750,000	74.74	17,750,000	74.74
2	Merrill J Fernando & Sons (Pvt) Limited	1,184,700	4.99	1,184,700	4.99
3	Anverally And Sons (Pvt) Ltd A/C No 01	613,200	2.58	613,200	2.58
4	Waldock Mackenzie Ltd/Ceylinco Shriram Capital Management Services Co (Pvt) Limited	181,900	0.77	181,900	0.77
5	Mrs. P.N. Bhatt	126,000	0.53	126,000	0.53
6	Sri Lanka Insurance Corporation Ltd-Life Fund	105,600	0.44	105,600	0.44
7	Mr. M.S. Pinto	97,386	0.41	86,000	0.36
8	Cocoshell Activated Carbon Company Limited	93,600	0.39	93,600	0.39
9	Bank Of Ceylon A/C Eagle Growth Fund	55,000	0.23	55,000	0.23
10	Mr. P.A.D. Samarasekera	53,400	0.22	53,400	0.22
11	Pan Asia Banking Corporation PLC/Mr Gerad Shamil	50,279	0.21	0	0
12	Miss. D.A.M. Weerawardane	50,000	0.21	0	0
13	Mr. K.C. Vignarajah	48,800	0.20	48,800	0.20
14	Mr. S.A.J.N.Sakalasuriya	43,500	0.18	0	0
15	Mr. M. Radhakrishnan (Deceased)	40,000	0.17	40,000	0.17
16	Mr. M. Asokan	39,040	0.16	39,540	0.16
17	Waldock Mackenzie Ltd/Hi-Line Towers (Pvt) Ltd	36,400	0.15	36,400	0.15
18	First Capital Markets Limited/Ms.S S De Fonseka	29,600	0.12	34,600	0.14
19	Ms. M.J. Nihara	29,000	0.12	29,000	0.12
20	Mr. H.A. Abdulhussein	25,000	0.10	25,000	0.10

## 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

Is the harvested product of the entity's biological assets.

#### 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.

#### Biological Assets

Is a living animal or plant.

#### Borrowings

Bank loans, overdrafts, long term loans, debentures, finance lease obligations and interest bearing liabilities.

#### Capital Employed

Total assets less interest free liabilities and provisions.

#### Cash Equivalents

Liquid investments with original maturity periods of three months or less.

#### Contingent Liability

A possible obligation that arises from past events whose existence will be confirmed only by the

occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.

#### Current Ratio

Current assets divided by current liabilities.

#### Debt Equity

Borrowings divided by equity at year end.

#### Deferred Taxation

The Tax effect of timing differences deferred to/from other periods, which would only qualify for inclusion on a tax return at a future date.

#### Dividends

Distribution of profits to holders of equity investments.

#### Dividend Pay Out

Dividend divided by earnings.

#### EBITDA

Abbreviation for earnings before Interest Tax Depreciation & Amortisation.

#### Earnings per Share

Profits attributable to ordinary shareholders divided by the number of ordinary shares in issue.

#### Equity

Shareholders' funds, i.e.: Share capital and reserves.

#### IFRS

International Financial Reporting Standards.

#### Interest Cover

Profit from operating activities divided by total finance cost paid.

#### Market Capitalisation

Number of shares in issue multiplied by the market value of each share at the year end.

#### Net Assets per Share

Shareholders' funds divided by the number of ordinary shares.

#### Non Controlling Interest

The Interest of individual shareholders, in a company more than 50% of which is owned by a holding 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

Attributable profits divided by average shareholders' funds.

#### Retirement Benefits

##### Present value of a defined 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.

#### SLFRS/LKAS

Sri Lanka Accounting Standards corresponding to International Financial Reporting Standards.

**SoRP**

Statement of Recommended Practices.

**Revenue Reserves**

Reserves considered as being available for distributions and investments.

**SLAS**

Sri Lanka Accounting Standards.

**SIC**

Standing Interpretations committee.

**Segment**

Constituent business units grouped in terms of nature and similarity of operations.

**Working Capital**

Capital required to finance the day-to-day operations (current assets minus current liabilities).

**UITF**

Urgent Issue Tasks Force of The Institute of Chartered Accountants of Sri Lanka.

**NON-FINANCIAL TERMS****COP**

Cost of Production. This generally refers to the cost of producing a kilo of produce (Tea/Rubber/Coconut).

**Crop**

The total produce harvested over a given period of time. (Usually during a financial year).

**Extent in bearing**

The extent of land from which crop is being harvested. Also see "Mature Plantation".

**Field**

A unit extent of land. Estates are divided into fields in order to facilitate management.

**GSA**

The Gross Sales Average. This is the average sale price obtained (over a period of time, for a kilo of produce) before any deductions such as Brokerage etc.

**ISO**

International Organisation for Standardisation. A worldwide federation of national standard bodies.

**HACCP**

Hazard Analysis Critical Control Point System. A Scientific system which identifies, evaluates and control hazards which are significant for food safety.

**Immature Plantation**

The extent of plantation that is under development and is not being harvested.

**Infilling**

A method of field development whereby planting of individual plants is done in order to increase the yield of a given field, whilst allowing the field to be harvested.

**Mature Plantation**

The extent of plantation from which crop is being harvested. Also see "Extent in Bearing".

**NSA**

The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting Brokerage fees and Cost of Gratis teas. (Also see GSA).

**Replanting**

A method of field development where an entire unit of land is taken out of "bearing" and developed by way of uprooting the existing tree/bushes and replanting with new trees/bushes.

**Seedling Tea**

Tea grown from a seed. (Also see VP Tea).

**TASL**

Tea Association of Sri Lanka.

**VP Tea**

Vegetatively Propagated tea. i.e. Tea grown from a cutting of a branch of tea plant. (Also see "Seedling").

**Yield**

The average crop per unit extent of land over a given period of time. (Usually kg per hectare per year).

**5S**

A Japanese management technique on the organization of the work place. 5S stands for Seiri (sorting), Seiton (organizing), Seiso (cleaning) Seiketsu (standardisation), Shitsuke (sustenance).

**ETP-Ethical Tea Partnership**

An initiative in ethical sourcing approved by UK based tea packing companies to work in partnership with producers to demonstrate that ethical conditions exist within the tea industry.

**ISO 22000**

International Standard for Food Safety Management Systems (FSMS) released by ISO in September 2005.

**CQC - QMS - Ceylon Tea Quality Certification - Quality Management System**

A legal declaration by the Tea Commissioner to a registered Tea Manufacturer in modern Quality Management Systems that the building, equipment and manner of operations of the tea factory are of excellent standard to manufacture made tea of good quality.

**FLO - Fair-trade Labelling Organisation International**

A leading Standard Setting and Certification Organisation for labelling fair-trade established in 1997 in Germany.

## Notice of Meeting

PQ 36

NOTICE IS HEREBY GIVEN that the Twenty First Annual General Meeting of Talawakelle Tea Estates PLC, will be held at No. 400, Deans Road, Colombo 10, on 22nd April, 2013 at 3.00 p.m. and the business to be brought before the meeting will be :

- 1) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2012, with the Report of the Auditors thereon.
- 2) Declare a dividend as recommended by the Directors.
- 3) To re-elect Mr. W.G.R. Rajadurai, who has been appointed by the Board, since the last Annual General Meeting, a Director.
- 4) To re-elect Mr. A.M. Pandithage, who retires by rotation at the Annual General Meeting, a Director.
- 5) To re-elect Prof. U Liyanage, who retires by rotation at the Annual General Meeting, a Director.
- 6) To re-elect Dr. S.S.S.B.D.G. Jayawardena, who retires by rotation at the Annual General Meeting, a Director.
- 7) To re-appoint Mr. Merrill J Fernando, who retires having attained the age of eighty two years and the company has received special notice of the undernoted ordinary resolution in compliance with section 211 of the companies Act no.7 of 2007 in relation to his re-appointment.

### ORDINARY RESOLUTION

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

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

### NOTE :

- (1) A Shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office No. 400, Deans Road, Colombo 10 by 3.00 pm on 20th April 2013.
- (2) It is proposed to post ordinary dividend warrants on 2nd May 2013 and in accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex-dividend with effect from 23rd April 2013.

By Order of the Board

**TALAWAKELLE TEA ESTATES PLC**  
Hayleys Group Services (Private) Limited  
*Secretaries*

Colombo  
13th March, 2013

## Form of Proxy

PQ 36

I/We\* .....  
of .....  
being a shareholder/ shareholders\* of TALAWAKELLE TEA ESTATES PLC hereby appoint,

1. ....  
of .....  
or failing him/them,\*

2. ABEYAKUMAR MOHAN PANDITHAGE (Chairman of the Company) of Colombo, or failing him, one of the Directors of the Company as my/our\* proxy to attend and vote as indicated hereunder for me/us\* and on my/our\* behalf at the Twenty First Annual General Meeting of the Company to be held on Monday, 22nd April, 2013 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof:

	For	Against
1) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st December 2012, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2) To declare a dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3) To re-elect Mr. W.G.R. Rajadurai, who has been appointed by the board, since the last Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4) To re-elect Mr. A.M. Pandithage, who retires by rotation at the Annual General meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5) To re-elect Prof. U Liyanage, who retires by rotation at the Annual General meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6) To re-elect Dr. S.S.S.B.D.G. Jayawardena, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
7) To re-appoint Mr. Merrill J Fernando , who retires having attained the age of Eighty two years, a Director by passing the Ordinary Resolution set out in the Notice.	<input type="checkbox"/>	<input type="checkbox"/>
8) To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>
9) To authorise the Directors to determine the remuneration of the Auditors, Messrs.Ernst & Young, who are deemed to have been re-appointed as Auditors.	<input type="checkbox"/>	<input type="checkbox"/>

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

As witness my/our\* hands this ..... day of .....2013.

Witnesses: .....  
.....  
.....

.....  
Signature of Shareholder

**NOTE :** \* Please delete the inappropriate words.

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

**INSTRUCTIONS AS TO COMPLETION**

1. To be valid, this Form of Proxy must be deposited at the Registered Office of the Company, No.400, Deans Road, Colombo 10, by 3.00 pm on 20th April, 2013.
2. In perfecting the Form of Proxy, please ensure that all details are legible.
3. If you wish to appoint a person other than the Chairman of the Company (or failing him, one of the Directors) as your proxy, please insert the relevant details at 1 overleaf and initial against this entry.
4. Please indicate with an X in the space provided how your proxy is to vote on each resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit. Please also delete (\*\*) if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the Meeting.
5. In the case of a Company / Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. Where the Form of Proxy is signed under a Power of Attorney (POA) which has not been registered with the Company, the original POA together with a photocopy of same or a copy certified by a Notary Public must be lodged with the Company along with the Form of Proxy.

## Corporate Information

### NAME OF COMPANY

Talawakelle Tea Estates PLC

### LEGAL FORM

A Public Limited Company  
Incorporated in Sri Lanka on  
22nd June 1992

### COMPANY NUMBER

PQ 36

### ACCOUNTING YEAR END

31st December

### PRINCIPAL LINE OF BUSINESS

Cultivation and Manufacture of  
Black Tea

### STOCK EXCHANGE LISTING

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

### DIRECTORS

Mr A M Pandithage

*Chairman*

Mr S T Gunatilleke

*Chief Executive Officer*

*(Retired-31st December 2012)*

Mr. W.G.R. Rajadurai

*Managing Director*

*(Appointed -1st January 2013)*

Mr Merrill J Fernando

Mr Malik J Fernando

*(Alternate- Mr D C Fernando)*

Mr JAG Anandarajah

*(Will retire-31st March 2013)*

Mr G K Seneviratne

*(Will retire-08th April 2013)*

Prof. U Liyanage

Dr S S S B D G Jayawardena

Mr L N De S Wijeyeratne

Dr K I M Ranasoma

Mr. W D N H Perera

Ms M D A Perera

*(Appointed -5th January 2012)*

### 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) - 2627753-5, 2697203

*Fax :*

(94-11) - 2627782, 2624592

*e- mail :*

tpl.tea@ttl.hayleys .com

*Website :*

www.talawakelleteas.com

### SECRETARIES

Hayleys Group Services

(Private) Limited

400, Deans Road, Colombo 10,

Sri Lanka

### BANKERS

Commercial Bank of Ceylon PLC

Sampath Bank PLC

National Development Bank PLC

Hatton National Bank PLC

Bank of Ceylon

Hongkong and Shanghai Banking

Corporation Limited

Deutsche Bank AG

Indian Bank

Union Bank of Colombo Ltd

DFCC Vardhana Bank Limited

### AUDITORS

**M/s Ernst & Young**

Chartered Accountants

201, De Saram Place, Colombo 10,

Sri Lanka

### LEGAL ADVISORS

**M/s F.J.& G De Saram & Company ,**

Attorneys - at - Law

216, De Saram Place, Colombo 10,

Sri Lanka

### TAX ADVISORS

**M/s Ernst & Young**

Chartered Accountants

201, De Saram Place, Colombo 10,

Sri Lanka



No.400, Deans Road,  
Colombo10,  
Sri Lanka.