Talawakelle
Tea Estates®

"MORE THAN A CUP..."
Annual Report 2013

This is an integrated report

TAKING ON INTEGRATED REPORTING

For the first time, this year, we have attempted to report on the lines of integrated reporting. We have since the financial year 2011 included our sustainability initiatives as a separate supplement to our annual report. This year under review, we seek to fully integrate the sustainability reporting with the operational and financial reporting, bringing out our commitment to sustainable business practices in creating value and meaningfully reaching across our stakeholders - shareholders, buyers, people, resident communities and the environment.

We have endeavoured throughout the report to reflect on our performance for the financial year ended December 2013 coupling it with our corporate strategy and goals encompassing a triple bottom-line approach - economic, environment and social. Being a well-managed and responsible plantation company with due certifications from recognised bodies for sustainable practices in agriculture and manufacture of our renowned teas, integrating these three facets truly embody our corporate business model driving our vision.

OUR STORY

Talawakelle Tea Estates PLC produces high quality teas from our 17 tea gardens situated amongst the best tea lands in the country.

Our estates, nestled in the Dimbulla Valley and amongst the verdant plains of the South, brings forth Teas that satisfy tea aficionados all over the world. Our most sought after specialty brands, “Dimbulla Tea” and “Ruhuna Tea” is served in countless homes, offices, restaurants, hotels; from the grandest to the most humble.

Our ‘quality culture’ which is underpinned by internationally acknowledged certifications and accreditations; ISO 22000, Rainforest Alliance, Ethical Tea Partnership and UTZ, are awards for our upgraded and well equipped processing facilities managed by well-trained and motivated teams.

As a member of the Hayleys Group, a multinational conglomerate with a history spanning over 135 years, Talawakelle Tea Estate PLC reaches you with our finest Ceylon teas with a defining characteristic.

MORE THAN A CUP - ABOUT THE COVER

There are entire worlds to be found in just one cup of tea. From the plantations where it is grown to the many countries to where it is enjoyed, a mere taste tells many stories. Of quality, of success and the great opportunities that lie ahead. Our year has been chronicled in the following pages, and much like a refreshing brew, it's a testament to how we beat the odds and shone through adversity. However, it's not merely an interesting highlight in our history, it's what we do everyday by a team whose goal is to consistently be the best. **That's why it's more than just a story, and it's definitely held in more than just a cup.**

CONTENTS

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...

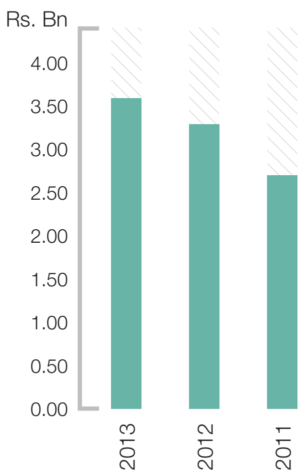
» Manufacturing Quality Tea that fetch Premium Prices
» Increasing Shareholder Value
» The Spirit of Entrepreneurship
» Making Profit without loss of Honour
» Motivating and Training our people to reach their full potential
» Rewarding Performance
» Being a "Learning Organisation" and Continuously Improving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

WE ARE PLEASED TO STATE THAT IN THE YEAR UNDER REVIEW THE COMPANY HAS OPERATED AND EXCELLED MANY INDUSTRY STANDARDS. HOWEVER WE BELIEVE THAT OUR SUCCESS IS MEASURED BY MORE THAN NUMBERS. IT IS SCALED BY THE SATISFACTION OF OUR TEAM, THE PRIDE WE TAKE IN OUR WORK AND THE QUALITY WE AIM TO PROVIDE.

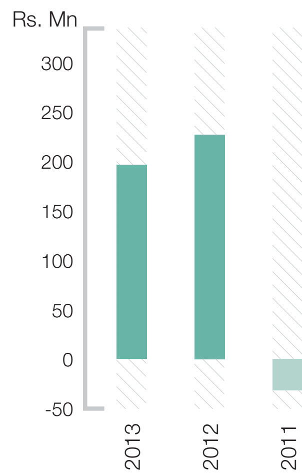
MORE THAN FINANCIALS

FINANCIAL HIGHLIGHTS

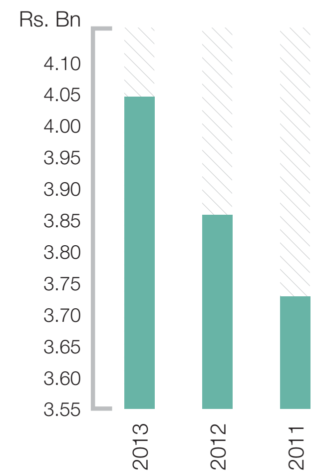
Turnover



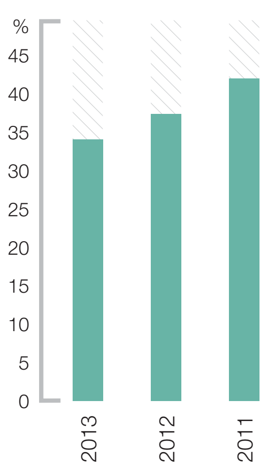
NPAT



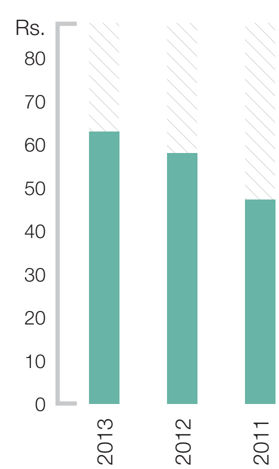
Total Assets



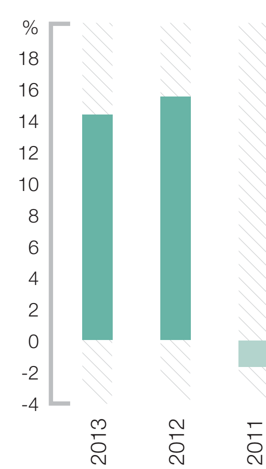
Gearing



Net Assets per Share



ROE



Rs. 3.6 Bn

Group Turnover
Increased by 9%

Rs. 105 Mn

Free Cash Flow
Positive for the 2nd
consecutive year

Rs. 80.6 Mn

Finance Expenses
Decreased by 27.7%

51.80%

Group Debt Equity
Reduced from 60%

Rs. 236.8 Mn

Group Net Profit before Tax
Increased by Rs. 5.5 Mn

Rs. 4.04 Bn

Total Assets
Increased by Rs. 188.8 Mn

Rs. 71.25 Mn

Dividend Proposed
Increased by Rs. 11.8 Mn

Rs. 855.6 Mn

Total Debts
Reduced by Rs. 40.2 Mn

CHAIRMAN'S STATEMENT

Dear Shareholder,
I welcome you to the 22nd Annual General Meeting of Talawakelle Tea Estates PLC and I am pleased to present the Annual Report and Audited Financial Statements of the Company for the year ended 31 December 2013. I am happy to announce that in the financial year 2013 our Company posted one of the highest earnings on record amidst many challenging operating conditions locally and globally.

OPERATING LANDSCAPE

The Sri Lankan economy continued on its post conflict growth trajectory with an estimated GDP growth of above 7 percent, higher than the previous year. Macroeconomic conditions were relatively conducive with lower interest rates, greater stability in the exchange rate and moderate inflation.

The tea sector in the year made a noteworthy contribution to the national economy with production recording 340.2 million kilograms, surpassing the previous record of 331.4 million kilograms. Tea export earnings grew by 11 percent to Rs.199 billion being equivalent to approximately US Dollar 1.55 billion, the highest ever export earnings from tea. A strong market for tea at the Colombo Tea Auctions brought in remunerative prices that mitigated some of the key challenges faced during the year by the corporate tea sector - higher wage and energy costs coupled with heavy rainfall that adversely affected tea production in the second half, mainly in the high grown elevations.

The Middle East and North Africa - large markets for Ceylon tea, continued to be affected by civil unrest and sanctions, whilst economic growth in the United States of America, Japan and European Union economies continued to be sluggish despite indications of modest recovery. However, a change in the global demand/supply equilibrium in tea increased the US Dollar price per kilogram for Ceylon Tea and the Colombo Tea Auctions continued to receive the highest price levels amongst other world auction centres.

CORPORATE PERFORMANCE

The Company's turnover for the year under review increased to Rs. 3.5 billion and the Company achieved its second highest net profit after tax of Rs. 158.4 million. On a consolidated basis, the turnover of the Group was Rs. 3.6 billion, an increase of 9.9 percent over the previous year. The Group's net profit after tax amounted to Rs. 199.5 million. Our two subsidiary companies in the hydro power sector recorded a profit after tax of Rs. 41.1 million compared to Rs.19.6 million in the previous year.

> "A buoyant tea market and focused strategy overcame the many diverse challenges in the year to record a commendable performance"

This commendable performance was achieved despite far from ideal business conditions. Consistency and focus of producing a quality tea with sustainable, ethical business practices and a financial strategy to reduce borrowings, enabled us to increase turnover and maintain profitability at a satisfactory level, despite challenges arising from higher cost of production and adverse weather conditions that impacted tea production. A strong tea market, reduction in interest rates in the economy consequent to easing of monetary policy and the stable environment in which businesses could operate were the positive macro developments that contributed as well to this year's results.

CHAIRMAN'S STATEMENT *CONTD.*

DIVIDENDS

The Board recommends a dividend payment of Rs. 3.00 per share.

RANKINGS & AWARDS

The strong brand image of our teas and consistency in quality captured the synergy of a buoyant tea market to obtain price levels well above national elevation tea prices. We continued to be a preferred supplier to leading national & international tea buyers and ranked No.1 for High and Low Grown elevations respectively at the Colombo Tea Auctions in respect of prices amongst the Regional Plantation Companies. We were also recognised as the "Best Performing (Highest GSA) Regional Plantation Company" for 2012 in High and Low grown categories at the Annual Awards Night organised by Forbes and Walker Tea Brokers (Pvt) Ltd. in February 2013.

In recognition of our reporting excellence, the Annual Report for 2012 received a Bronze Award for the plantation sector for the year from the Institute of Chartered Accountants of Sri Lanka at Annual Report Awards Competition held in December 2013.

REPORTING

For the first time, this year under review, our Annual Report seeks to embrace integrated reporting. From our strategy, performance, future plans to our corporate goals, our reporting looks beyond mere financial results; but focuses on our efforts to create sustainable value by engaging our key stakeholders. The financial statements and related notes are prepared in conformity to Sri Lanka Financial Reporting Standards, and our reporting complies with 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 and the rules set out in Section 7.10 of the Colombo Stock Exchange Listing Rules on corporate governance. Our environmental stewardship, community and other corporate social responsibility initiatives are reported as per Global Reporting Initiative - G3.1 Guidelines which is now an integral part of our Annual Report.

CHANGES TO THE BOARD

Mr J A G Anandarajah retired from the Board on 31st March 2013. I thank him on behalf of the Board, for his direction and contribution during his tenure as Managing Director of the Company and wish him well in his retirement. Mr G K Seneviratne, Non-Executive Director retired from the Board on 8th April 2013. We thank him for sharing his extensive plantation experience whilst serving on the Board.

We welcome Mr Neil Bogahalande and Mr D S Seneviratne who joined the Board this year as Non-Executive and Executive Director respectively. Mr Bogahalande brings to the Board his experience in plantation management and is also a qualified Accountant with many years of experience in the corporate arena. Mr Seneviratne is a Chartered Accountant, with over twenty five years of experience in the corporate sector including plantation management, and presently serves as the Deputy Chief Executive Officer of the Company.

STRATEGIC DIRECTION & OUTLOOK 2014

Whilst we look back on our success in 2013, meeting some of the goals outlined in my previous year's review, we are well aware of the challenge in the coming year to deliver consistently on our KPIs in an unpredictable operating environment impacted by climate change, volatility in key markets and fluctuations in commodity prices. Our strategic direction will focus on improving land and worker productivity, product quality and diversity, value addition, revenue diversification, sustainable agricultural practices, developing and empowering human resources to perform at their optimal potential.

The current remunerative tea prices, whilst being welcome by all stakeholders, should not detract from industry concerns on cost competiveness, as commodity prices are volatile. In this regard, we consider it imperative that; our research and development institutions are strengthened, worker and capital productivity is improved, policy consistency is maintained with regard to diversification of land and crops and an enabling environment is provided to develop forestry and energy plantations.

We are appreciative that an industry need for funding in core agricultural activities has been acknowledged by the government, with the recent budget proposal to provide Rs. 500 million at a concessionary interest rate of 6 percent for the well managed plantations. With regard to the availability of fertilizer, we are concerned about the relative shortage of this key agricultural input which no doubt, contributes to the overall development of the agricultural and plantation economy.

I also wish to place on record my appreciation of speedy and incident free manner in which wage negotiations were conducted, to revise the workers' Collective Agreement on wages for a further period of two years, effective from April 2013 in a responsible and cordial manner. We look forward to work closely with Trade Unions to improve productivity and enhance the quality of life of our people for the long term viability of the industry.

On balance it has been a positive year for Talawakelle Tea Estates PLC. In the backdrop of sanctions being relaxed and easing of civil unrest in some of our key markets, tea prices being remunerative into the first quarter and a stable macro outlook for the Sri Lankan economy; we look to 2014 with cautious optimism for a successful year ahead.

IN APPRECIATION

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

Mohan Pandithage
Chairman

Talawakelle Tea Estates PLC

17th February 2014

MANAGING DIRECTOR'S REVIEW

In the year 2013, Talawakelle Tea Estates PLC (TTE PLC) resiliently delivered a creditable performance, notwithstanding the challenging industry dynamics. Our commitment to pursue our strategic priorities combined with our solid principles of performance management, corporate governance and social responsibility supported us to brace our operations and maintain our positioning at the helm of the industry. It is in this backdrop that I set forth to review the operations of the Company including our accomplishments in the financial year 2013 and share with you the salient plans, proposed actions and our targets for the year ahead.

FOCUSED STRATEGY

In a year which witnessed a wage hike, accentuated by the impact of adverse weather conditions lead to a challenging year. In these circumstances we were focused and deployed resources to strengthen our sustainable agricultural practices and productivity initiatives, invest strategically in infrastructure development, control operational cost and ensure the wellbeing of our workers and communities in which we operate. Within this strategic framework, combined with our business acumen and effective management practices, we were able to maintain the quality of our teas, obtain better pricing and maximise the returns to our valued shareholders, even against the odds of a difficult operating environment.

COMMITMENT TO QUALITY

TTE PLC has always commanded the respect of the market for finest quality tea which we have been offering consistently in terms of both High and Low Grown elevations. During the year, we reviewed and further strengthened our quality management processes and ensured compliance to environmental sustainable management practices. 'Rainforest Alliance Certification' was renewed and all main factories were 'ISO 22000' certified - aptly demonstrating our commitment to the highest standards in production.

We continued to obtain premium pricing for our teas at the Colombo Tea Auctions. This year, for the 9th consecutive time, we ranked No.1 among the Regional Plantation Companies in terms of prices at the Auctions for Low Grown teas whilst High Grown teas improved a notch to the No.1 position from No.2 in the preceding year. Our average tea price for the year surpassed the national average. The Mattakelle Estate maintained its leadership for tea prices in the Western High Grown region for the fifth consecutive year and six of our High Grown marks were among the top ten price earners in the Western High Grown catalogue. Eight out of the eleven High Grown estate marks and three of the four Low Grown marks recorded prices above the national elevation averages.

ENABLING PRODUCTIVITY

Fully recognising the significance of sustainable operations to counter the volatilities of the tea industry, we sought to holistically address land and worker productivity which we believe is a significant pillar to spur the aspired production levels. We looked at reinforcing our best practices in agriculture by bringing in the necessary investments to ensure medium term land development and improve yield potential. The processing factories were well maintained & upgraded to ensure quality and safety standards. Hydro power plants located at Radella, Somerset and Palmerston were fully operational. The capital expenditure incurred during the year in terms of on-field and non-field areas amounted to Rs. 126.9 million, with a cumulative capital investment since privatisation reaching to Rs. 3,479.9 million.

Apart from this, we were steadfast in our initiatives to motivate and improve our relations with our workers totalling in the year to over 9,000 on a registered basis and with our resident communities of over 40,000 people. We cared for them even during the most trying times, when the industry conditions hit the lowest. We concentrated on their housing, health, safety, sanitation and other welfare measures whilst extending distress loans to give solace from their financial woes. The cumulative cash outlay in this sphere of activity as at end of the year under review stands at Rs. 115.2 million.

EFFECTIVE MANAGEMENT

Our performance management system which was streamlined and fine-tuned during the year reinforced our commitment to 'hands-on' management practices. We reviewed and prioritised a set of key performance indicators reflecting on critical areas in operations, finance and management. We introduced KPI dashboards linked online, with real-time information for effective decision making across the organisation including all seventeen of our estates. The relevance of our dynamic performance management on our operations has been truly encouraging, with timely heads up on new opportunities, issues and risks for necessary measures.

2013 PERFORMANCE

Our crop performance was adversely hit by erratic weather patterns. Tea production in the year was 7.29 million kilograms, lower than 7.65 million kilograms recorded in the year 2012 mainly due to a reduction in bought crop in the Low Grown and estate crop in the High Grown elevation. Estate crop in High Grown was down by 177,635 kilograms due to adverse weather and Low Grown crops also marginally declined from the previous year. However, with our focus on quality as per the buyers' requirements,

MANAGING DIRECTOR'S REVIEW *CONTD.*

the strength of our brand and the bullish trends that prevailed at the Colombo Tea Auctions ensured premium pricing for our teas. This buttressed our top-line from a steep fall and the year ended with the Company revenue reaching to Rs. 3.5 billion representing a 8.2% increase over the preceding year.

We were challenged in the year to reckon with a wage package hike of 20.38% that came into effect in April 2013 with industry-wide connotations. Further exacerbated by the escalating energy bill, our cost of production for the year witnessed a substantial increase of 14.06% per kg of made tea, against the year 2012. This in turn eroded our cost competitiveness and checked our top-line gains. However, it must be noted that we managed to curtail finance costs with lower borrowings in a relatively flexible monetary policy regime.

It is in this context that we have to appreciate and commend our strategic efforts for sustaining our profitability closer to the levels achieved in the preceding year. The High Grown estates provided the main thrust to the year's profitability, with noteworthy profits from Low Grown estates. Profit before tax reached Rs. 193.7 million corresponding to a marginal decline of 16.7%. We were still able to offer adequate returns to our valued shareholders with return on equity for the year at 10.7%. On a consolidated basis, revenue reached Rs. 3.6 billion whilst profit before tax was Rs. 236.7 million.

PLANS AHEAD

We began the year 2014 with confidence. We anticipate the upswing trends of prices to continue at the Colombo Tea Auctions, at least for the first half of the year. This together with the rebounding global economy, improving geo-political landscape in our export markets - Middle East and the relative stability expected in Sri Lanka's macroeconomy portend well for the industry to prosper.

At TTE PLC, our mainstay is strong and this we believe will support us to capture the opportunities present in the industry and bolster our earnings. We have a coherent strategy and corporate plan that stem from a dynamic annual planning process. Our focus will be to uphold the quality of our teas whilst seeking to maximise on production levels through our productivity initiatives. In these efforts, we intend to fully leverage on our new initiatives in performance management practices whilst further engaging and empowering our people. We have concrete plans to develop knowledge and skills on a structured training framework including both technical and soft skills.

CONCLUSION

It has been a full operational year since I took on my new responsibilities as the Managing Director of this esteemed organisation. I am truly pleased to see the hard work and commitment extended by all to accomplish a commendable performance in the year 2013.

I place on record my appreciation to our Chairman and the Board of Directors for their confidence placed and the guidance extended to me. The senior management, their respective teams and all TTE PLC employees across our estates, thank you for your contribution and earnestly look forward to your support in reaching our corporate goals in the year ahead. To our shareholders, customers, suppliers and all other stakeholders, thank you for your trust placed in our Company.

Roshan Rajadurai
Managing Director

Talawakelle Tea Estates PLC

17 February 2014

AWARDS

AWARDS	WINNER	AWARDED BY
ACCA Sustainability Reporting Awards 2013 - in the Agriculture & Plantation Sector - Winner	TTEPLC	Association of Certified Chartered Accountants
CA Annual Report Awards 2013 - in the Plantation Companies - Bronze Award	TTEPLC	Institute of Chartered Accountants of Sri Lanka
2012 Vision Awards Annual Report Competition - Silver Award	TTEPLC	League of American Communications Professionals
Star Awards Ceremony - 2012, for the Best Performing Entrepreneurs of the Central Province	Mattakelle Estate	Department of Industrial Development & Enterprise Promotion of Central Province
"Ralston Tissera Memorial Award - Excellence in Tea Manufacture" Highest Gross Sale Average in 'Western High Grown' Category (4th Consecutive Year) -2012	Mattakelle Estate	The Planters Association of Ceylon
Second Highest Sale Average in the Forbes & Walker Catalogue High Grown Category - 2012 - Silver Award	Dessford Estate	Forbes & Walker Tea Broker's (Pvt) Ltd
Highest Improvement in Turnover Compared to 2011		
Third Highest Sale Average in the Forbes & Walker Catalogue High Grown Category - 2012 - Bronze Award	Bearwell Estate	Forbes & Walker Tea Broker's (Pvt) Ltd
Second Highest Sale Average amongst RPC Factories in the Forbes & Walker Low Grown Catalogue - 2012	Deniyaya Estate	Forbes & Walker Tea Broker's (Pvt) Ltd
Third Highest Sale Average amongst RPC Factories in the Forbes & Walker Low Grown Catalogue - 2012	Moragalla Estate	Forbes & Walker Tea Broker's (Pvt) Ltd
• Special Award for Quality Manufacture - 2012 • Highest Improvement in Turnover - 2012	TTEPLC	Forbes & Walker Tea Broker's (Pvt) Ltd
• All-time record price for a DUST1 - Rs.670/- in the year 2012 • Highest Number of Top Prices in the John Keells Catalogue in the Western High Grown Category - 2012 • Highest GSA of 474.71 in the John Keells Catalogue in the Western High Grown Category - 2012 • Number 1 position in the Overall Ranking for Western High Grown Teas -2012	Mattakelle Estate	John Keells PLC
• Second Highest GSA of 427.59 in the John Keells Catalogue for Western High Grown Category - 2012 • Number 9 position in the Overall Ranking for the Western High Grown Category - 2012	Wattegodde Estate	John Keells PLC
Highest Average for Green Tea in the John Keells Catalogue - 2012	Radella Estate	John Keells PLC
• Highest Average amongst RPC's in the John Keells Catalogue - 2012 • Third Highest Quantity amongst RPC's in the John Keells Catalogue - 2012	Kiruwanaganga Estate	John Keells PLC
Second Highest Average amongst RPC's in the John Keells Catalogue - 2012	Deniyaya Estate	John Keells PLC
Highest GSA of 420.49 for the year 2012 in the Low Grown Elevation amongst RPC's.	TTEPLC	John Keells PLC
Inter-Plantations Company Rugby Sevens - 2013 - Winner	TTEPLC	Dickoya/Maskeliya Cricket Club (DMCC)
Inter-Plantations Company Cricket Sixes - 2013 - Champions (All Companies)	TTEPLC	Dimbula Athletic Cricket Club (DACC)
Inter-Plantations Company Cricket Sixes - 2013 - Runners up (Southern)	TTEPLC	Plantation Human Development Trust(PHDT)

AWARDS *CONTD.*

Awards

Director//Deputy CEO, receiving the Award from ICASL for the CA Annual Report 2013

Director Plantations, receiving the award from John Keells PLC for achieving the highest GSA in the Low Grown Elevation amongst RPCs

Deputy General Manager-Mattakelle Estate, receiving the award from John Keells PLC for achieving the No.1 position in the overall ranking for Western High Grown Teas

Deputy General Manager-Kiruwanaganga Estate, receiving the award from John Keells PLC for achieving the highest average amongst RPC's

Senior Manager-Radella Estate, receiving the award from the John Keells PLC for achieving the highest average for Green Tea

Regional General Manager-Dessford Estate, receiving the award from Forbes & Walker Tea Brokers's (Pvt) Ltd for achieving 2nd highest sale average-High Grown Category

Inter Plantations Company Cricket Champions

Inter Plantations Company Rugby Champions

Inter Plantations Company Cricket Runners up

Vision Award - 2012, from LACP

Ralston Tissera Memorial Award - 2012, for Mattakelle Estate

CA Annual Report Award - 2013 - ICSAL

Star Award - 2012 - Mattakelle Estate

ACCA Sustainability Reporting Award 2013 – Winner

Deputy Manager-Mattakelle Estate receiving the Star Award for Mattakelle Estate

STAKEHOLDER ENGAGEMENT

MEMBERSHIPS IN ASSOCIATIONS MAINTAINED BY TALAWAKELLE TEA ESTATES PLC IN 2013

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

REPORT PARAMETERS

Content and Scope

Talawakelle Tea Estates PLC (TTE PLC) operates an annual reporting cycle, commencing on the 01st January and ending on the 31st December. The integrated Annual Report of TTTE PLC herein discusses at length the sustainable value creation process together with the related activities and performance in terms of both financial and non-financial facets for the financial year ended December 2013. Wherever relevant, data relating to the preceding financial years are used to track trends and benchmark the performance of the year under review.

This is our first attempt at integrated reporting whilst it is our third attempt at sustainable reporting. The first and the second sustainability reports were published with the respective Annual Reports for the financial year ended December 2011 and 2012. The first sustainability report was prepared based on the sustainability reporting framework set out by the Global Reporting Initiative (GRI) - Version G3 while the second report was based on the Version G3.1. Our report herein is presented in accordance with the GRI Version 3.1 and meets the application criteria of a self-claimed level of C as was the case in the preceding two reports. This report is not externally assured. The content index as G3.1 Guidelines is given on pages 115 to 125 of this Annual Report.

The report is also aligned to the Company's Act No. 07 of 2007 and to the relevant regulatory requirements including those stipulated by the Colombo Stock Exchange, Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

We seek herein to report impartially on how we engage our key stakeholders and create sustainable value within the businesses at TTE PLC including the operations at the 17 tea estates, the head office and wherever material drawing references to our subsidiary operations in the hydro power sector. The report attempts to integrate and give a coherent view on the risks and opportunities present in our operating environment, the strategic focus, goals and our performance in three perspectives - economic, environment and social. This is coupled with our practices and measures that are in place for effective risk management and good governance. The report content is prioritised based on the materiality assessment of our key stakeholders as set out in the Stakeholder Section on page 19 to 20.

METHODOLOGY

The operational and financial data and information on performance has been prepared using the accounts data for the financial year ended December 2013, audited by M/s. Ernst & Young, Chartered Accountants. The data and information on the macroeconomic environment and the tea industry are based on the available statistics published by the Central Bank of Sri Lanka, International Monetary Fund and industry sources.

Data and statistics on environmental issues and biodiversity have been compiled using actual operating data maintained by the estates in the TTE PLC 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 onsite for the 'A Home for Every Plantation Worker' Programme while information on employee relations have been sourced from the human resource division.

INQUIRIES

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

General Manager-Human Resource & Quality Management Development
Talawakelle Tea Estates PLC
400, Deans Road
Colombo 10
Sri Lanka

Tel : +94 11 2627758
Email : tpl.tea@ttel.hayleys.com

OUR STAKEHOLDERS

- Shareholders
- Employees/ Trade Unions
- Suppliers & Service Providers
- Government
- Buyers/Customers/ Brokers
- Finanicial Institutions

TTE PLC 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 identification. The corporate policies which are in place have taken into account the materiality issues identified of our key stakeholders.

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. Our decision making process takes into account the material issues of our stakeholders and we seek to build relationships based on trust with our stakeholders vital for our longer term sustenance.

STAKEHOLDER ENGAGEMENT PROCESS

Mapping of Stakeholder — Evaluating/ Reviewing Engagement Output — Identifying Business Priorities — Putting them together -Materiality Assessment — Identifying Material Issues — Engaging Stakeholders

STAKEHOLDER ENGAGEMENT *CONTD.*

STAKEHOLDER ENGAGEMENT

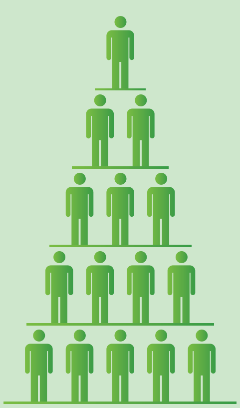
Stakeholder	Materiality Issue	Process of Engagement
Shareholders	Profit and Growth Sustainability of Company Responsible Corporate Management Climate Change and Crop Production	Annual General Meeting Published Accounts and Annual Report Open Door Policy Board Meetings
Buyers/Customers/ Brokers	Product Quality and Food Safety Compliance with International Norms Green and Ethical Products Price Climate Change and Crop Production	Regular Meetings and Interactions International Trade Fairs Conforming to the by-laws of Ceylon Tea Traders Association (CTTA) Annual Report
Employees/Trade Unions	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	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
Suppliers & Service Providers	Profitability and Price Credit Period Sustainability of Company Availability of Raw Material Climate change & Crop Production	Visits to Ensure Standards of Raw Material and Compliance Levels Regular Dialogue and Interactions Annual Report
Financial Institutions	Meeting Repayment Schedule Climate Change and Crop Production Responsible Corporate Management	Regular Meetings, Dialogues and Interactions Published Accounts and Annual Report
Government	Profitability and Growth Sustainability of Company Regulatory and Legal Compliance Responsible Corporate Management	Published Accounts and Annual Report Golden Shareholder Meetings Annual General Meeting

STRATEGY & KEY PERFORMANCE INDICATORS

TRIPLE-BOTTOM-LINE STRATEGY

ECONOMIC

- Financial value creation
- produce quality teas
- Increase land & worker productivity
- Increase value addition
- Invest on sustainable agriculture and manufacture practices & processes
- Focus on effective risk management
- Uphold best practices in governance



ENVIRONMENT

- Resort to environmental friendly sustainable practices in field and non-field operations
- Implement conservation projects and initiatives to protect biodiversity & water sources
- Drive initiatives to reduce corporate carbon foot print
- Implement the “3R” concept - reduce, reuse & recycle for solid waste management

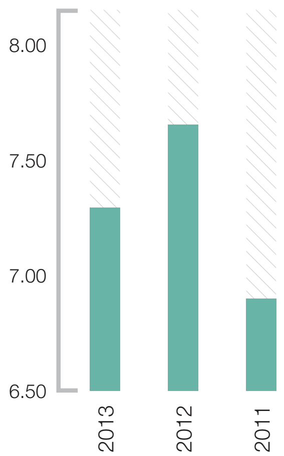
SOCIAL

- Create an inclusive workplace
- Invest on employee training and development
- Reinforce performance based evaluations and benefits
- Consolidate social development of the resident communities through “Home for Every Plantation Worker” project

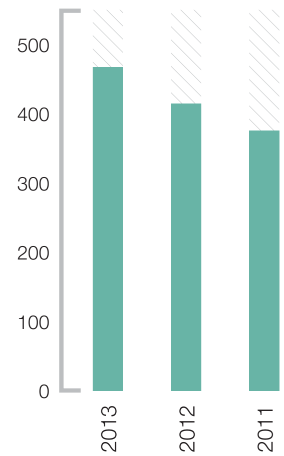
STRATEGY & KEY PERFORMANCE INDICATORS *CONTD.*

ECONOMIC PERFORMANCE INDICATORS

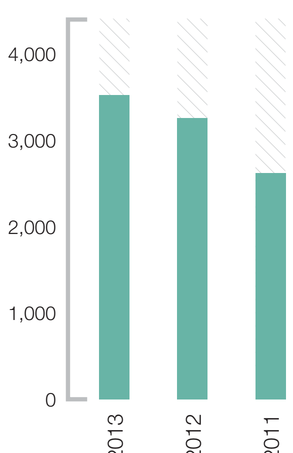
Tea Production (Mn Kg)



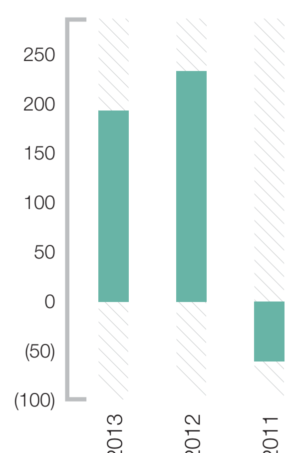
GSA (Rs/Kg)



Turnover (Rs. Mn)



Profit Before Tax (Rs.)



HIGH & LOW GROWN TEA PRICES RANK NO.1 AMONG RPCS

2013
RETURN ON EQUITY 12.3%

2013
RETURN ON ASSETS 5.0%

2013
DEBT TO EQUITY 51.8%

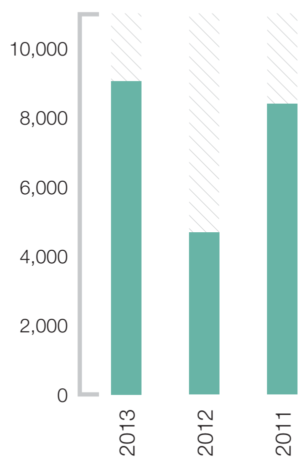
2013
VALUE ADDITION RS. 2.4 BN

ECONOMIC - KPIS	UNIT	2013	2012	2011
Production & Prices				
Production	Kilograms	7,291,178	7,654,863	6,895,153
GSA	Rs/Kg	467.77	415.55	376.74
Profit & Loss				
Turnover	Rs.'000	3,528,338	3,259,211	2,635,174
Cost of Sales	Rs.'000	3,191,077	2,864,620	2,573,167
Finance Cost	Rs.'000	55,895	87,145	89,933
Profit Before Tax	Rs.'000	193,745	232,778	(62,284)
Profit After Tax	Rs.'000	158,431	207,012	(58,088)
Profitability Ratios				
ROE	%	10.77	17.95	(4.33)
ROA	%	5.82	7.24	(3.5)
Financial Position				
Assets	Rs.'000	3,723,437	3,529,236	3,381,491
Debt to equity	%	32.75	60	86.7
Value Addition				
Economic Value Addition	Rs.'000	4,277	159,724	(117,167)
Consolidated Indicators				
Group Turnover	Rs.'000	3,646,838	3,318,149	2,744,505
Group Finance Cost	Rs.'000	78,420	108,677	89,858
Group Profit Before Tax	Rs.'000	236,787	231,283	(22,197)
Group Profit After Tax	Rs.'000	199,571	226,698	(32,730)

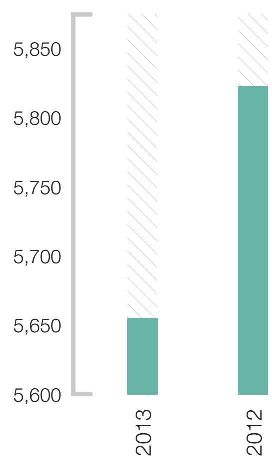
STRATEGY & KEY PERFORMANCE INDICATORS *CONTD.*

ENVIRONMENT PERFORMANCE INDICATORS

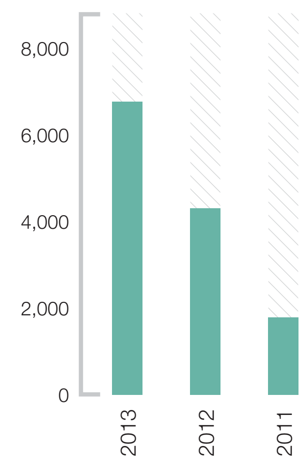
Hydropower Generation (MgWh)



GHG Emissions (tCO2e)



Solid Waste Recycled (kg)



2013 Fuelwood Planting
11.54 Hectares

2013 Environmental Expenditure
Rs. 49.5 Mn

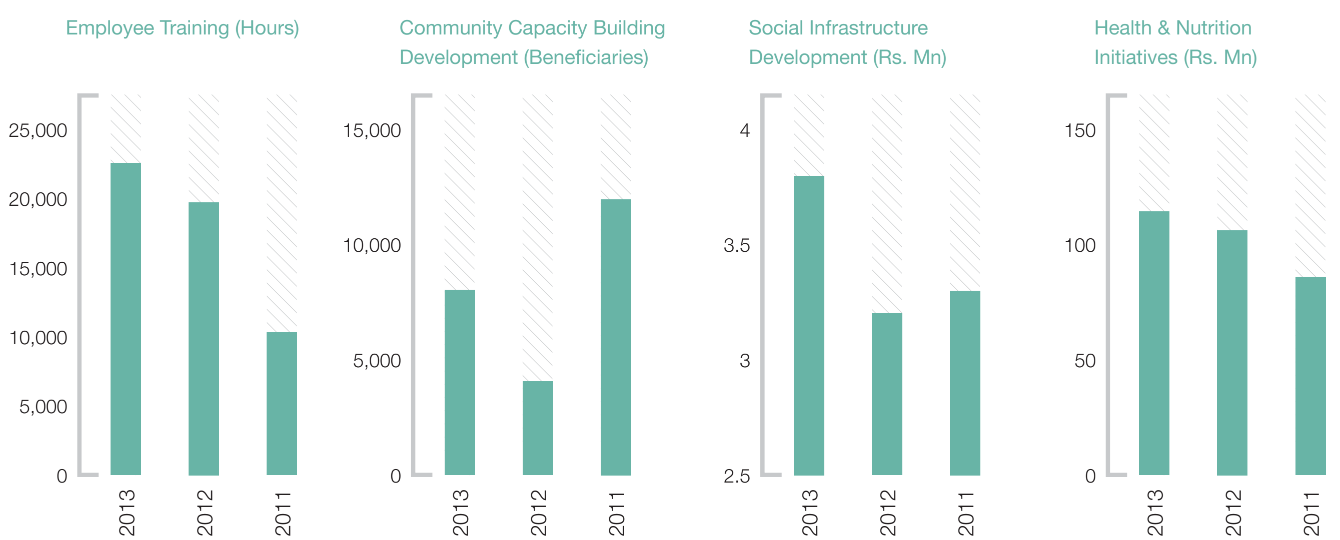
2013 Hydropower Generation
9,083 KWh

2013 GHG Emissions
5,696 tCO_2e

2013 Solid Waste Recycled
6,794 Kg

ENVIRONMENT	UNIT	2013	2012	2011
Hydropower Generation	KWh	9,083,773	4,678,329	8,490,954
Fuelwood Planting	Hectare	11.54	18.75	18.56
GHG Emissions	tCO_2e	5,696	5,824	Not Available
Solid Waste Recycled	Kilogram	6,794	4,313	1,793
Expenditure on Environment Initiatives	Rs.'000	49,500	55,250	29,200

SOCIAL PERFORMANCE INDICATORS



2013 Workforce 10,321 Employees

2013 Salaries & Wages Rs. 2,011 Mn

2013 Employee Training Expenditure Rs. 1.5 Mn

2013 Training Hours 22,618 Hrs

2013 Youth Empowered 4,711 Beneficiries

2013 Health and Nutrition 147,981 Beneficiries

2013 Social Infrastructure Development Rs. 3.8 Mn

2013 Capacity Building 8,063 Beneficiries

2013 Health & Nutrition Initiatives Rs. 115 Mn

SOCIAL	UNIT	2013	2012	2011
Human Resources				
Workforce	Number	10,321	10,566	10,049
Training Hours	Hours	22,618	19,793	10,361
Training Investment	Rs.'000	1,500	1,300	1,000
Salaries & Wages	Rs.'000	2,011,000	1,747,000	1,701,000
Social Development				
Social Infrastructure Development	Rs.'000	3,800	3,200	3,300
Community Capacity Building (Beneficiaries)	Number	8,063	4,073	11,979
Youth Empowered (Beneficiaries)	Number	4,711	2,016	6,536
Health & Nutrition (Beneficiaries)	Number	147,981	40,578	353,425
Health & Nutrition Initiatives	Rs.'000	115,000	106,000	86,000

WE ARE MORE THAN A GROUP OF PEOPLE. WE BRING TO THE TABLE, COLLECTIVE EXPERIENCES AND TALENTS THAT MAKE US A STRONG UNIT IN DELIVERING EXCELLENCE. THAT IS WHY WE BELIEVE IN MAKING EMPLOYEE SATISFACTION A TOP PRIORITY. BY MOTIVATING OUR EMPLOYEES AND IMPROVING THEIR STANDARDS OF LIFE, WE WILL WORK TOGETHER TO ACHIEVE OUR GOALS FOR THE FUTURE.

MORE THAN TEAMWORK

MANAGEMENT DISCUSSION & ANALYSIS

Our business strategy focused on strengthening our brand; offering consistent product quality to ensure our competitive edge, improving land and labour productivity by advocating sustainable agriculture practices; empowering our people and supporting our communities in which we operate; effective cost management practices to bolster our bottom-line and thereby the returns.

OVERVIEW

The year saw the signs of the global economy rebounding, though still sluggishly, whilst the Middle East continued to be pressured by the geopolitical instabilities. On the domestic front, the macroeconomic environment was relatively stable with sectoral growth supporting the overall growth to be back-on-track with the country's development agenda. The tea industry moved forward, though detracted by the vicissitudes of weather to record the best year ever in terms of prices, export earnings and to a lesser extent production.

Within this operating environment, our Company pursued in the year to resolutely execute the corporate strategy and the related action plans drawn up during our corporate planning sessions. We sought to leverage on our strengths and fasten on our opportunities whilst being conscious and taking the necessary mitigatory actions for our weaknesses and threats. Our business strategy focused on strengthening our brand; offering consistent product quality to ensure our competitive edge, improving land and labour productivity by advocating sustainable agriculture practices; empowering our people and supporting our communities in which we operate; effective cost management practices to bolster our bottom-line and thereby the returns.

During the year under review, amidst the challenges from adverse weather patterns, upward wage revision and increasing energy cost, but complemented by the buoyant tea market, our Company was able to post an admirable operational performance and sustain its profitability to similar levels in the preceding year.

STRATEGIC PRIORITIES

- Produce quality tea to be No. 1 in the RPC ranks
- Increase agricultural yields & production
- Increase worker productivity
- Adopt sustainable agricultural practices
- Improve management practices

KEY TARGETS - 2013

- Rank no. 1 for high & low growns among RPCs
- High grown yields> 1740 kg/ha
- Low grown > 1517 kg/ha
- Produce 8.2 Mn kg of tea
- Plant teas 26.68 hectares
- Consolidate & maintain quality and best practices certification
- Initiate performance management system

PERFORMANCE 2013

- Ranked no. 1 in prices for high & low grown amongst RPCs
- High grown yield - 1,630 kg/HA - achieved 94% of the target
- Low grown yield 1,373 kg/HA - achieved 90% of the target
- Tea production 7.29 mn kgs - achieved 88% of the target
- Planted 30.47 hectares of tea - achieved 114% of the target
- Rainforest Alliance Sustainable Farm Certification for 13 estates
- ISO 22000- FSMS Certification maintained for 13 estates
- Maintained UTZ Certification on Radella estate
- Introduced real time performance management system across operations

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

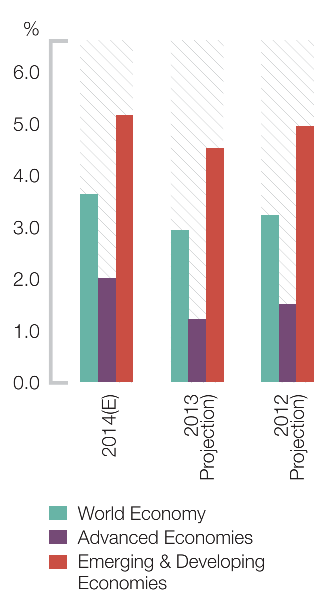
OPERATING ENVIRONMENT

Tea export earnings saw one of the best years complemented by the relatively better global economic and geopolitical scenario. The first quarter earnings which reflect a gain of Rs. 2.3 billion as against the first quarter of 2012 dipped marginally in the second quarter.

OVERVIEW - GLOBAL ECONOMY

In 2013, the global economy gradually moved on to a more stable ground from the financial crisis and the recessionary trends that began nearly five years ago. Advanced economies extended stimulus packages and sought to bring policy reforms to lay out the setting necessary to rebound from the economic slump. US saw greater consumer and investor confidence with modest growth, although the government shut-down and the debt ceiling brought in fiscal uncertainty. The euro zone economies especially in the core, continued to improve, albeit very slowly. Japan underpinned by the recent economic reforms gradually receded from its protracted sluggishness. In the midst of structural and cyclical challenges, the emerging and developing markets including the BRICS - Brazil, Russia, India, China and South Africa saw their growth trends moderate as against the surge in the recent years. Middle East in the aftermath of the Arab Spring continued to face complex political and social uncertainties, even though less intensely which had serious implications on its growth prospects.

World Output (% Growth)



WORLD OUTPUT (% GROWTH)

% GROWTH	2012	2013	2014(E)
US	2.8	1.6	2.6
Japan	2.0	2.0	1.2
European Union	–0.3	0.0	1.3
Russia	3.4	1.5	3.0
Other CIS Economies	3.3	3.6	4.2
China	7.7	7.6	7.3
India	3.2	3.8	5.1
Middle East & North Africa	4.6	2.1	3.8

Source: "World Economic Outlook October 2013", International Monetary Fund

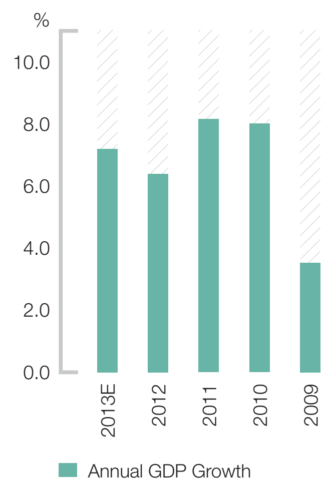
SRI LANKA ECONOMY

In the backdrop of the gradual recovery of the global economy and the continuing tensions within the geopolitical scenario, Sri Lanka's economy was resilient to post an estimated GDP growth of 7.2 percent as compared to the 6.4 percent growth recorded in the preceding year.

Given the prudent policy framework initiated in the year 2012, the macroeconomic variables were relatively stable compared to the imbalances which undermined the economy in the post conflict period; it was conducive to take the country back on the growth trajectory with all three sectors posting a favourable performance. The per capita of the country surpassed the US$3,000 mark. The sovereign credit ratings – Fitch and Standard & Poor's Ratings were maintained from the preceding year at "stable" whilst the Moody's Rating was revised from "positive" in the preceding year to "stable".

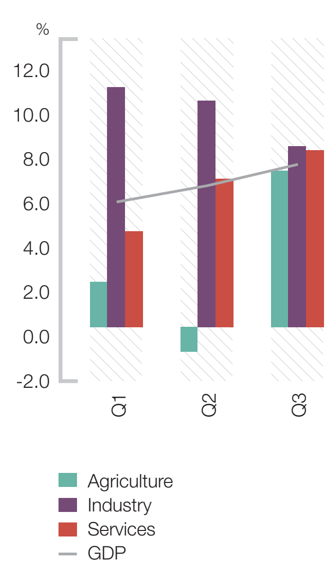
MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

Annual GDP Growth



AGRI SECTOR PERFORMANCE

Sector Performance - Quarterly



Source: Roadmap 2014, Central Bank of Sri Lanka

Agriculture sector did well given the bumper harvest in paddy during the Yala season; yet, the export crops including tea were hit by the adverse weather conditions that prevailed during the second half of the year. Supported by a flexible monetary policy coupled with improving external demand given the gradual recovery of the exporting markets, the industry sector continued to contribute significantly to the country's economy. Industry sector led by construction and manufacturing grew by over 10 percent in the first two quarters but moderated in the latter part of the year to end with an estimated growth of around 9.2 percent in contrast to the 2012 performance of 10.3 percent. The services sector propped by the expanding transport and financial sub sectors combined with improved activities within wholesale and retail trade, posted a strong performance and is estimated grow over 6.5 percent for the year.

EMPLOYMENT

With the expanding economy, employment generation continued to increase in all key sectors and employment categories. The unemployment rate although still moderate increased to 4.5 percent in the first of half of the year compared to 4 percent in 2012. Overall productivity levels also increased in the key sectors.

INFLATION

The year 2013 saw inflation trending downwards and once again maintained at single digit levels. With effective demand management and improvements in the supply-side coupled with steady commodity prices in the international market supported year on year headline inflation to moderate at 4.7 percent, lower than the preceding year whilst the annual average inflation reached 6.9 percent. Year on year core inflation was as low as 2.1 percent.

MONETARY POLICY

Clearly signalling the shift to an easy monetary policy, the Central Bank of Sri Lanka took positive steps to reduce the policy rates by 25 basis points and lifted the credit ceiling on commercial banks in December 2012. During the year under the review, this stance was reinforced with further reductions in policy rates totalling to 100 basis points and the Statutory Reserve Requirement was reduced by 2 percentage points.

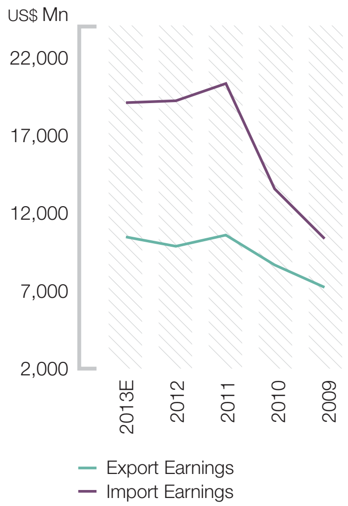
Within this regime, market liquidity increased and exerted pressure on the yields of treasury securities to adjust downwards. Yet, the market rates lagged in its response to the policy signals; market rates on deposits and prime lending rates gradually adjusted while commercial bank long term lending rates only started adjusting downwards in the second half of the year. Credit to the private sector also lagged in response to monetary policy changes and the net increase for the 11 months of the year was Rs. 160.6 billion compared to the net increase of Rs. 342.7 billion in the corresponding period in 2012.

FISCAL PERFORMANCE

Further improving its fiscal position, the budget deficit in the year under review was curtailed at 5.8 percent of GDP, down from 6.4 percent in 2012. Revenue fell marginally short of the target and declined to 13.6 percent of GDP. However, the budget deficit was supported by the recurrent expenditure which was controlled at 14.1 percent of GDP. Public investments were sustained in line with the previous year at 5.8 percent of GDP. It is noteworthy that the debt to GDP ratio continued to improve from 78 percent of GDP to 79.1 percent in the preceding year.

EXTERNAL SECTOR

External Sector Trends



Source: Annual Report 2012 & Roadmap 2014, Central Bank of Sri Lanka

The highlight of the year was the performance in the external front. Complemented by the rebounding global economy, export earnings posted a steady increase from June 2013 onwards with a 5.6 percent growth for the first 11 months of the year. This together with the rationalisation of import expenditure narrowed the trade deficit significantly to reach USD 7,831 million in the first 11 months, posting a decline of 10.7 percent as against the corresponding period in 2012. Further buoyed by inward remittances from foreign employment and tourism earnings improved the current account balance. The balance of payments also supported by the inflows from foreign direct investments, project loans, grants and foreign borrowings reached an estimated surplus of USD 700 million, significantly improving from USD 151 million surplus in 2012. Gross official reserves were USD 7.1 billion, equivalent to 4.5 months of imports.

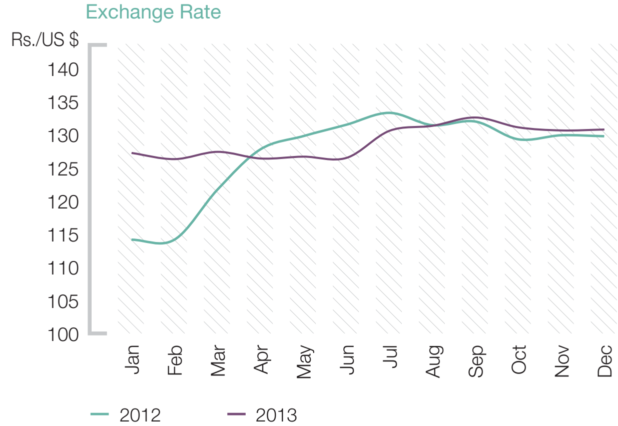
EXCHANGE RATE

The rupee stability continued during the year under review given the strength of the external sector performance. The implications of the anticipated tapering of quantitative easing by the Federal Reserve in USA did not have any significant implications on the exchange rate. The year-end depreciation of the rupee was 2.7 percent against the US dollar.

CURRENCY	RUPEE DEPRECIATION	CURRENCY	RUPEE APPRECIATION
US dollar	2.7%	Indian Rupee	10.2%
Sterling Pound	4.7%	Australian dollar	13.3%
Euro	6.8%	Japanese yen	18.8%

Source: Roadmap 2014, Central Bank of Sri Lanka

Exchange Rate



OUTLOOK

Moderate interest rates, subdued inflation and global economic recovery should enhance overall consumer and investor confidence in Sri Lanka in 2014. However, the economy is still recovering from significant fiscal and monetary contractions in 2012 and the resultant contractions in lending and consumption. A number of large projects and new policies have enhanced investment potential in Sri Lanka and these could act as triggers for renewed confidence to spur economic activity in 2014. The outlook in the global economy is also positive, led by recovery in the United States. However, there remains a lot of uncertainty as the global economy eases out of unprecedented monetary expansion, making market reactions unpredictable. Volatility can be expected in emerging markets, particularly those with fiscal and external imbalances. Key tea markets for Sri Lanka including the Middle East and Russia remain vulnerable to political unrest, which has already manifest in countries like Egypt and Syria and more recently Ukraine.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

TEA INDUSTRY

Global Tea Outlook

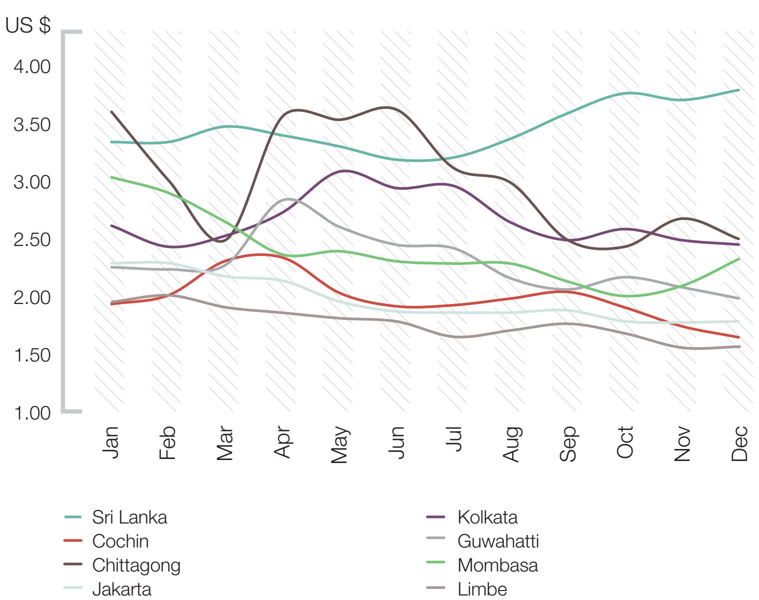
GLOBAL BLACK TEA PRODUCTION

The global black tea production in the year 2013 witnessed a record breaking year with steady increases in production from most of leading black tea producing countries. As per the available statistics, African black tea registered its highest ever production with Kenya contributing substantially with 398.8 million kilograms for the 11 months ending November 2013 and Malawi with nearly a 22 percent increase as against the previous year. India, the largest black tea producer continued to contribute significantly to global production, recording a 26 percent increase whilst moderate gains were recorded in Bangladesh and Indonesia. Sri Lanka posted nearly a 4 percent increase in production over the preceding year.

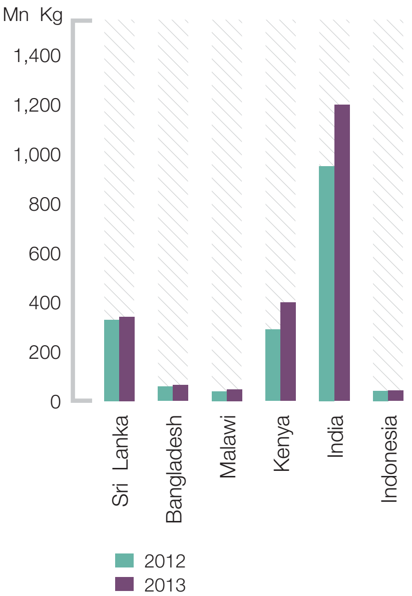
WORLD AUCTION PERFORMANCE

With the increasing demand in the global markets for black tea leading-up from the short supply in the preceding year, prices were on an upward trend and relatively stable in most of the world's auctions. Colombo in terms of auction prices, sustained its ranking at the number one position with strong prices registered in the second half of the year, followed by Chittagong. Colombo Auction price as at end September 2013 registered USD 3.34 per kilogram while Chittagong registered USD 3.08 per kilogram.

World Auction Prices 2013



World Black Tea Production



Source: Forbes & Walker (international tea committee)

Note:
Sri Lanka, Bangladesh & Malawi & India data is for 12 months ending December, for Kenya for 11 months ending November and Indonesia for 9 months ending September 2013

WORLD TEA AUCTION CENTRE PRICE (US $ PER KG)

	Sri lanka	Kolkata	Cochin	Guwahatti	Chittagong	Mombasa	Jakarta	Limbe
Jan	3.34	2.61	1.93	2.25	3.62	3.05	2.30	1.96
Feb	3.34	2.42	2.01	2.23	3.01	2.91	2.30	2.02
Mar	3.48	2.52	2.32	2.27	2.48	2.65	2.18	1.91
Apr	3.40	2.73	2.35	2.85	3.58	2.36	2.14	1.86
May	3.30	3.10	2.03	2.61	3.55	2.39	1.95	1.81
Jun	3.18	2.95	1.91	2.45	3.64	2.30	1.86	1.78
Jul	3.20	2.97	1.92	2.42	3.12	2.28	1.85	1.64
Aug	3.37	2.64	1.98	2.15	2.99	2.28	1.85	1.70
Sept	3.60	2.48	2.04	2.05	2.48	2.12	1.87	1.76
Oct	3.78	2.58	1.90	2.16	2.42	1.99	1.77	1.67
Nov	3.72	2.48	1.73	2.07	2.67	2.08	1.76	1.54
Dec	3.81	2.44	1.63	1.97	2.49	2.32	1.77	1.55

Source: Forbes & Walker (international Tea committee)

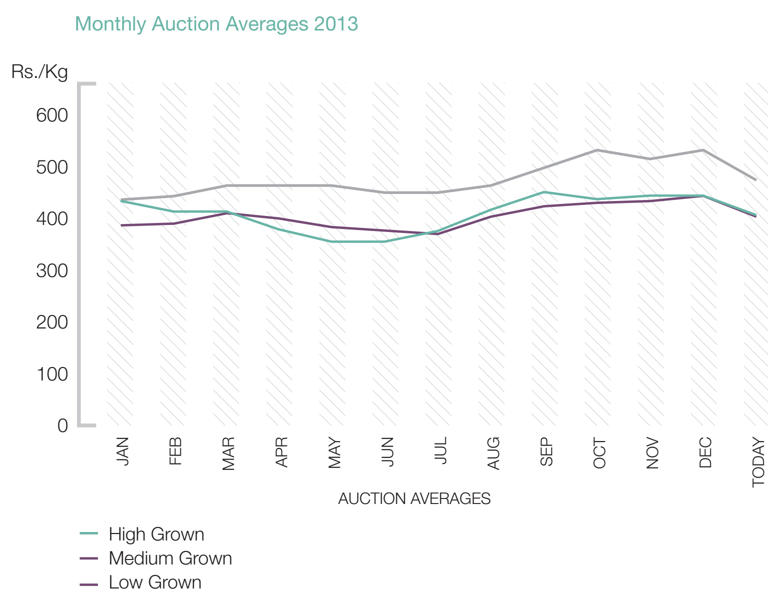
NATIONAL TEA INDUSTRY

Amidst geopolitical uncertainties in the key markets in the Middle East and the adverse weather in the second half, Sri Lanka's tea industry continued to contribute significantly to the economy. During the year, the tea industry registered an outstanding performance and reached many milestones in terms of auction prices, export earnings and even production.

TEA PRODUCTION		
Mn Kgs	2013	2012
High Grown	74.6	72.8
Medium Grown	54.0	50.9
Low Grown	207.9	201.6
Green Tea	3.7	3.0
Total	340.2	328.3

Despite the unfavourable weather that prevailed particularly in the second half of the year, national tea production reached a new record - 340.1 million kilograms in 2013, representing an increase of 11.9 million kilograms, compared to 2012. The production levels in the first quarter complemented by all elevations recorded a growth vis-à-vis the parallel quarter of the previous year. The second quarter improved led by high and low grown elevations to report 91.7 million kilograms - the highest production for the year. However, a decline was registered in the third quarter mainly due to the performance in the low grown elevation whilst the fourth quarter saw a turn-around in production levels.

COLOMBO AUCTION PRICES



Source: Forbes & Walker(international Tea committee)

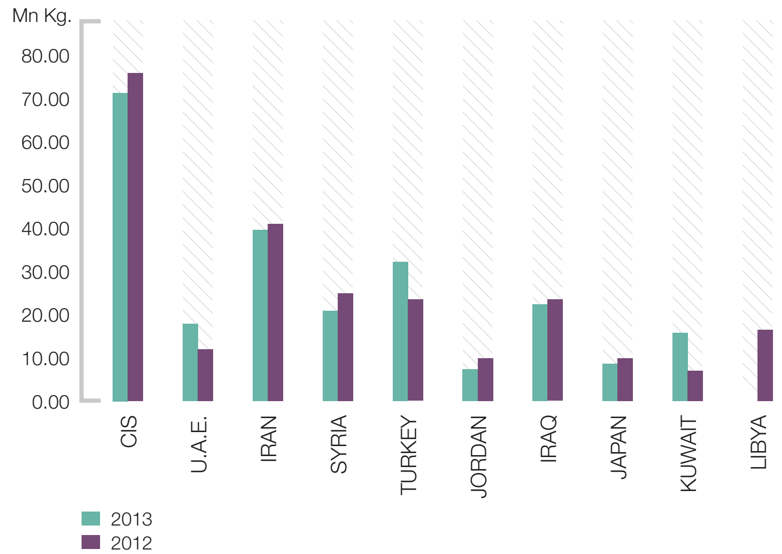
MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

Spurred by the short supply in the global market, the Colombo Tea Auctions witnessed one of best years with record prices. A strong market prevailed with prices of all elevations, particularly low growns higher than the prices realised in 2012. At the end of the third quarter, the prices averaged to Rs. 442.62, representing an increase of 11 percent over the corresponding quarter of 2012. Low grown continued to have an excellent run with an average of Rs. 464.08 - 10.5 percent increase. Significant increases were recorded in the medium and high grown as well. The fourth quarter results were quite remarkable. Prices averaged to Rs. 493.61 compared to Rs. 411.86 - a 19 percent increase. Low grown once again contributed to the major portion of this increase recording the highest average of Rs. 529.19, a significant increase of 27 percent over the corresponding period in 2012. High grown realised an average price of Rs. 463.28 per kilogram whilst the low grown reached Rs. 495.27 per kilogram at the year-end, surpassing the elevation averages achieved in the preceding year. The year 2013 ended on a very healthy note with an overall average of Rs. 444.42 above previous high of Rs. 391.64.

Tea export volumes in the year were sustained at similar levels posted in the previous year to reach 319.6 million kilograms. CIS retained the top most position as the largest importer of Ceylon tea followed by Iran and Turkey. Exports to CIS however, dropped by 4.25 million kilograms compared to the preceding year whilst Iran continuing to be affected by the US Sanctions posted a drop of 1.4 million kilograms. Turkey showed an increase of 9 million kilograms. Given the less intense political tensions in the Middle East, export volumes to UAE and Kuwait significantly increased, whilst Libya posted a decrease compared to 2012.

TEA EXPORTS

Sri Lanka Export Volumes

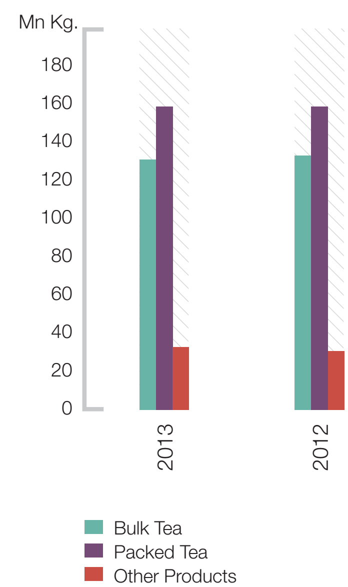


In terms of products, bulk tea declined by 2 million kilograms to reach 129.8 million kilograms whilst packed tea maintained similar levels to 2012. Tea bags recorded a growth of 1.70 million kilograms and instant and green tea showed a marginal increase.

TEA EXPORT EARNINGS

Tea export earnings saw one of the best years complemented by the relatively better global economic and geopolitical scenario. The first quarter earnings which reflect a gain of Rs. 2.3 billion as against the first quarter of 2012 dipped marginally in the second quarter. Yet, third and the fourth quarters posted outstanding gains to realise total export earnings of Rs. 199.4 billion during the year, surpassing the previous highest record of Rs. 180.4 billion achieved in the year 2012.

Tea Product Performance



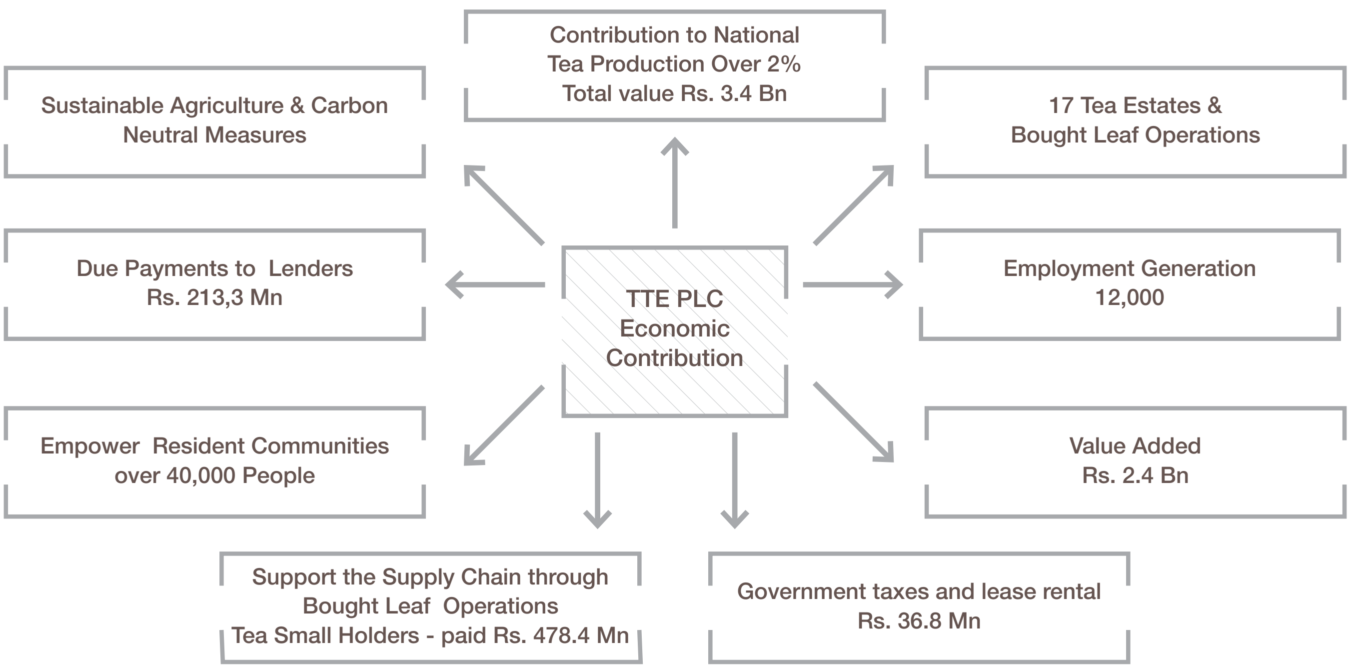
Note:
The information and data for the world, Sri Lankan economic review including the industry performance was sourced from the Road Map 2014 Central Bank of Sri Lanka, Forbes & Walker (international Tea committee) and the World Economic Outlook October 2013, International Monetary Fund)

COMPANY'S CONTRIBUTION TO THE NATIONAL ECONOMY

Within the 17 estates covering the high grown elevations in Talawakelle and Nanu Oya and the low grown elevations in the Deniyaya and Galle regions, our value added was Rs. 2.4 Bn to our stakeholders.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

With a legacy of solid fundamentals to its credit, TTE PLC has always played a pivotal role in the plantation sector of Sri Lanka, contributing significantly to the economy be it value creation, employment generation to being a responsible corporate citizen.



Renowned for consistent product quality, TTE PLC is well set in its role to significantly add value to the economy. The brand strength, support of the parent and the group synergies have given a strong platform for the Company to be among the top RPCs and to meet stakeholder expectations through sustainable value creation that has a ripple effect on the entire economy. During the reporting year, the Company with a stable performance supported the economy by generating shareholder returns, employment, creating value in the supplier chain, elevating the livelihood of the resident communities and revenue for public expenditure.

Within the 17 estates covering the high grown elevations in Talawakelle and Nanu Oya and the low grown elevations in the Deniyaya and Galle regions, we were able to produce 6.04 million kilograms of quality teas. Together with our bought leaf operations, we contributed 7.29 million to the national tea production accounting for over 2 percent of the total. Our sustainable agriculture practices together with pro-environment measures and our consistency in maintaining quality in our teas not only supported us to be financially viable but set standards and best practices in the industry with trickle down benefits to the entire nation.

We play a crucial role in the supply chain in the industry through our bought leaf operations representing 17 percent of our total production. Within this operations, we support the livelihood of tea smallholders by paying out Rs. 478.4 Mn and we seek at all times to develop the supply chain through our direct interactions and structured programmes to spread best practices in agriculture and ensure quality compliance.

Our revenue for the year reached Rs. 3.5 billion whilst profit after tax was Rs. 158.4 million. The consolidated revenue encompassing our subsidiary operations in the hydro power sector reached Rs. 3.6 billion and profits reached Rs. 199.5 Mn. Return on equity was commendable at 13.6 percent with earnings per share reaching Rs. 7.31. The dividend declared for the year of Rs. 71.3 million ensured that our shareholders benefited from our value creation. Our share performance within the Colombo Stock Exchange with 23.75 million ordinary shares was stable for the year. Reflecting the dynamics of our capital market, share prices traded at Rs. 24.00 with prices peaking at Rs. 29.00 per share whilst the lowest reached Rs. 16.30 per share. Earnings per share was Rs. 7.31.

As a regional plantation company, our contribution to generating employment, uplifting the livelihoods and quality of life of the resident communities within our estates of over 40,000 people, is substantial and cannot be underestimated. Our workforce in the year reached 10,000 with 718 new recruits. We ensured that our workers were well compensated within the wage guidelines stipulated for the tea plantation industry and the requisite revisions were made in a timely manner. Our role in employment generation and our initiatives to empower our resident communities including providing basic amenities and capacity building has paved the platform for regional development in line with the nation's development agenda.

Given our financial performance, we were able to extend our support to finance public expenditure in the form of tax payments. This reporting year, the Company settled a sum of LKR 11.7 million to the Department of Inland Revenue as corporate taxes. We were also prompt with our due payments to our lenders within the financial services sector in the country.

Total value generated during the year was Rs. 2,457million an increase of 3.7 percent as compared to the preceding year.

Over 80 percent of the value generated was distributed among the employees followed by 11.4 percent retained within the Company to ensure sustainable growth in the future - Rs. 281.2 Mn. Set out below is the consolidated value added statement representing the TTE Group's value creation and the direct distribution amongst the key stakeholders.

"AS A REGIONAL PLANTATION COMPANY, OUR CONTRIBUTION TO GENERATING EMPLOYMENT, UPLIFTING THE LIVELIHOODS AND QUALITY OF LIFE OF THE RESIDENT COMMUNITIES WITHIN OUR ESTATES OF OVER 40,000 PEOPLE, IS SUBSTANTIAL AND CANNOT BE UNDERESTIMATED."

VALUE ADDED STATEMENT		
		Group 2013 (Rs. Mn)
Turnover		3,646.8
Other Income		39.2
		3,686.0
Cost of material & services bought in		(1,228.3)
Value Added		2,457.7
	%	
To Employees as remunerations	80.0%	1,965.4
To payments to government	0.5%	11.7
To Shareholders as dividend	2.8%	69.5
To lenders of capital		
Interest on borrowings	4.2%	103.8
Minority Interest	1.1%	26.0
Retained in the business		
Depreciation	6.0%	148.4
Profit/(Loss) retained	5.4%	132.9
Value Added	100%	2,457.7
Note 1		
P/L Attributable to equityholders		202.3
Dividend		(69.4)
Retained P/L		132.9

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

Great Western Factory - ISO 2002 certified

OPERATIONAL PERFORMANCE

The total tea production from estate leaf in the year under review was 6.04 million kilograms, corresponding to a marginal decline from 6.03 million kilograms in the preceding financial year. Out of the total estate leaf production, high grown production accounted for nearly 84 percent whilst the balance 16 percent was from the low grown elevations.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

PERFORMANCE REVIEW

Agricultural & Field Operations Performance

Agricultural and field operations witnessed a challenging year. Heavy rainfall that prevailed in the second and third quarter of the year dampened the crop performance. Yet, greater focus was given for best practices in agriculture operations to enhance productivity and thereby ensure better harvesting and sustain the leaf quality essential to produce our renowned teas.

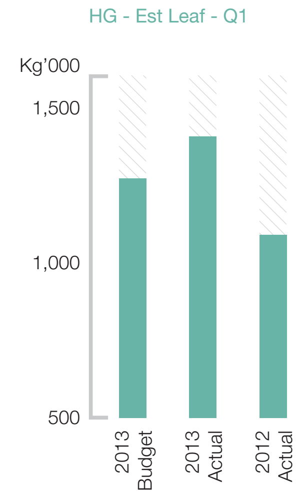
CROP PATTERNS

Adverse weather conditions especially in the second half of the year affected the cropping patterns of both elevations, but more so for the high grown. In response to these changes, the management in the year was challenged to bring in greater discipline in deploying labour in harvesting and controlling the operational costs.

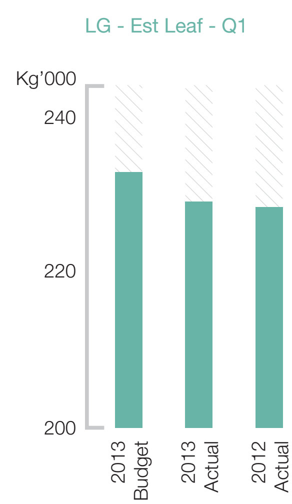
The high grown experienced an excellent first quarter with the crop harvested exceeding the targets and the levels achieved in the preceding year. The favourable weather, even the severely dry months in February and March complemented the high grown performance in the first quarter. However, the crop performance plummeted in the second and third quarters. The heavy rainfall experienced in the month of June dampened the second quarter results to be below the budgeted and the preceding year's level. With the rainfall trends continuing, the month of July witnessed the worst crop performance in the last 20 years. This had a disastrous impact on the third quarter results with a 78 percent decline as against the corresponding third quarter in 2012. Although still below budgets, the fourth quarter results were marginally above the fourth quarter of 2012.

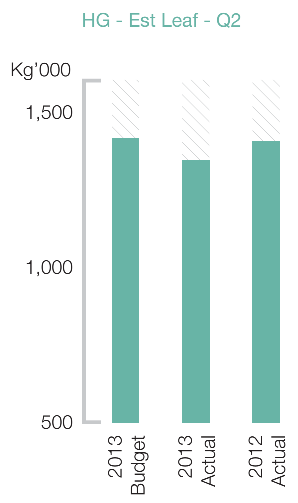
In contrast to the high grown patterns, low grown in the first quarter posted moderate results; below budgeted levels but sustained the levels achieved in the corresponding quarter of 2012. Second quarter did not meet the anticipated harvested levels. Month of June was the worst hit with the harvested levels achieving only 87 percent on the budgeted levels. Third quarter results were the lowest – significantly below the budgeted levels and as against the corresponding quarter in the preceding year. However, fourth quarter saw an improvement in the crop performance, posting the highest crop harvested for the low grown in the year under review.

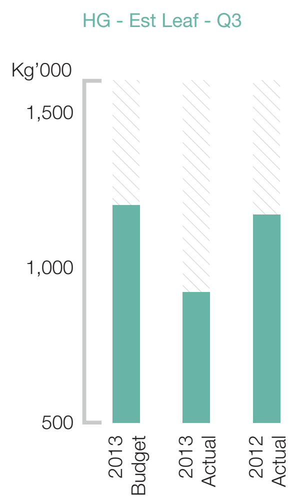
QUARTERLY CROP PATTERNS – HIGH GROWN

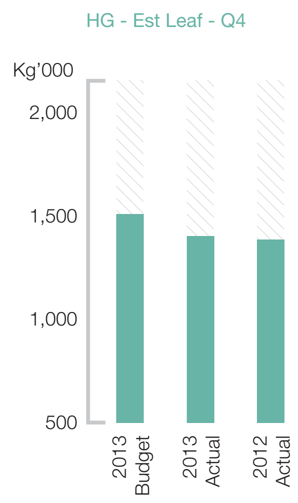


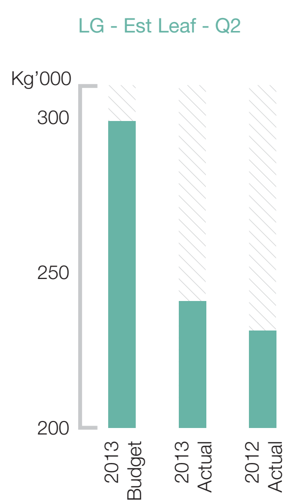
QUARTERLY PATTERNS – ESTATE LEAF - LOW GROWN

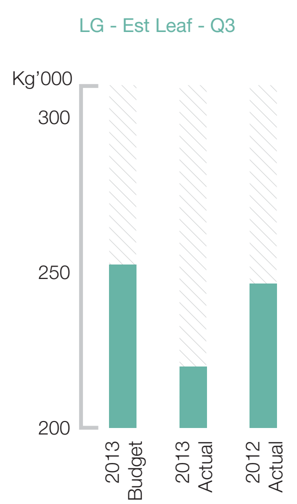


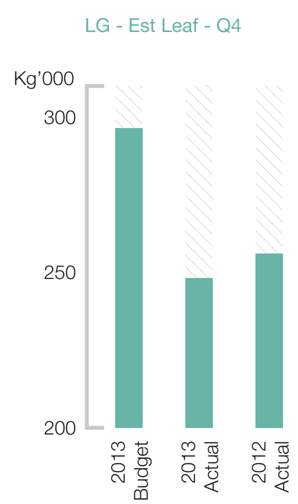

HG - Est Leaf - Q2
Kg'000
1,500
1,000
500
2013 Budget
2013 Actual
2012 Actual


HG - Est Leaf - Q3
Kg'000
1,500
1,000
500
2013 Budget
2013 Actual
2012 Actual


HG - Est Leaf - Q4
Kg'000
2,000
1,500
1,000
500
2013 Budget
2013 Actual
2012 Actual


LG - Est Leaf - Q2
Kg'000
300
250
200
2013 Budget
2013 Actual
2012 Actual


LG - Est Leaf - Q3
Kg'000
300
250
200
2013 Budget
2013 Actual
2012 Actual


LG - Est Leaf - Q4
Kg'000
300
250
200
2013 Budget
2013 Actual
2012 Actual

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

A motivated plucker harvesting green leaf

AGRICULTURAL AND FIELD DEVELOPMENT

Deploying sustainable practices in agricultural operations have always been at the forefront of our strategy. We maintain certifications on Rainforest Alliance – Sustainable Agriculture, ISO 22000 Food Safety Management System, Ethical Tea Partnership and UTZ Sustainable Tea in most of estates and factories. Amidst the adverse weather patterns which had a substantial impact on our operations, our sustainable agriculture practices assumed greater significance.

HARVESTING

We gave precedence in the year under review to uphold the standards in leaf quality which was vital to sustain the renowned quality of our teas. We were fully focused on directing our harvesting operations to maintain the highest plucking standards in all our estates and thereby produce the ideal "cuppa". This year, we introduced Tea Research Institute (TRI) plucking baskets in all estates to improve our harvesting operations. These baskets especially designed to address the ergonomics of the pluckers' fatigue and stress levels had a positive impact on our productivity levels and the quality of the leaf. The TRI sheers introduced among the male pluckers together with the electronic green leaf weighing scale introduced in the field on some of our estates were the new initiatives undertaken to further our efforts to improve productivity and quality.

We were conscientious on timing our operations strategically to boost our crop harvest and improve our quality; harvesting, fertilizing and pruning were well planned and scheduled to fit in with the varied agro climatic regions and their operating conditions. In this scenario, manpower planning was focused to give more weightage to high cropping months.

NURSERY MANAGEMENT

Tea nursery management is an integral part of our sustainable practices. With well-equipped tea nurseries in all our estates, we nurture cultivar resistant to drought and pest in line with the recommendations of the TRI. Our nurseries maintain quality tea makers to meet requirements for planting material in our on-going field development programme.

Apart from the tea nurseries, two separate nurseries were established during the year on Wattegoda & Calsay estates to propagate fuelwood, timber and other plant species which is also significant to enrich the biodiversity within our estates.

Fuelwood Nursery - Wattegoda Estate

Forking

TRI plucking baskets

Sheere plucking

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

FIELD DEVELOPMENT PROGRAMME

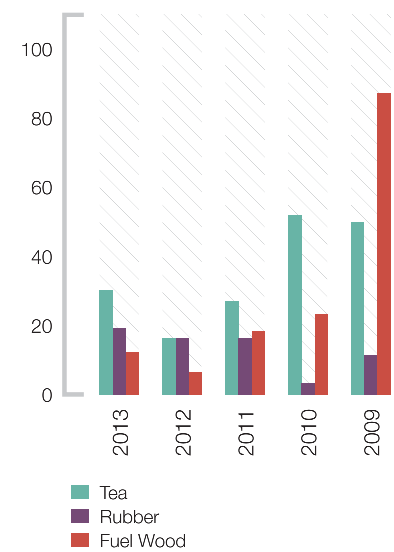
Replanted Extent Tea : 30.47 Hectares	Came into Revenue 2013 Tea: 49.64 Hectares	V.P Cover Increased from 51% in 2000 to 66% in 2013
Replanted Extent Rubber 19.16 Hectares	Replanted Extent Fuel Wood 12.64 Hectares	Expenditure on Field Development Rs. 79.2 Mn

OUR FIELD DEVELOPMENT PROGRAMME PLAYS A PIVOTAL ROLE IN TAKING THE COMPANY TOWARDS SUSTAINABLE GROWTH. OUR FOCUS WITHIN THIS PROGRAMME IS TO OPTIMISE THE AGRICULTURAL POTENTIAL BY INCREASING THE VP COVER OF OUR ESTATES.

Under this programme, we planted 22.79 hectares of high grown tea and 7.68 hectares of low grown tea, totalling to 30.47 in the both elevations. This represented nearly a two fold increase as compared to the preceding year. Between the period 1992 to 2013, a total extent of 934.91 hectares was planted with new tea - 68 percent accounted for by the high grown. We maintained 72 hectares of tea as capital clearings and continued with our best practices in agriculture to sustain the new clearings and thereby ensure potential future yields. The total extent brought into revenue in 2013 was 49.64 hectares taking the total to 770.54 hectares between the period 2000 to 2013. We intend to bring in 30.18 hectares of tea to generate revenue in the year 2014. The VP cover has increased from 51 percent in the year 2000 to 66 percent in 2013. Further, our estates in the Deniyaya and Galle regions replanted 19.16 hectares of rubber. The total field development expenditure for the year was Rs. 79.2 million, an increase by Rs. 7.7 .million compared to 2012.

In the year, we also continued with our concerted efforts to plant fuel wood to reduce our dependency on fossil fuels, vital for the sustainability of our operations and on the environment in broader terms. Our ultimate goal is to make each estate self-sufficient in fuel wood for energy. We planted in the year an extent of 12.54 hectares of fuel wood.

Field Development Replanting (Hectares)



FIELD DEVELOPMENT PROGRAMME	NEW CLEARINGS PLANTED 2013	COMING INTO REVENUE 2013	COMING INTO REVENUE 2014
	Hectares		
Tea	30.47	49.64	30.18
Rubber	19.16	Nil	9.42
Fuel Wood	12.54	Nil	Nil

SOIL MANAGEMENT

Given our commitment towards sustainable agriculture complemented by our Rainforest Alliance Programme, we give precedence to soil conservation and enriching soil nutrients, acidity and carbon levels in the soil. During the year, we initiated newer and more efficient methods of soil conservation whilst maintaining 14 kilograms of nitrogen replacement ratios in all our VP fields. We continued to control pest and disease in our fields through biological methods.

Key measures adopted in our soil management process are set out below.

- Periodic testing of soil samples for carbon, pH and nutrient levels
- Replacing with special fertilizer mixtures including site specific fertilizer application to remedy nutrition deficiency levels
- Planting of vettiver on bank edges and upper banks of drains
- De-stilting of drains, terracing, thatching, mulching and planting grass on vacant patches
- Forking with tipping of the frames after pruning and burying of weeds (introduced in the reporting year)

Climate Change

The impact of climate change is a significant issue affecting our tea cropping patterns and the quality season. We are concerned and closely monitor the temperature and rainfall in different agro climatic regions and assess the impact on the performance of our tea plantations. We have in place the necessary equipment including mean ambient thermometric temperature meters in Deniyaya and Galle in the low grown and Lindula, Talawakelle and Nanu Oya in the high grown. During the year under review, weather monitoring revealed that erratic weather patterns with continuous high rainfall had a substantial impact on our crop performance mainly in the high grown elevations.

High Yielding Tea Field - Great Western

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

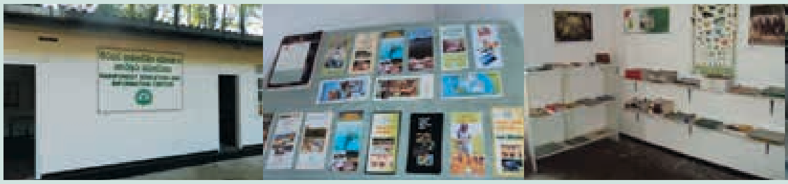
RAINFOREST ALLIANCE SUSTAINABLE AGRICULTURE CERTIFICATION PROGRAMME

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, General Manager – HR & QMD. Certification audits are carried out annually by an RA assigned officers from India. All our twelve high grown estates and Kiruwanaganga which is the prime low grown estate are now RA certified.

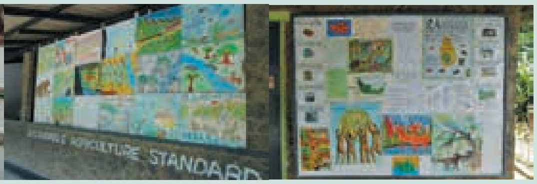


Rainforest Alliance Certification Audit of Talawakelle Group

Estates have also established Rainforest Educational and Information Centres (REIC's) as a key strategy to drive and sustain the programme. These centres which are well equipped with leaflets, posters, books and other reading material 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.



Rainforest Education and Information Center - Kiruwanaganga Estate



Environment protection posters created by the workers and community on Kiruwanaganga Estate

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 behaviours. 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 estate to consistently enhance its performance in their respective areas to ensure sustainability.

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.

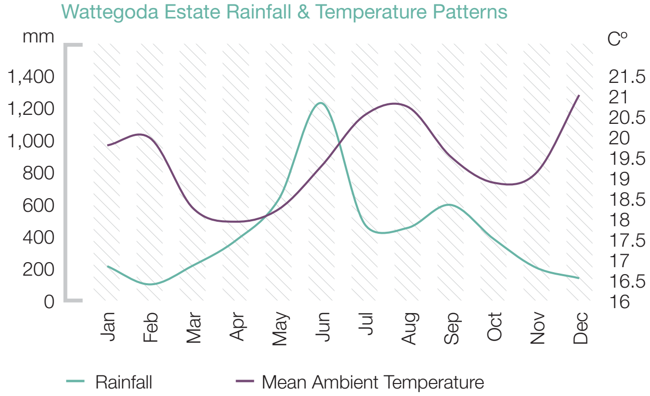
Barewell Factory

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

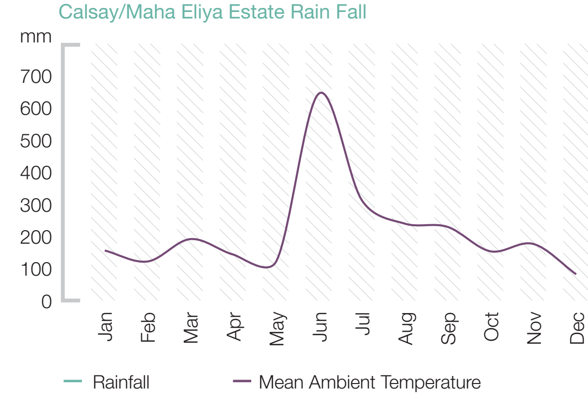
REGIONAL PROFILE

REGION	ESTATES	EXTENT HA.	FACTORY CAPACITY (KG MN)	FACTORY TYPE	CERTIFICATIONS				
					RAINFOREST ALLIANCE	ISO 22000	ETHICAL TEA PARTNERSHIP	UTZ	TEA HA.
Talawakelle	Bearwell				✓	✓	✓		
	Mattakelle				✓	✓	✓		
	Holyrood				✓	✓	✓		
	Great Western	T:1937.25	4.1	Orthodox Black Tea	✓	✓	✓		8.04
	Wattegoda				✓	✓	✓		
	Palmerston				✓		✓		
	Logie				✓		✓		
Nanu Oya	Dessford				✓	✓	✓		
	Somerset				✓	✓	✓		
	Clarendon	T: 1186.45	3.2	Orthodox Black Tea	✓		✓		14.75
	Calsay				✓		✓		
	Radella			Green Tea	✓	✓	✓	✓	
Deniyaya	Deniyaya		1.9	Orthodox Black Tea		✓	✓		
	Kiruwanaganga	T: 637.94			✓	✓	✓		5.00
	Handford	R: 59.20				✓			
	Indola								
Galle	Moragalla	T: 85.90	0.6	Orthodox Tea		✓	✓		2.68
		R:121.14							

Wattegoda Estate Rainfall & Temperature Patterns



Calsay/Maha Eliya Estate Rain Fall

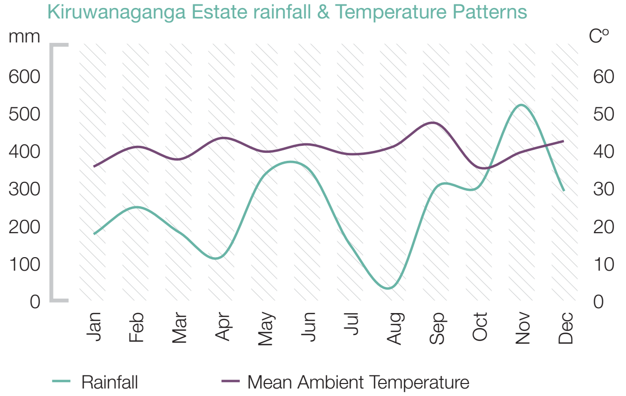


- Although less rain in January, overall weather was conducive for crops in the 1st quarter
- Erratic temperature patterns and heavy rainfall in the months May - July adversely affected the 2nd and 3rd quarter crop performance
- Favourable weather conditions improved crop performance in the 4th quarter

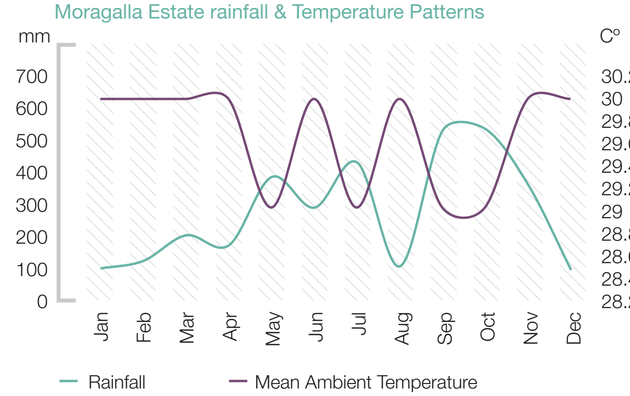
- Rainfall patterns favourable for crop performance in the 1st quarter
- Extreme rainfall in the months of June & July affected 2nd & 03rd quarter results
- Improved rainfall in the 04th quarter supported crop performance

	REPLANTING 2013 (EXT)		ECONOMIC KPIS				SOCIAL KPIS		
	RUBBER HA.	FUELWOOD HA.	TEA PRODUCTION (MN KG) CONTRIBUTION	PRICES	PROFIT /LOSS PER HECTARE (RS. MN)	CAPITAL EXPENDITURE (RS. MN)	REG. WORKERS (NOS.)	RESIDENT COMMUNITY (NOS.)	HEALTH & SAFETY TRAINING PROG. (NOS.)
	N/A	8.54	3.24 62% of High Grown	03 Estates Marks among Top Ten Elevation Ranks	76.62	27.5	4,713	22,696	54
	N/A	4.00	1.98 38% of High Grown	02 Estates Marks among Top Ten Elevation Ranks	(21.97)	30.2	3,360	13,190	73
	9.14	N/A	1.69 82% of Low Grown	Kiruwanaganga Rank No. 1 in RPCs 02 Est. Marks above Elevation Average	74.77	24.02	1,426	4,543	45
	10.02	N/A	0.37 18% of Low Grown	-	24.54	29.97	321	68	21

Kiruwanaganga Estate rainfall & Temperature Patterns



Moragalla Estate rainfall & Temperature Patterns



- Weather supported the 01st quarter to maintain crop levels on par with 2012
- Most conducive weather in the 4th quarter, followed by the 2nd quarter
- Adverse weather hit 03rd quarter crop to be below the levels in 2012.

- Lower temperature was experienced compared to the Deniyaya region
- Weather was conducive in the 1st and 4th quarters and supported the crop performance
- Adverse weather affected the 2nd & 3rd quarter results

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

TEA PRODUCTION

Notwithstanding adverse weather conditions that prevailed in the year, best practices in field operations and a strong supply chain in bought leaf supported crop production from reporting a steeper decline.

Estate Leaf
83%

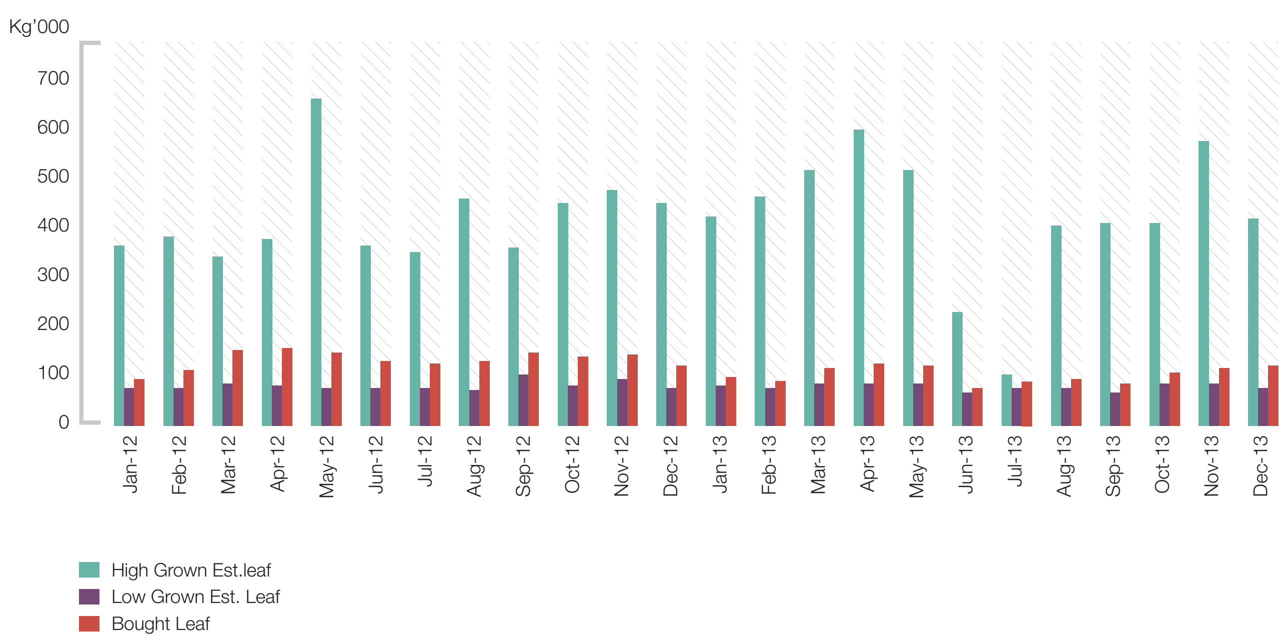
+

Bought Leaf
17%

→

Total Production
7.29 Mn Kg
4.7% below 2012

TTE PLC Tea Production January 2012 to December 2013

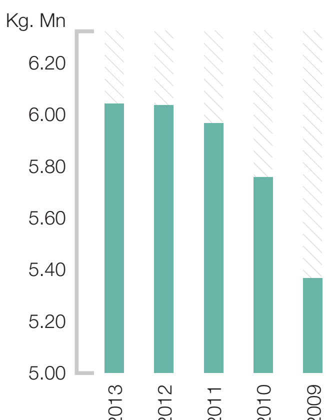


QUARTERLY TEA PRODUCTION 2012 VS. 2013										
Tea Production	1st Qtr		2nd Qtr		3rdQtr		4th Qtr		Total	
Kg'000	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Estate Leaf	1,653	1,329	1,591	1,642	1,141	1,423	1,659	1,639	6,044	6,033
Bought Leaf	304	360	322	441	275	408	350	412	1,251	1,621
Total	1,957	1,689	1,913	2,083	1,416	1,831	2,009	2,051	7,295	7,654

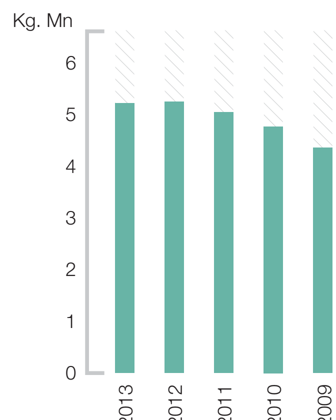
OVERALL TEA PRODUCTION

The year experienced erratic cropping patterns amidst the vicissitudes of weather, particularly felt in the second and third quarter. Estate leaf production given the aggressive initiatives to advocate sustainable agriculture practices managed to sustain the levels achieved in the year 2012 to reach 6.04 million kilograms. The first and the fourth quarter results were remarkable. Bought leaf production reported a drop throughout the four quarters to end the year with an overall drop of 22 percent as against the preceding year, to reach 1.25 million kilograms. This drop in bought leaf however, was balanced by the estate leaf production, taking the total production to 7.29 million kilograms, just below 7.65 million kilograms in the year 2012.

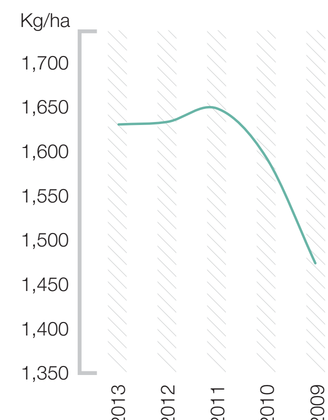
Estate Leaf Production 2009-2013



High Grown Production 2009-2013 (Estate Leaf)



High Grown -Yield



The total tea production from estate leaf in the year under review was 6.04 million kilograms, corresponding to a marginal decline from 6.03 million kilograms in the preceding financial year. Out of the total estate leaf production, high grown production accounted for nearly 84 percent whilst the balance 16 percent was from the low grown elevations. The main cropping months were in the first and the fourth quarter for both elevations. In contrast to the typical cropping patterns, given the erratic weather and heavy rainfall in the months of May to July, the second and third quarters especially in the high grown elevation dampened the overall estate leaf production levels.

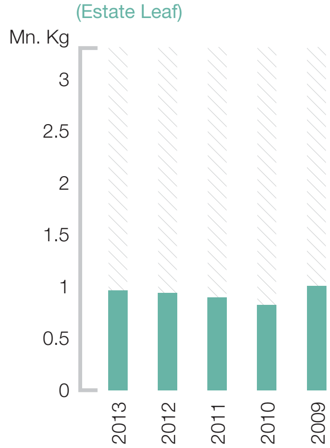
HIGH GROWN ESTATE LEAF PRODUCTION

With an extent of 3123.70 hectares, tea production from the high grown estates sustained the preceding year levels even amidst inconsistent cropping patterns. Both Talawakelle and Nanu Oya contributing 64 percent and 36 percent respectively to the total high grown production levels experienced heavy rainfall in the months of June and July. This had a considerable bearing on the 2nd and the 3rd quarter results culminating in the high grown production falling to 30,097 kilograms in the reporting year from 5,062,737million kilograms in the preceding year. This corresponded to a marginal decrease of 0.5 percent. Tea yields in the high grown were 1,630 kilograms per hectare, representing a marginal fall as against 1,633 kilograms per hectare in 2012.

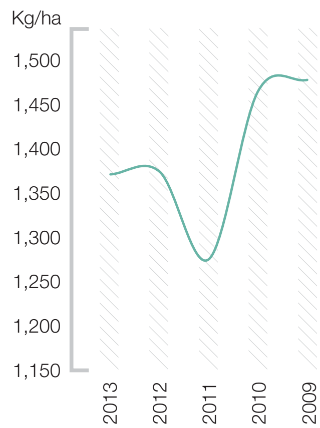
MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

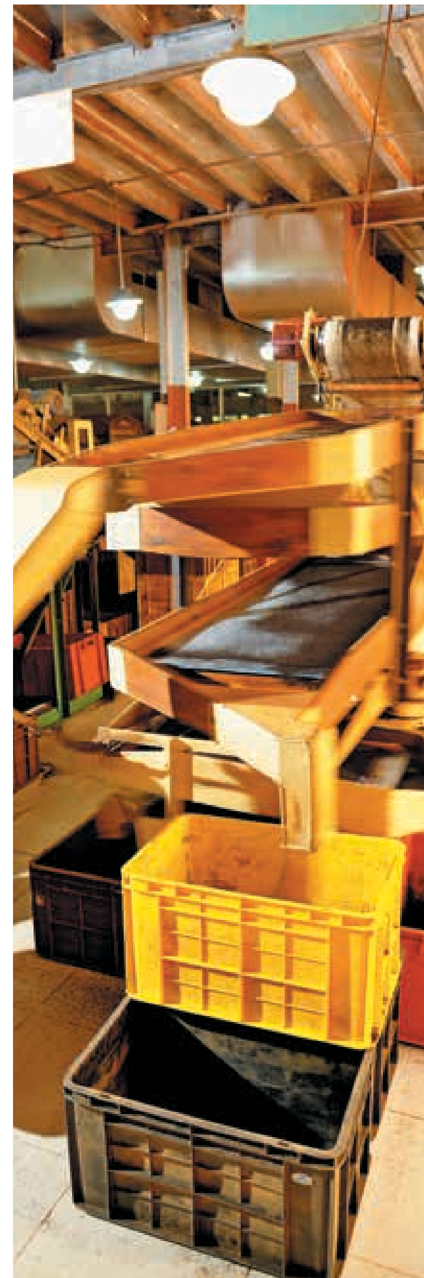
LOW GROWN ESTATE LEAF PRODUCTION

Low Grown Production 2009-2013 (Estate Leaf)



Low Grown -Yield



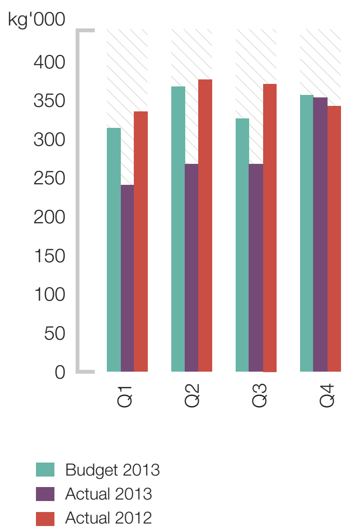


With an extent of 723.84 hectares, tea production in the low grown estates was less susceptible to the vicissitudes of weather. Low grown production recorded the best results in the fourth quarter. Deniyaya accounting for 84 percent of the total low grown production reported a shortfall in the third quarter whilst Galle with 16 percent contribution to the total succumbed to adverse weather in the second and third quarters. In this setting, total low grown production recorded 946,251 kilograms representing 2.4 percent decline vis-à-vis the year 2012. Low grown yields were 1,370 kilograms per hectare which is a marginal drop from 1,373 kilograms per hectare in 2012.

REGIONAL SUMMARY

FOR THE YEAR ENDED	2013		2012	
Regions	Production (Mn Kg)	Contribution (%)	Production (Mn Kg)	Contribution (%)
Talawakelle	3.2	64%	3.2	65%
Nanu Oya	1.8	36%	1.7	35%
Total High Grown	**5.0**	**100%**	**5.0**	**100%**
Deniyaya	1.7	84%	1.8,	84%
Galle	0.3	16%	0.5	16%
Total Low Grown	**2.0**	**100%**	**2.3**	**100%**

Bought Leaf - 2013



Our bought leaf strategy in the low grown elevation sought to address the unhealthy environment created due to excess capacity and the resultant compromise made on the leaf quality. We were focused on engaging our suppliers and producers to optimise our intakes amidst intense competition.

Kiruwanaganga and Deniyaya estates posted excellent bought leaf results on par with the budgeted crop as well as with the level achieved in the previous year. However, Hanford and Moragalla estates during the year, shifted from a volume based strategy to price maximisation. This move supported the estates to reach the required two marks to become competitive and rebound in to profitability.

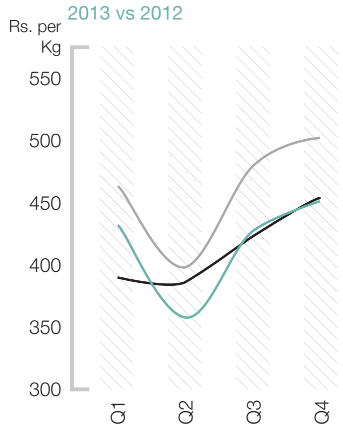
In terms of high grown elevations, as a strategic move to cap on accumulating losses, we discontinued the operations of the Clarendon factory which was commissioned in the preceding year. Operating fully on bought leaf, this factory could not sufficiently meet the competition posed by manufacturing estates.

During the reporting year, bought leaf performance fell short of the budgeted and the preceding year's levels. The first three quarters experienced on average, over 27 percent drop vis-à-vis the corresponding quarter of 2012. However, bought leaf performance improved in the fourth quarter, marginally above the target and above the preceding year. Overall, bought leaf contributed 1.25 million kilograms to the total production, commendable given the intense competition within the operating environment.

TTE PLC TEA PRICES

A buoyant tea market complemented our premium quality teas to rank number one in the high and low grown elevations amongst RPCs "Two leaves and a bud make a good cuppa"

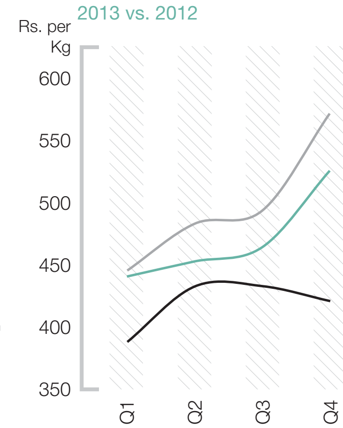
TTE High Grown Price Trends - 2013 vs 2012



Quater	1	2	3	4
Elevation	433.09	358.12	426.65	453.02
2013 Actual	463.81	398.59	479.85	503.49
2012 Actual	390.06	387.42	423.07	454.99

Quater	1	2	3	4
Elevation	440.67	452.74	464.07	525.39
2013 Actual	446.15	483.60	494.02	571.64
2012 Actual	389.34	434.40	434.56	422.45

Low Grown Price Trends 2013 vs. 2012



MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

ACHIEVEMENTS FOR 2013

5 Estate marks were within the first ten rankings in the western High Grown: Mattakelle, Dessford,Bearwell, Radella, Great Western

Mattakelle – Highest GSA amongst all High Grown garden marks for 2013

Mattakelle – Highest GSA amongst all High Grown garden marks for the 5th consecutive year

TTEL PLC Rank No. 1 in Western High Grown category

8 of our High Grown estates are in the first thirteen rankings.

Rank No.1 in Low Grown among RPC in 2013

Kiruwanaganga Rank No.1 in Low Grown category amongst RPC

Handford Rank No.02 in Low Grown Category amongst RPC

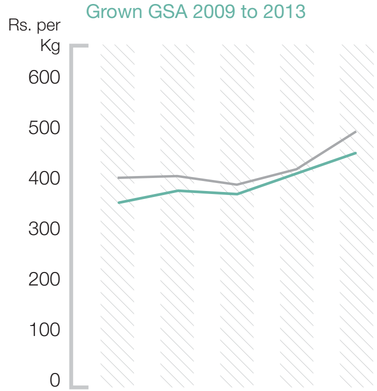
Amidst the bullish trends in prices, our clear strategy focusing on differentiating our teas on premium quality and the marketing mix customised to address the demand, upheld our positioning within in an intensely competitive market. A quality mind-set coupled with the dedication of our team on the estates ensured the success of our strategy. During the year under review, we sustained our ranking at the number one position at the Auctions for Western High Grown teas among the RPCs for the 10th consecutive year whilst low grown elevation sustained at the number one position for the 9th consecutive year. The highlight of the year however, is that we moved on to the No. 01 position for our high grown tea from No. 2 in the preceding year, regaining the top position held between the period 2003-2011.

High grown prices which averaged to Rs. 463.81 per kilogram in the first quarter strongly picked up by the third and the fourth quarter. The fourth quarter average was Rs. 503.49 per kilogram, exceeding the elevation average by Rs. 50.47 per kilogram. Five estate marks - Mattakelle, Dessford, Bearwell, Radella and Great Western were within the first ten rankings in the western high grown elevations. Mattekelle retained its positioning – the highest average price in the western catalogue for the fifth consecutive year.

Low grown prices were strong and stable in the first two quarters but realised stronger prices in the third quarter and the fourth quarter. Low grown prices in the fourth quarter reached Rs. 571.64 per kilogram which was Rs. 46.25 per kilogram higher than the elevation average. Kiruwanaganga ranked number one whilst Handford ranked number two in the low grown category amongst Regional Plantation Companies.

GSA: Q1	GSA: Q2	GSA:Q3	GSA:Q4
High Grown Increase of Rs. 73.75 Per Kg than 2012	High Grown Increase of Rs. 11.17 Per Kg than 2012	High Grown Increase of Rs. 56.78 Per Kg than 2012	High Grown Increase Rs. 48.50 Per Kg than 2012
Low Grown Increase of Rs. 56.81 Per Kg than 2012	Low Grown Increase of Rs. 49.20 Per Kg than 2012	Low Grown Increase of Rs. 59.46 Per Kg than 2012	Low Grown Increase of Rs. 149.19 Per Kg than 2012

TTE PLC High Grown & Low Grown GSA 2009 to 2013



	2013	2012	2011	2010	2009
HG	456.36	413.38	371.66	379.6	354.03
LG	496.56	420.49	390.89	408.31	404.05

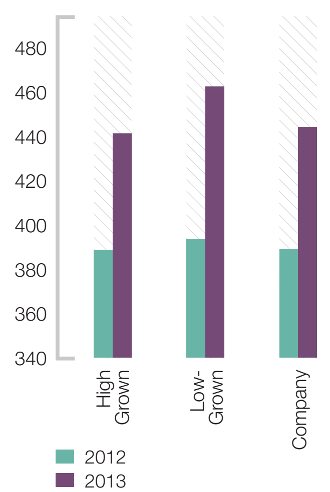
Supported by the strong demand at the Colombo Auctions for selected quality teas, GSA in the high grown in the first quarter posted a noteworthy increase of Rs. 73.75 per kilogram compared to the corresponding quarter of 2012 to Rs. 463.81 per kilogram. This is despite the short quality season that prevailed in the first quarter particularly in the months of February and March. In the second quarter, the increase in the GSA moderated to lower levels given the high volumes and drop in quality. However, GSA recovered to post strong results in the third and the fourth quarters. The year ended with the GSA of high grown reporting Rs. 456.36 per kilogram, 10 percent increase as against 2012.

In terms of low grown teas, all four quarters realised strong results with a noteworthy performance in the fourth quarter - GSA rising by Rs. 149.19 per kilogram compared to the year 2012. The GSA for the year 2013 recorded an 18 percent increase as against 2012 to end at Rs. 496.56 per kilogram.

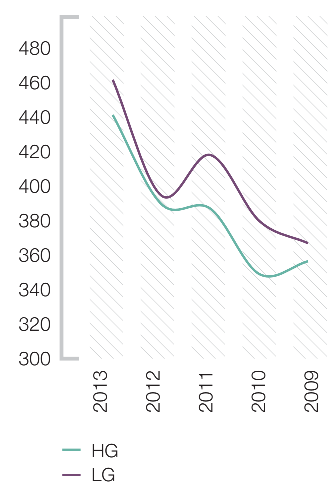
COST OF PRODUCTION

Our initiatives to improve productivity, to bring in cost competitiveness within our estates and enhance our performance management practices assumed greater significance with a 14% increase in the cost of production coupled with adverse weather that hit our production levels.

Cost of Production (Rs./Per Kg)



TTE PLC High Grown & Low Grown Estate COP (Rs./Per Kg)



The revision of wages by 20.1 percent in line with the collective agreement within the industry had a substantial impact on the cost of production. This was further intensified by the escalation in the energy bill followed by higher electricity and fuel costs.

Both in the high and low grown elevations, cost of production increased significantly by Rs. 52.21 and Rs. 68.33 per kilogram respectively as compared to the year 2012. The overall cost of production recorded a significant increase of Rs. 54.72 per kilogram as against the preceding year to reach Rs. 443.87 per kilogram in reporting year.

KEY COST COMPONENTS	2013	2012	2011	2010	2009
Urea MT	26,000	26,000	26,000	46,500	47,000
Wages/day (Rs.)	687.50	572.00	572.00	447.75	447.75
Fuel/litre	121	115.00	84.00	73.00	73.00
Firewood/	2,400	2,300	2,200	2,000	1,900
Electricity/kwh	12.25	10.45	10.45	9.30	9.30
KVA	1,100	850	850	675	675
Total COP/ Rs Per Kg	451.09	392.10	389.24	357.07	359.24

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

ESTATE PROFITABILITY

> **Notwithstanding the increasing cost of production, the estate bottom-line was commendably upheld within a focused strategic framework and the support extended by our people.**

With the increasing cost of production combined with the production hits in the year under review, the challenge was to sustain estate profitability at the levels achieved in the previous year. We gave utmost priority to uphold the estate top line - boosting our production levels and ensuring premium quality to withstand the impact of the increase in cost of production on the estate bottom-line. The estate management and their respective teams were fully spirited in executing this focused strategy.

In this context, we were able to report a creditable estate profitability which in effect is the highest ever profits on a wage-increase year. High grown posted a profit of Rs. 126.2million accounting for over 61 percent of estate profits. Low grown with the highest ever profits of Rs. 80.5million after privatisation contributed the balance 39. percent to the total. Profits were strongest in the third and the fourth quarters.

In terms of regional performance, Talawakelle region topped with a contribution of over 73.6 percent to total estate profits. Nanu Oya region accounted for a negative of 12.5 percent of total profits. In the low grown elevation, Deniyaya and Galle contributed 34.5 percent and 4.4 percent respectively to the total.

Mattekelle estate posting profits highest ever was at the top of the estate profitability list. This was followed by Bearwell, Radella and Kiruwanaganga each recording the highest ever profits. Great Western, Holyrood, Wattegoda, Palmerston, Deniyaya and Moragalla performed well with a good contribution to total estate profits.

	NO OF ESTATES	NO OF ESTATES MAKING PROFIT ON TEA				
		2009	2010	2011	2012	2013
High Grown	12	7	8	3	8	8
Low Grown	5	5	3	0	3	4

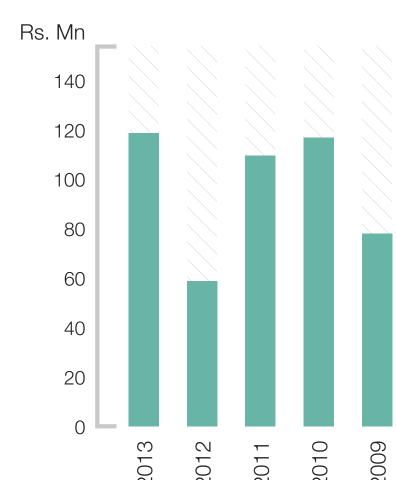
RUBBER

Rubber turnover during the year was Rs. 39.16 million compared to Rs. 40.16 million in 2012. Total production in the year increased to 116,731 kilograms, a 7 percent increase from 108,836 kilograms in the previous year. Rubber prices however, continued their downward trend into the second year, declining from Rs. 369 per kilogram in 2012 to Rs. 335.36 per kilogram. Hence, rubber profitability was affected, 2013 recorded a loss of Rs. 6.697 compared to a loss of Rs. 2.37 in 2012 The total extent under rubber was 180.34 hectares whilst the extent coming in to bearing in 2014 is 9.42 hectares.

HYDROPOWER SECTOR

The total revenue during the year increased by 50.2 percent to Rs. 118.5.million from the previous year Rs. 58.9million. The three hydro power plants in Radella, Palmerstone and Somerset with a combined capacity of 2.2 MW generated to the national grid. The energy supplied to the national grid increased by 9.08 kwh compared to the previous year's 4.67 kwh. Adequate rainfall in the year contributed to the increase with all plants being operational; except Somerset hydro plant which was closed down for one month due damages caused by an earth-slip.

Hydro Income



FINANCIAL REVIEW

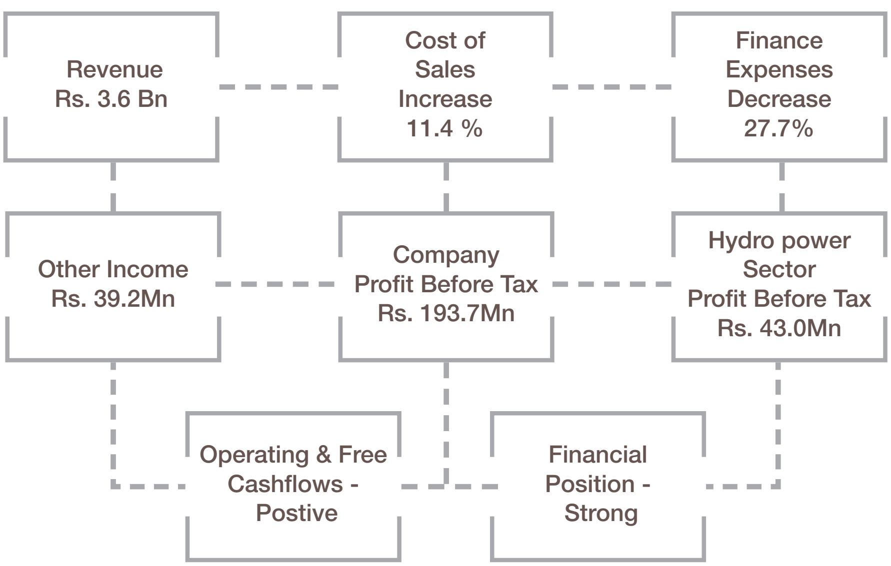
The financial position at year end strengthened, with an increase in equity by Rs. 158.9 million to Rs. 1,651.2 million.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

A year-on-year growth of 9.9 percent in revenue - Rs. 3.6 billion and a net profit before tax of Rs. 236.7million - a resilient performance in a challenging year.

A strong tea market combined with cost management and lower finance cost, mitigated a wage cost impact of Rs. 201.6 million in the year.

SUMMARY



Notwithstanding the lower production levels, the Company revenue during the year increased from Rs. 3.2 billion in the previous year to Rs. 3.5 billion, supported by higher tea prices received by the Company at the Colombo Tea Auctions on a strong market that prevailed in the year. The higher revenue however, did not translate to improved margins, as there was a steep increase in cost of sales by Rs. 326.4 million, spurred by a revision in wage and related gratuity costs with effect from April in the year amounting to Rs. 201.6million. This coupled with higher energy cost from May and increased fixed cost per kilogram due to lower volumes adversely impacted on the positive contribution from revenue and consequently, gross profits in the year declined to Rs. 337.2million compared to Rs. 394.6 million in the previous year.

Administration and management fees during the year were Rs. 128.2 million, an increase from Rs. 116.7 million in 2012. A substantial contribution from other income of Rs. 50.7 million and a 34.8 percent decline in finance expense to Rs. 58.7 million from Rs. 89.9 million in 2012, buffered to an extent, the erosion in operational profits to post a net profit of Rs. 158.4 million, albeit, lower compared to the previous year's Rs. 207.0 million.

A noteworthy contribution from the hydro sector amounting to Rs. 41.1 million posted a group profit of Rs. 199.6 million in the year compared to Rs. 226.7 million in the preceding year.

Operating and free cash flow was positive at Rs. 231.9 million and Rs. 105.0 million respectively. Bank borrowings of the Company reduced by Rs. 27.7 million in the year to stand at Rs. 529.7 million with debt to equity improving to 48.9 percent compared to 54.2 percent in the previous year.

Investment in capital expenditure during the year was Rs. 126.9 million and shareholders were paid a dividend of Rs. 59.4 million in respect of their final dividend for 2012.

The financial position at year end strengthened, with an increase in equity by Rs. 127.9 million to Rs. 1,470.9 million compared to the previous year.

QUARTERLY GLANCE

1st Quarter
Profit before Tax
Rs. 101.4Mn

A strong tea market and satisfactory crop at a competitive cost of sales

2nd Quarter
Loss before Tax
Rs. 10.9 Mn

Higher crop and remunerative tea prices off-set by high wage and energy costs

3rd Quarter
Profit before Tax
Rs. 12.4 Mn

Seasonal crop declined given adverse weather and soft tea prices

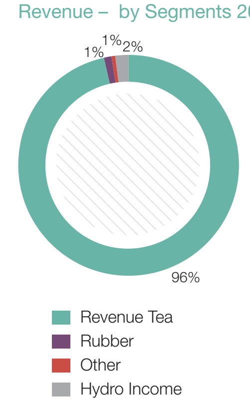
4th Quarter
Profit before Tax
Rs. 90.8 Mn

Upturn in crops and higher prices recorded strong earnings

PROFITABILITY AND GROWTH

A consistent growth in revenue and profitability to record revenue of Rs. 3.6 billion and NPBT of Rs. 236.7 million in the year under review by the group.

Revenue – by Segments 2012



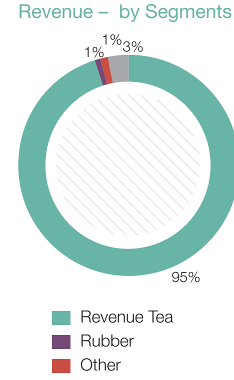
REVENUE

Group revenue recorded an increase of 9.9 percent to Rs. 3,646.8 million compared to Rs. 3,318.1 million in the previous year, with the hydro power sector contributing Rs. 118.5 million, an impressive increase from Rs. 58.9 in 2012.

REVENUE – SEGMENTAL ANALYSIS

Rs. Mn	2013	2012	2011	2010	2009
Revenue Tea	3,469.9	3,200.5	2,558.0	2,821.5	2,635.4
Rubber	39.1	40.1	55.1	36.5	20.8
Other	19.3	18.6	22.1	28.0	8.0
Hydro Income	118.5	58.9	109.3	116.6	77.9
Total Revenue	3,646.8	3,318.1	2,744.5	3,002.6	2,772.1

Revenue – by Segments 2013

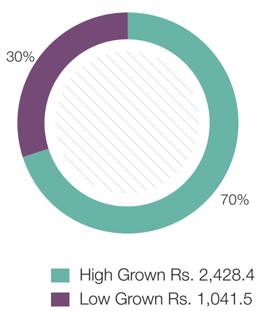


MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

GROUP QUARTERLY REVENUE

Rs. Mn	3 Months Ended 31.03.2013	3 Months Ended 30.06.2013	3 Months Ended 30.09.2013	3 Months Ended 31.12.2013	12 Months Ended 31.12.2013	12 Months Ended 31.12.2012
Tea	943.0	886.4	768.3	872.2	3,469.9	3,200.5
Rubber	12.0	5.3	10.2	11.6	39.1	40.1
Hydro Power	23.7	24.9	34.7	35.2	118.5	58.9
Other	5.8	2.5	6.7	4.3	19.3	18.5
Total	984.5	919.1	819.9	923.3	3,646.8	3,318.1

Composition of Revenue - Tea



The tea revenue during the year was Rs. 3,469.9 million, an increase of Rs. 269.4 million, corresponding to 8.4 percent as against the preceding financial year. Revenue posted a growth in three quarters, compared to the previous year despite a crop decline, driven on a strong tea market that reflected improved tea prices at the Colombo Auctions. During the year, tea production declined from 7.64 million kilograms to 7.29 million kilograms, consequent to adverse weather and decline in bought crop volumes.

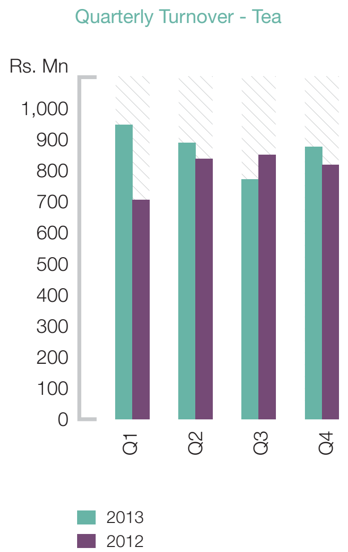
High grown tea revenue which was supported by remunerative tea prices reached Rs. 469.45 per kilogram, higher than the previous year by Rs. 45.52 per kilogram to reach a revenue of Rs. 2,428.4 million. This is despite lower volumes resulting from a production decline of 46,078 kilograms in the year, with an estate crop increase being off-set by a reduction in bought crop. In terms of low grown tea as well, an increase in tea price by Rs. 77.58 per kilogram supported the revenue to post an increase of 5.7 percent to Rs. 1,041.5 million vis-à-vis the preceding year, despite a production decline of 317,607 kilograms mainly from bought crop of 293,744 kilograms.

Affected by decline in prices, rubber revenue posted Rs. 39.1 million corresponding to a reduction of 2.4 percent as against the previous year of Rs. 40.1 million.

QUARTERLY REVENUE TEA Rs. Mn

Year	1st Q	2nd Q	3rd Q	4th Q	Total
2009	384.0	665.8	681.0	857.0	2,587.8
2010	685.8	800.6	698.3	817.9	3,002.6
2011	742.7	755.4	547.1	747.2	2,792.4
2012	763.6	760.3	877.6	799.0	3200.5
2013	943.0	886.4	768.3	872.2	3,469.9

Tea revenue in the high and low grown increased in the first half by Rs. 305.5 million compared to the previous year, corresponding to 16.29 percent, led by the high grown on a strong tea market and increase in production. Low grown revenue decreased in the first half by Rs. 1.2 million as compared to the same period last year. Lower bought crop intake of 78,828 kilograms had a negative impact despite receiving higher prices than last year.



The third quarter revenue saw a decline as compared to the corresponding quarter of the previous year by Rs. 109.3 million in high and low grown mainly due to lower production volumes in both elevations.

Revenue increased in the fourth quarter by Rs. 73.2 million as against the corresponding quarter in 2012. The increase was from low grown by Rs. 72.03 million given the very strong market whilst, high grown declined by Rs. 10.2 million due to stoppage of bought leaf production. Income from rubber declined to Rs. 39.1 million from last year's Rs. 40.1 million due to a reduction in crop volumes and price per kilogram.

COST OF SALES

The cost of sales increased by Rs. 326.4 million representing 11.4 percent mainly due to an increase in cost of production in the year under review.

The total cost of sales increased from Rs. 2,864.6 million to Rs. 3,191.0 million in the year. The major cost driver was the impact from the wage increase and the related defined benefit planed cost of Rs. 201.6 consequent to the revision effected in April 2013. The increase in electricity tariffs in May 2013, cost-push inflation for other production overhead costs together with lower crop volumes also impacted on the year's cost of production. The average cost of production was Rs. 448.02 per kilogram of made tea - an increase from the previous year of Rs. 392.10 per kilogram. Higher purchase prices paid to bought leaf suppliers due to increase in GSA at the Colombo Tea Auction also increased the overall cost of production of made tea in the year.

GROSS PROFIT

The gross profit declined from Rs. 394.6 million in the financial year 2012 to Rs. 337.2 million during the year under review. A decline in tea production as compared to the previous year and lower gross margins per kilogram of made tea reduced the gross profit vis-à-vis the previous year. The gross profit margin in the year was 9.5 percent compared to 12.1 percent in 2012.

GAINS /LOSS ON FAIR VALUE OF BIOLOGICAL ASSETS

The gain arising from an annual revaluation by a professional valuer of biological assets of the Company was Rs. 13.1 million compared to Rs. 22.4 million in 2012. The assets represent the merchantable and pre-merchantable timber stand in the Company. (Refer note 14 c of the Notes to the Financial Statements on page 209).

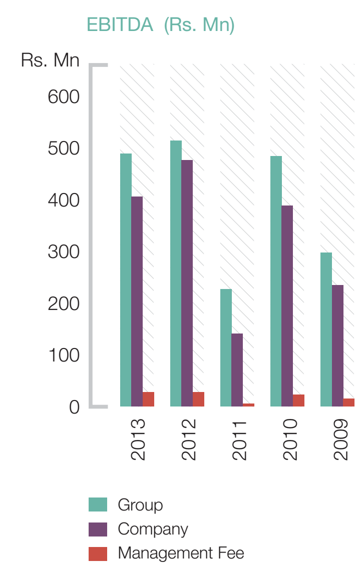
OTHER INCOME AND GAINS

Other income and gains arising mainly from sale of trees, dividends from subsidiaries and amortisation of grant was Rs. 50.7 million compared to Rs. 42.4 million in 2012.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION (EBITDA)

Group EBITDA in the year decreased by Rs. 12.0 million vis-à-vis Rs. 486.8 million in the preceding year.

The group EBITDA reflected a decrease of 2.4 percent as against 2012 with a contribution of Rs. 404.0 million from TTE PLC and Rs. 82.8 million from the hydropower sector. TTE PLC EBITDA earnings decreased by Rs. 56.7 million whilst the hydro sector increased by Rs. 44.7 million to the previous year to post a consolidated EBITDA of Rs. 486.8 million for the year.



MANAGEMENT FEE

The management fee of Rs. 26.5 million for 2013 payable to Hayleys Plantation Services - managing agents is computed at 5 percent on EBITDA of TTE PLC. This is Rs. 0.5 million - lower to the previous year.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

PROFIT FROM OPERATIONS

Consolidated operating profit declined by 6.7 percent to Rs. 338.4 million compared to Rs. 362.7 million in 2012 - a consistent performance year-on-year.

Group's operating profit for the year was Rs. 338.4 million, a decrease of Rs. 24.3 million from the previous year. TTE PLC contribution to group profit was Rs. 272.9 million whilst the hydro sector was Rs. 65.5 million. TTE PLC profits declined by Rs. 69.8 million and the hydro sector increased by Rs. 45.5 million. The bullish market conditions coupled with satisfactory crop levels had a positive impact on revenue, although the increase in cost of production eroded the gains. High grown estate profit was Rs. 175.9 million and low grown was Rs. 52.2 million in the year. The first and fourth quarters posted strong earnings with the third quarter traditionally a loss making period, reporting a moderate profit.

Revenue from rubber and other income including gains on biological assets made a contribution of Rs. 9.7 million to operating profits.

Hydro sector performed well due to a higher generation of electricity than the previous year, given the improvement in rainfall in the year under review.

ADMINISTRATIVE EXPENSES

Administration expenditure was Rs. 101.5 million, an increase of 13.4 percent from the previous year's expenditure of Rs. 89.5 million. Higher overhead costs impacted by cost-inflation increased administrative expenses during the year.

LIQUIDITY

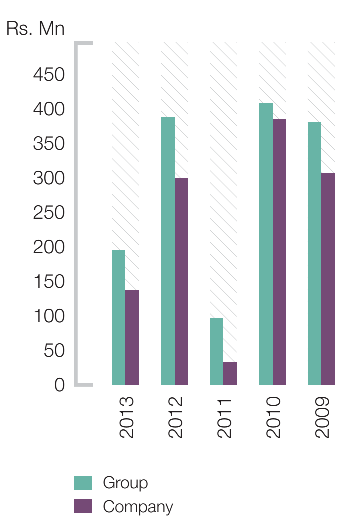
Financial risk exposure was further consolidated in the year with an improvement in gearing levels and interest cover. Group debt equity improved from 60.0 percent to 51.8 percent and interest cover from 2.7 times to 3.26 times.

Interest Cover
3.26 Times

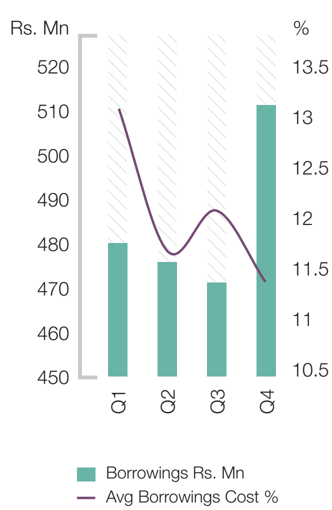
Current Ratio
1.28 Times

Debt to Equity Ratio
51.8%

Operating Profit - 2009-2013



Borrowings & Cost of Funds



FINANCE COST

With the easing of money market rates –AWPLR from 14.3 percent in January to 9.7 percent in December, Group finance cost declined to Rs. 80.5 million from Rs. 111.4 million, representing a 27.7 percent drop vis-à-vis the year 2012. The TTE PLC finance cost reduced by Rs. 31.3 million and the hydro sector increased by Rs. 0.4 million. A reduction in borrowing levels and treasury management to optimise market rates also contributed to the savings in the year. The average cost of funds in the Company reduced from 14.01 percent to11.4 percent at the end of the year.

MONETARY POLICY/ INTEREST RATES

The growth momentum in the economy was supported by conducive interest rates. Whilst Central Bank of Sri Lanka began to reduce policy interest rates in December 2012, followed by another 50 basis point rate cut in April 2013, market interest rates stayed elevated till mid-2013. Subsequently, market lending rates declined through the rest of the year as demand for credit in the economy was sluggish and gold backed lending declined, creating high liquidity in the banking sector. Furthermore, performance of key state owned enterprises also improved in 2013, resulting in less utilisation of bank credit and adding to bank liquidity. By year-end, the weighted average prime lending rate (AWPLR) had declined to 9.7 percent from a peak of 14.4 percent. During this period, the Central Bank had reduced the statutory reserve requirement by 200 basis points in July and further reduced policy interest rates by another 50 basis points in October. Treasury Bill rates dropped to 25 month low of 7.54 percent in December 2013.

SOLVENCY CERTIFICATE FROM AUDITORS


ADBT/CSW/SJJC

Report of the Auditors to the Board of Directors of Talawakelle Tea Estates PLC

We have audited the accompanying Statement of Solvency as at 31 December 2013 prepared by the Board of Directors for the purpose of distribution as required by Section 56(2) of the Companies Act No 07 of 2007, which has been derived from the Audited Financial Statements of the Company for the year ended 31 December 2013.

The Board of Directors is responsible to take into account such matters under Section 57 of Act. Our responsibility is to provide a report at its request, on the application of Section 57 of the Act by the Board of Directors. The accompanying Statement is the responsibility of the Board of Directors.

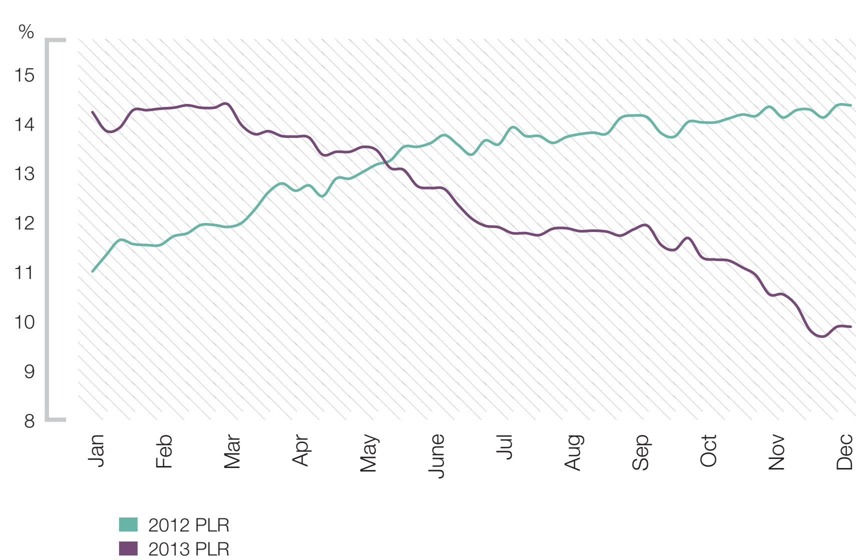
We conducted our audit in accordance with Sri Lanka Auditing Standards. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatements. Our audit includes examining, on a test basis, evidence supporting the amounts, disclosures in the Statement, and inquiring of management as to whether subsequent events have occurred up to 17 February 2014, which might affect the value of the company's assets and liabilities as at 31 December 2013. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statement. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying Statement presents fairly in all material respects the status of Solvency of the Company, in accordance with Section 57 of the Companies Act No. 07 of 2007, as at 31 December 2013.

Colombo
17 February 2014

Section 56 of the Companies Act No.07 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 the payment of the final dividend Rs. 3.00 per ordinary share. As per the requirement of the above Act, the Company's auditors have certified that the Company has the ability to pay its dues in the normal course of business and that the value of the assets is greater than the value of its liabilities and the Company's stated capital.

2012 - 13 AWPLR Monthly Movement



MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

TAXATION

The Company tax for the year increased by Rs. 16.6 million to Rs. 40.6 million due to an increase in deferred tax charge. The hydro sector is still enjoying the tax holiday period.

OTHER COMPREHENSIVE INCOME

In compliance with the Sri Lanka Financial Reporting Standards, actuarial gain arising from the valuation of the defined benefit planed cost was Rs. 34.2 million and the related tax component on timing difference was Rs. 5.4 million as against Rs. 8.7 million and Rs. 1.3 million respectively in 2012.

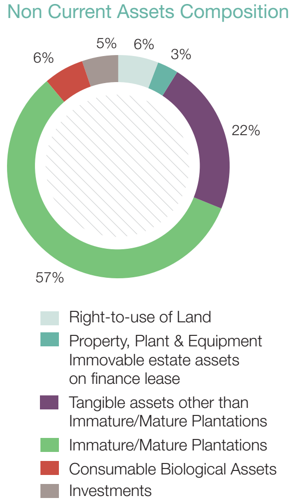
NON CURRENT ASSETS

The total non current assets year end was Rs. 2.9 Bn and has increased by Rs. 56 Mn from previous year. Capital expenditure for the year was Rs. 126 Mn.

Immature/mature plantations represents Rs. 1.7 Bn.

Balance Sheet Composition

Non Current Assets Composition



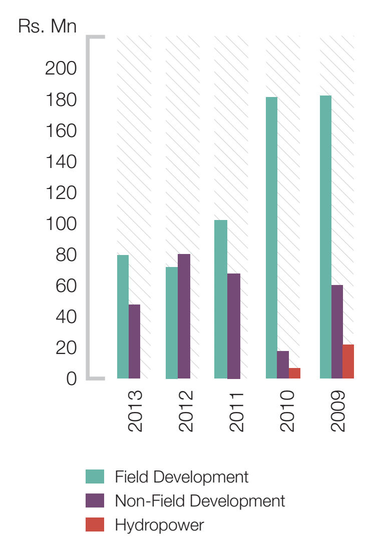
CAPITAL EXPENDITURE

Capital expenditure of Rs. 126.9 million was financed by internal earnings.

The group investment of Rs. 126.9 million was accounted for by TTE PLC and the hydropower sector investment was nil.

With consolidation of investment over the recent years, the capital expenditure was lower to the previous year by Rs. 24.4.million. The investments in field development were Rs. 79.2 million while property plant and equipment was Rs. 47.7million.

Capital Expenditure - 2009-2013



INVESTMENT IN SUBSIDIARIES

During the year, the Company did not invest in the hydropower sector. The total investment now in the hydropower sector is Rs. 134.9 million in equity and preference shares.

CAPITAL STRUCTURE

Company debt equity cover on a downward trend; improves from 79.6 percent in 2011 ,54.2 percent in 2012 to 48.9 percent in 2013.

DEBT EQUITY RATIOS AS AT 31.12	2013	2012	2011	2010	2009
TTEPLC	48.9	54.3	79.6	58.1	98.6
Group	51.8	60.0	86.7	70.0	118.0

EQUITY Rs. Mn	2013	2012	2011	2010	2009
TTE PLC	1470.9	1343.0	1128.6	1161.5	1026.4
Group	1651.2	1492.3	1260.4	1280.9	1065.2

The Company's capital employed at the year-end was Rs. 2,190.3 million. The contribution from equity and debt capital was Rs. 1,470.9 million and Rs. 719.4 million respectively. The increase in capital employed by Rs. 117.3 million in the year was mainly funded by equity, thereby strengthening the debt equity cover from 54.2 percent to 48.9 percent.

The Group level debt equity was 51.8 percent, a decrease from 60.0 percent last year, due to a lower level of debt at TTE PLC. Group total debt was Rs. 855.6 million compared to Rs. 895.9 million in the previous year and the current ratio was 1.28 times and net current assets Rs. 176.9 million.

DEBT

The Company's bank borrowings declined in the year from Rs. 557.4 million to Rs. 529.7 million - improving the financial leverage risk indicators in the capital structure for the second consecutive year. The long term borrowing levels reduced from Rs. 471.0 million to Rs. 426.6 million, with a marginal increase in short term borrowings. The share of debt capital in capital employed was 32.8 percent, a reduction from 35.2 percent in the previous year.

WORKING CAPITAL

Rs. Mn	2013	2012	2011	2010	2009
Working Capital	163.6	76.6	85.3	121.1	232.79

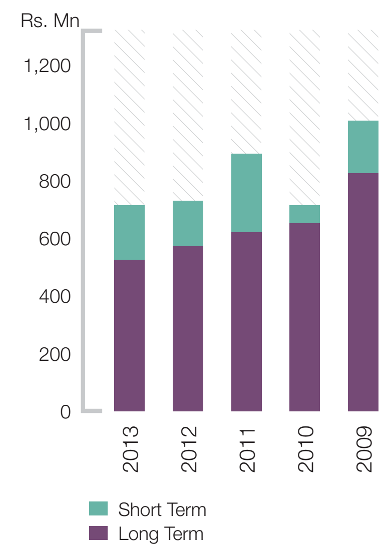
The investment in working capital in the year was Rs. 163.6 million, an increase of Rs. 87.0 million over the previous year. The increase in current assets was 29 percent from Rs. 578.1 million in the previous year to Rs. 744.8 million. However, current liabilities increased by a marginal 15.8 percent from Rs. 501.5 million to Rs. 581.2 million. The increase in current assets was mainly due to an increase in inventory and trade and other receivables by Rs.162.8 million. TTE PLC's current ratio improved from 1.15 times in the previous year to 1.28 times.

EQUITY

Shareholder funds at the end of the year were Rs. 1,470.9 million, an increase from Rs. 1,343.0 million in 2012. Consequently, share of equity at year-end was 67.2 percent of total capital employed compared to 64.8 percent in 2012. During the year, retained earnings increased by Rs. 114.7million and timber reserves by Rs. 13.1 million.

Financial position improved as at the year-end with an increase in shareholder funds by Rs. 127.9 million and a decline in borrowings by Rs. 27.6 million.

Short Term and Long Term Debt – TTE PLC



Liquidity risk indicators; TTE PLC interest cover improved from 3.04 times to 3.33 times in 2013; current asset ratio was 1.28 times, and debt equity reduced from 54.2 percent to 48.9 percent in 2013.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

CASH FLOW

Free cash flows for the second consecutive year was positive at Rs. 105.0 Mn and net cash from operations decreased by Rs. 81.3 Mn to Rs. 231.9 Mn representing 119.7 percent of profit before tax.

The Company's net cash from operating activities at Rs. 231.9 million was a decline from the previous year's Rs. 313.2 million. An increase in working capital by Rs. 121.0 million despite a satisfactory contribution from operating profits contributed to the lower the net cash flow in the year.

Cash outflows on investment activities absorbed Rs. 126.4 million lower by Rs. 5.2 million to the previous year. The investments were in field development of Rs. 79.2 million and purchase of property, plant & equipment of Rs. 47.7 million.

The free cash flow was a positive of Rs. 105.0 Mn in the year. This represents the surplus from operating cash flow after meeting funding of investment activities. A positive free cash flow contributed to a healthy financial position, as investment activities were internally financed than from borrowings.

The cash outflow on financing activities amounted to Rs. 127.4 million, an increase from Rs. 36.9 million in the previous year. A dividend payment of Rs. 59.3 million in respect of 2012 and higher long- term loan repayments of Rs. 78.0 million increased the outflows in the year. The net decrease in cash and cash equivalents in the year was Rs. 10.5 million compared to a surplus of Rs. 146.6 million in the previous year. The year-end cash and cash equivalents was a deficit at Rs. 84.4 million to Rs. 73.8 million in 2012.

The debt service of term loans now absorbs Rs. 78.0 million, of cash flow compared to Rs. 31.3 million in the previous year. With the expiry of the grace period of the tem loans received under the ADB Credit Line, capital repayments of all loans are now payable as compared to the previous years. Refer note 22 to the Financial Statements on page 213.

OPERATING CASH FLOW - Rs. Mn	2013	2012	2011	2010	2009
TTE PLC	243.4	315.2	69.1	415.3	260.3
Group	301.0	336.1	108.7	321.8	315.9

The group net cash flow from operations in the year was Rs. 301.0 million, a decrease of Rs. 35.1million over the year. The hydro sector cash flow from operations increased by Rs. 36.7 million from the previous year to Rs. 69.1 million. The group recorded a net decline in borrowings of Rs. 58.4 million.

STABILITY

Return on Equity (ROE)

The group's return on equity was satisfactory with a positive 13.5 percent, a consistent performance from the previous year 16.4 percent.

GROUP	2013	2012	2011	2010	2009
ROE (%)	13.5	16.4	(4.5)	12.7	(-2.2)
Profit Attributable to Equity Holders Rs. Mn	202.3	223.3	-51.4	147.4	-22.3

PERFORMANCE MEASUREMENT

Dividends

A final dividend of Rs. 3.00 per share is proposed for the year amounting to Rs. 71.25 million on profit after tax of Rs. 158.4 million.

Earnings Per Share

The Group net profit before tax of Rs. 236.7 million contributed to positive earnings per share of Rs. 7.31 from Rs. 9.09 in the previous year.

TTE PLC	2013	2012	2011	2010	2009
Earnings Per Share (Rs.)	7.31	9.09	-2.17	6.21	-0.94
PE Ratio (times)	3.28	3.85	-13.72	7.74	-26.86

PERFORMANCE OF THE SHARE

There was no change in the Company's closing share price compared to 2012 at Rs. 24.00. The price was influenced by the overall market sentiments as All Share Price Index from 5,683.8 points to 5,912.8 points. The Plantation Index also from 827.7 to 727.0 points.

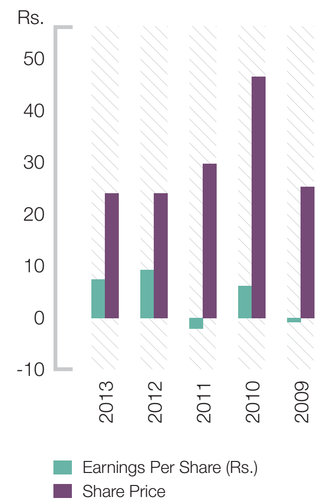
During the year, the Share price reached a peak of Rs. 29.00 and a low of Rs. 16.30. The year-end price earnings ratio was 3.28 times vs. 3.85 in 2012. At year-end, the market value per share was Rs. 24.00 representing a market capitalisation of Rs. 570.0 million. The net asset per share increased from Rs. 57.06 to Rs. 63.08.

MARKET VALUE ADDED

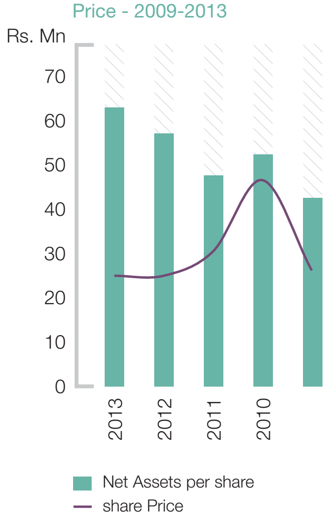
The above represents a measurement of value creation by a company. Market value added is the difference between the current market value of the firm and the capital contributed by the investors. As at year end 2013 and 2012 there was no change in the market value addition of Rs. 220.0 million while economic value addition Rs. 34.6 million as discussed in detail under the Company's Contribution to the National Economy was Rs. 2.4 Bn.

Market Value Addition
Rs. 220 Mn

Earnings Per Share & Share Price - 2009-2013



Net Assets Per Share & Share Price - 2009-2013



FINANCIAL REPORTING

The Company is committed to adopt best practices for financial reporting and accounting practices. The financial reports on pages 178 to 225 are prepared as per Sri Lanka Financial Reporting Standards and every attempt is made to give the readers a clear and comprehensive understanding of them. We ensure timely delivery of quarterly and annual financial statements and its preparation as per accounting standards including compliance with the Colombo Stock Exchange disclosure requirements.

OUR ACHIEVEMENTS

The Annual Report of TTE PLC for the financial year 2012 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 and the Silver Award at the League of America Annual Report Awards.

FINANCIAL RISK MANAGEMENT

The overall risk management strategy of the Company has identified financial risk management as a critical risk. Accordingly, the main risk elements identified are; interest rate, credit & liquidity risk and commodity prices. The impact of exchange risk is indirect as it impacts the prices at the Tea Auctions. The most significant is liquidity risk; fluctuations in revenue, high operating break-even level and long gestation period on capital expenditure. The Risk Management section in this report details the mitigating measures in place.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

GROUP INCOME STATEMENT (RS. MN)	3 MONTHS ENDED 31.03.2013	6 MONTHS ENDED 30.06.2013	9 MONTHS ENDED 30.09.2013	12 MONTHS ENDED 31.12.2013	12 MONTHS ENDED 31.03.2012
Revenue	984.51	1,903.67	2,723.52	3,646.84	3,318.14
Cost of Sales	(809.85)	(1,683.35)	(2,427.06)	(3,225.01)	(2,886.23)
Gross Profit	174.66	220.32	296.46	421.83	431.91
Gain on Fair Value of Biological Assets				13.12	22.47
Other income and gain	1.12	13.25	30.52	39.27	43.17
Administrative Expenses	(32.29)	(63.82)	(95.72)	(109.05)	(96.06)
Management Fee	(9.32)	(11.78)	(15.65)	(26.73)	(27.25)
Government Lease Interest	(6.08)	(12.06)	(18.13)	(23.24)	(22.78)
Finance Cost	(21.17)	(40.84)	(60.70)	(78.41)	(111.46)
Profit/(Loss) before taxation	106.92	105.07	136.78	236.79	239.97

Annual Report Award 2012 - Winning Team

ENVIRONMENT MANAGEMENT

Our Environmental Policy reinforces our commitment 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 environs.

Many innovative and sustainable programmes implemented towards achieving this goal are endorsed by the Rainforest Alliance Sustainable Agriculture Certification, Ethical Tea Partnership and UTZ Certifications.

We commenced measuring and monitoring the carbon footprint on each estate since 2012 with the objective of benchmarking and achieving reductions annually.

Environment strategies and programmes implemented not only contribute towards sustaining the environment but also sustains all our operational activities as well.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

OVERVIEW

At TTE PLC, we are fully conscious of the necessity to utilise our resources effectively whilst managing the operational impacts and minimising our footprint on the environment. The Environmental Policy we have adopted sets out our commitment 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 environs. All employees and the community have been educated on the Environmental Policy - its contents and intentions for effective implementation and compliance.

Aligned to our Environmental Policy and through the Rainforest Alliance Sustainable Agriculture Certification Programme, all environmental aspects within our estates are closely monitored and managed. Having recognised the need for greater emphasis towards environmental management and sustainability, the Company has recruited a designated professional to spearhead forestry and sustainability initiatives on the estates.

The Company invested a sum of over Rs.49.5 million during the year to carry out the following initiatives and measures adopted to protect the environment:

- Soil management and conservation
- Protection of water sources and water conservation
- Planting of agro forestry and native tree species
- Construction of 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
- Establishing fuelwood fields
- Training and educational programmes and erecting of sign boards
- Establishment of Rainforest Information and Education Centers (RIEC)
- Rainforest Alliance – Sustainable Agriculture programme certification

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 wellbeing 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 **optimising resource utilisation** and **minimising waste** through practicing **cleaner production principles**.

- **Education** and **awareness** will be promoted at all levels in a manner designed to increase the level of awareness of all aspects of the environment and its relevance, importance, care and management.

- We are committed to comply with applicable **environmental laws and regulations** at all times

- The state of the environment will be continually assessed and environmental management strategies, systems and objectives will be **periodically reviewed and upgraded** to achieve **continual improvements**.

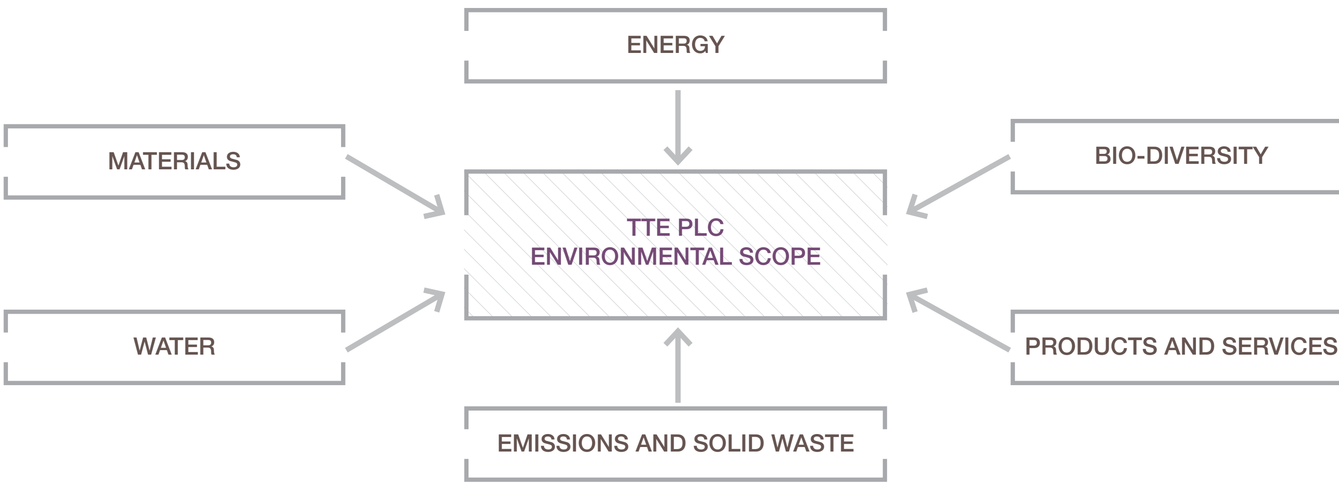
SWOT ANALYSIS OF ENVIRONMENT

STRENGTHS	WEAKNESSES
- Commitment to reduce the carbon footprint - Effective Environment Policy adopted - Rainforest Alliance – Sustainable Agriculture Certification programme - Rich biodiversity and ecosystems - Three hydro power plants - Implementation of cleaner production technologies and sustainable agriculture practices - Dedicated officer to spearhead forestry and sustainability - Strong and motivated team to carry out sustainable initiatives	- Water and land pollution due to organic fertiliser and agrochemical applications in estates - Excessive generation of solid waste by the estate community
OPPORTUNITIES	**THREATS**
- Availability of land for promoting sustainable environmental initiatives - Availability of lakes, ponds, wetlands with swamps and marshes for effective rain water harvesting and promoting wildlife - Availability of water streams for hydropower generation - Greater demand for green & ethical products - Awareness building among employees, communities & suppliers - Recycling of solid waste - Production of organic fertiliser	- Climate change affecting availability of water - Soil erosion, landslides and land degradation due to extreme weather conditions - Greater demand for water by the expanding community.

ENVIRONMENT STRATEGIC FOCUS

- Sustainable agriculture practices & certification
- Protect water sources and conservation
- Protect biodiversity
- Efficient use of materials
- Reduce green-house gas emissions to lessen the corporate carbon footprint
- Energy conservation
- Intergrated solid waste management
- Responsible products and services

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*



MATERIAL CONSUMPTION	UNIT	QUANTITY	
		2013	2012
Raw Materials			
Estate Leaf	Kilograms	26,580,864	26,664,226
Bought Leaf	Kilograms	6,287,002	7,932,138
Total Green Leaf	Kilograms	32,867,866	34,596,364
Associated Process Materials			
Fuel			
• Diesel	Litres	216,201	235,330
• Petrol	Litres	98,571	83,705
• Oil	Litres	3,447	2,968
Firewood	Cubic Metres	38,858	39,556
Briquettes	Kilograms	367,420	228,545
Fertilizer	Metric Tons	3,441	3,690
Dolomite	Metric Tons	1,005	1,207
Agrochemicals	Litres	14,385	11,505
Packing Materials			
Paper Bags	Number	171,325	163,944

MATERIALS

Being a producer of black and green tea for export, the primary materials consumed broadly fall under three categories, raw materials - green leaf, processing and packing materials. Our consumption during the year under review, as set out in the table below, has declined in terms of green leaf but represents a marginal increase in some of the processing and packing materials as compared to the prior year patterns.

RECOGNITION FOR ENERGY MANAGEMENT INITIATIVES

TTEPLC received a National Award for "Forestry Management, Environmental Friendliness and Self Sufficiency in Energy" at the First National Plantation Awards (2012) held by the Ministry of Plantation Industries.

ENERGY

Energy Consumption

The Company is fully aware of the significance of adopting sustainable energy sources and thereby, reducing the dependence on fossil fuels. Some of the key measures adopted and initiated to reduce the direct and indirect energy consumption in daily operations are set out below:

- Operating all tea driers on renewable energy
- Investing on energy efficient machinery & equipment
- Installation of energy efficient capacity banks, lighting and VSDs in all factories
- Educational and awareness programmes on energy conservation under the Rainforest Alliance – Sustainable Agriculture Certification Programme targeting the employees, resident communities, suppliers and service providers

DIRECT ENERGY CONSUMPTION BY PRIMARY ENERGY SOURCE

ENERGY SOURCE/ AREA OF OPERATION	UNIT	QUANTITY	
		2013	2012
Firewood	Cubic Metres	38,858	39,556
Briquettes	Kilograms	367,420	228,545
Diesel			
• Power generators	Litres	21,601	37,878
• Estate transport	Litres	164,129	157,278
• Estate supervisory vehicles, ambulances	Litres	23,014	29,563
• Head Office vehicles	Litres	7,457	10,611
Total Diesel	Litres	216,201	235,330
Gasoline			
• Estate supervisory vehicles, motorcycles, ambulances	Litres	67,414	55,683
• Agriculture equipment and machinery	Litres	14,736	8,451
• Head Office vehicles	Litres	16,421	19,571
Total Gasoline	Litres	98,571	83,705
Oil			
• Estate Supervisory vehicles, motorcycles, ambulances	Litres	1,879	1,636
• Agriculture equipment and machinery	Litres	616	297
• Factory machinery	Litres	632	715
• Head Office vehicles	Litres	320	320
Total Oil		3,447	2,968

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

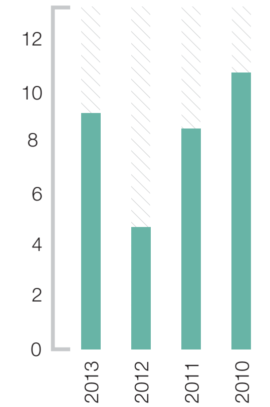
INDIRECT ENERGY CONSUMPTION BY PRIMARY SOURCE

ENERGY SOURCE/ AREA OF OPERATION	QUANTITY (KWh)	
	2013	2012
High Grown manufacture	4,461,411	4,340,565
Low Grown manufacture	1,802,865	1,918,304
Bungalows, quarters, offices and other estate buildings	681,642	674,920
Head Office	78,103	65,187
Total	7,024,021	6,998,976

RENEWABLE ENERGY PRODUCTION BY PRIMARY SOURCE

Hydro Power Generated
2013
9.08 Mn KWh

Fuelwood Planting
2007 – 2013
343.49 Hectares



HYDRO POWER ENERGY

The Company has generated 9,083,773 KWhs of electricity during the year from the three mini-hydro power plants which we have supplied to the National grid to support national production. This represents a significant increase of over 90 percent compared to the amount generated in 2012 given the relatively higher rainfall experienced in the year. Power generated through our hydro power units have exceeded the power utilised from the National grid for our operations by 2,059,752 KWhs.

The units of electricity generated by the Mini Hydro Plants at Radella, Palmerston and Somerset during the period 2010-2013 are detailed out below;

HYDRO POWER GENERATIONS

HYDRO POWER PROJECTS	2013 (KWh)	2012 (KWh)	2011 (KWh)	2010 (KWh)
Somerset	4,259,219	2,334,902	4,347,782	5,204,647
Palmerston	3,767,099	1,859,451	3,317,906	4,607,860
Radella	1,057,455	483,976	825,266	881,907
Total	9,083,773	4,678,329	8,490,954	10,694,414

FUELWOOD

Planting fuelwood is a continuous process under our sustainability initiatives. An extent of 11.54 hectares consisting of 23,400 of eucalyptus species were planted in 2013. The table given below indicates the extent of fuel wood planted by the Company since 2007.

FUELWOOD PLANTED FROM 2007

REGION	2007 – 2013 (ha)
Low Grown	68.52
High Grown	274.97
Total	343.49

Well Grown Fuelwood Block - Palmerston Estate

Hydro Power Generation - Palmerston Estate

WATER

"We must not allow even one drop of water that falls from the sky to flow to the sea without utilizing it"
King Parakramabahu – Polonnaruwa era

Protecting Water Sources

Rain Water Harvesting

Chemical Free Buffer Zones

Periodic Quality Checks on Drinking Water Sources

Waste Water Purification Systems

Awareness Programmes on Water Conservation

Water is essential for the sustenance of mankind and biodiversity. Water scarcity experienced in many parts of the world with adverse implications on food security is a serious cause of concern. Being a plantation company, we are fully conscious and strive to address water scarcity in Sri Lanka - more pronounced in present day climatic changes and their impact on agriculture and biodiversity.

The 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. All estates have commenced measurement of water withdrawn from all sources and we intend to report the exact quantities from next financial 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 has been implemented. Our water sources are well protected with live / mechanical fences and tree species such as Albizzia, Calliandra, Gliricidia, Bamboo, 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 water sources and water bodies to prevent any contamination due to agricultural operations.

Water quality in 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.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

ESTATES – WATER CONSERVATION INITIATIVES

Rainwater Harvesting – Radella Estate

Water Distribution Map - Somerset Estate

Protected Water Source on Kiruwanaganga Estate

Protected Water Source on Kiruwanaganga Estate

Protected Water Source on Wattegoda Estate

BIODIVERSITY

The Company's Environmental Policy has clearly demonstrated our strong commitment towards protecting biodiversity and water sources through a well-managed conservation programme.

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 wetland store rain water and provide much needed seepage water essential to maintain the ground water table and also the splendour of the ecosystems.

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 identified on maps and 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 the species available within estates. The studies revealed that habitats within estates provide unique niches and support maintenance of natural diversity of estates.

Aquatic Ecosystems with lakes add splendour to the ecosystems – Holyrood & Wattegoda Estates

Well protected road banks on Clarendon and Kiruwanaganga Estates

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

FAUNA SPECIES WITHIN ESTATES - IUCN RED DATA LIST - 2007

CONSERVATION STATUS	NUMBER OF SPECIES
Globally Threatened	01
Critically Endangered & Endangered	14
Threatened	12
Vulnerable	10
Near Threatened	24

SOME SELECTED ENDANGERED, THREATENED AND VULNERABLE FAUNA SPECIES IDENTIFIED

ESTATES	TAXONOMIC GROUP	COMMON AND SCIENTIFIC NAME	CONSERVATION STATUS
Mattakelle	Birds	Kashmir Flycatcher (Ficedula subrubra)	Globally Threatened
	Birds	Pied Bush Chat (Saxicola caprata)	Endangered
Mattakelle & Somerset	Butterflies	Gaudy Baron (Euthalia lubentina) Tamil Bush Brown (Mycalesis visala subdita)	Endangered
	Butterflies	Ceylon Tiger (Parantica taprobana), Dark Palmdart (Telicota ancilla)	Vulnerable
Somerset	Amphibians	Karunaratne’s Narrow Mouth Frog (Microhyla karunaratnei)	Critically Endangered
	Amphibians	Horton Plains Shrub Frog (Pseudophilautus alto) Dull-Green Shrub Frog (Pseudophilautus viridis) Small Eared Shrub Frog (Pseudophilautus microtympanum)	Endangered & Endemic
Wattegoda	Butterflies	Paint Brush Swift (Boaris penicillata)	Critically Endangered
Indola	Reptiles	Rough Horn Lizard (Ceratophora aspera)	Endemic & Endangered
Calsay	Mammals	Golden Palm Civet (Paradoxurus)	Vulnerable
Kiruwanaganga	Land Mollusks	Ratnadvipia karuii	Critically Endangered
	Dragonflies	Wijaya’s Scissortail (Microgomphus wijaya) Yerbury’s Elf (Tetrathemyis yerburyii)	Endangered
	Amphibians	Sharp-Snouted Shrub Frog (Pseudophilautus cuspis) Leaf Dwelling Shrub Frog (Pseudophilautus folicola)	Endangered
	Amphibians	Golden Frog (Hylarana aurantianca)	Vulnerable
	Birds	Sri Lanka White – Throated Flowerpecker (Dicaeum vincens)	Threatened & Vulnerable
	Mammals	Purple – faced Leaf Monkey (Semnopithecus vetulus)	Threatened & Vulnerable
	Mammals	Giant Squirrel (Ratufa macroura) Dusky Squirrel (Funambulus sublineatus)	Threatened & Vulnerable

Estate management, together with the participation of the estate communities continue to protect the habitats created for wildlife conservation namely home gardens, seasonal and perennial streams, small scale reservoirs and ponds, wetland, secondary forests and tea fields. These areas have been continually expanded to enhance conservation measures.

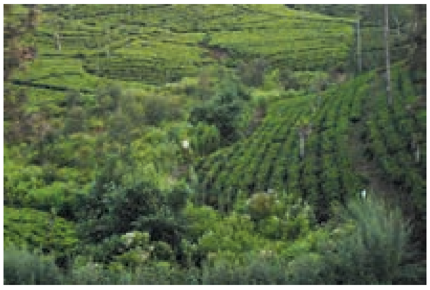
The biodiversity surveys carried out within our estates revealed that there are over 220 faunal species, both vertebrates and invertebrates - mammals, birds, butterflies, dragonflies, amphibians, reptiles, fish, crabs and land mollusks living within our estates. Our estates are also habitats to over 65 species that are categorised as endangered, threatened and vulnerable 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 (Mycalesis 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 and vulnerable Golden Palm Civets (Paradoxurus) was recorded on Calsay.

The survey carried out on Kiruwanaganga estate documented the existence of critically endangered land mollusk species, namely Ratnadvipia karuii which according to the survey report, found abundantly at the estate. It is heartening and encouraging to observe that report further affirmed 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 (Tetrathemyis yerburyii) are endangered species according to the 2007 Red List and none of their presence has been recorded previously within the Galle district. It is also most interesting to learn that amphibian species Sharp-Snouted Shrub Frog (Pseudophilautus cuspis) and Leaf Dwelling Shrub Frog (Pseudophilautus folicola) which were recorded from Kiruwanaganga estate are currently considered as endangered species and Golden Frog (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.

The follow up biodiversity survey conducted on Mattakelle by the "Friends of Horton Plains" which commenced in October 2012, was completed in April 2013. This survey revealed that the diversity of invertebrates and vertebrates in Mattakelle has increased significantly than the previous biodiversity survey conducted in 2010. The wetlands and seasonal streams of the estate protected the amphibians and birds species. Report also confirms that the ponds constructed for waste water purification have created habitats important for aquatic life such as dragonflies, fresh water fishes and amphibians. During this survey, a number of observations were made on the threatened, endangered and rare species attesting the importance of the ecosystem and the effectiveness of the biodiversity conservation measures implemented on Mattakelle.



Wildlife habitats established between tea fields Bearwell Estate

Protected marshy land and wildlife habitat -Bearwell Estate

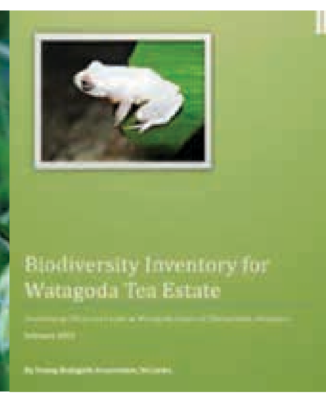
MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

Paintbrush Swift (Baoris penicillata)
Critically endangered (CR) species
Wattegoda Estate

Tamil Treebrown (Lethe drypetis)
Endangered (EN) species
Wattegoda Estate

Asian Highland Shrew (Suncus montanus)
Endangered (EN) species
Wattegoda Estate

Tawny-bellied Babbler (Dumetia hyperythra)
Near threatened (NT) species
Wattegoda Estate



Yellow fronted barbet (Megalaima flavifrons) Near threatened (NT) species
Calsay Estate

Horton Plains shrub frog (Pseudophilautus alto)
Endangered (EN) species
Calsay Estate

Dull-green shrub frog (Pseudophilautus viridis)
Endangered (EN) species
Calsay Estate

Golden Palm Civet (Paradoxurus)
Vulnerable (VU) species
Calsay Estate

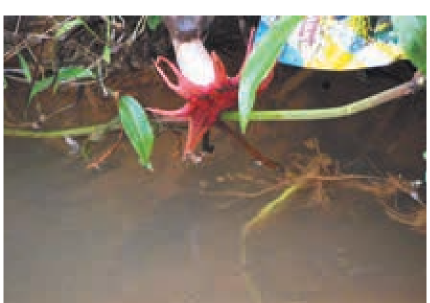
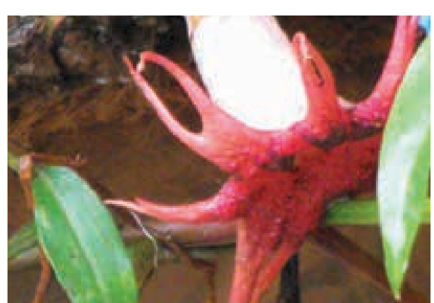
FLORA OF TALAWAKELLE ESTATES

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 Albizzia species. Tea fields are also entwined with species such as Bambusa vulgaris, Cassia spectabilis, Toona ciliate etc. Vetiveria zizanoides 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.

Among many diverse species of flora amounting to **169 species including 27 endemic species**, identification of a protected and endemic plant namely Oncosperma fasciculatum on Wattegoda, estate is noteworthy. Two critically endangered floral species namely Diyapara (Dillenia triquetra) and Ruk (Horsfieldia iryaghedhi) 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.



Protected forests on Wattegoda and Kiruwanaganga Estates

Rare aquatic flower found in a water channel on Dessford Estate

Flora on Calsay Estate – Oenothera Odorata

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

TREE PLANTING PROGRAMME

With the objective of consistently enriching the biodiversity value and wildlife habitats, we continue to plant a variety of native, fruit and other plant species annually. Adding on to this initiative, with the participation of the Additional District Secretary of Nuwara Eliya and the Estate Management, "Dayata Sevana" a tree planting programme was launched on Radella estate on 11th November 2013.

Following plant species were planted on estates during the year.

PLANT SPECIES	NUMBER OF PLANTS
Camellia sinensis	560,870
Hevea brasiliensis	4,848
Eucalyptus	31,040
Grevillea robusta	5,550
Calliandra calothyrsus	5,890
Erythrina lithosperma	11,348
Bambusa vulgaris	777
Toona ciliate	1,000
Fruits, native and other plant species	11,100
Total	632,423

Launching of "Dayata Sevana" - Tree Planting Programme – Radella Estate

EMISSIONS, EFFLUENTS AND SOLID WASTE

2013
GHG Emissions
5,696 tCO_2e

2013
GHG Emissions
0.72 tCO_2e per Ton of
Made Tea

2013 GHG Emissions
saved due to Hydropower
generated
6,177 tCO_2e

Waste Water Purification
Systems
on All Estates

Bio Degradable
Solid Waste Used
to Produce
Compost

2013
Solid Waste Recycled
6,794 Kilograms
58% Increase Over 2012

DIRECT GHG EMISSIONS

	2013		2012	
	Diesel (Litres)	Petrol (Litres)	Diesel (Litres)	Petrol (Litres)
Fuel used to operate generators	21,601	-	37,878	-
Fuel used by estate internal transport vehicles	164,129	-	157,278	-
Fuel used by estate supervisory vehicles – Jeeps, cars, motorcycles, ambulances etc.	23,014	67,414	29,563	55,683
Fuel used for agricultural equipment	-	14,736	-	8,451
Fuel used by the head office	7,457	16,421	10,611	19,571
Total	216,201	98,571	235,330	83,705

INDIRECT GHG EMISSIONS

GHG EMISSIONS	UNITS – KWhs	
	2013	2012
Purchased electricity for operations	6,264,276	6,258,869
Purchased electricity for estate Bungalows, buildings and head office	759,745	740,107
Total	7,024,021	6,998,976

GHG EMISSIONS

Aligned to our Environment Policy, we are steadfast in our efforts to reduce our carbon footprint and thereby support to slow the pace of global warming. Towards this end, we commenced in the preceding year to compute our direct and indirect greenhouse gas (GHG) emissions. In 2013, emissions were 5,696 tCO_2e which corresponds to 0.72 tCO_2e per ton of made tea reflecting an increase of 0.03 tCO_2e per ton of made tea when compared with 2012. This marginal increase had been due to the slightly higher amount of petrol used for operating agricultural machinery, supervisory vehicles and ambulances.

Hot Water Generator - Somerset Estate

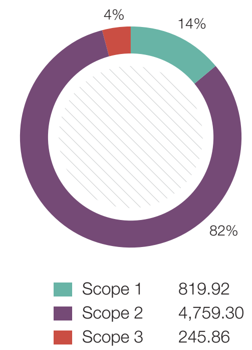
MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

The following table indicates the breakdown of GHG emissions by source for 2013

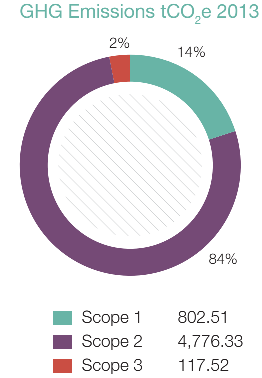
GHG EMISSION SOURCE	UNITS	QUANTITY	GHG EMISSION tCO_2e
Scope 1 - Combustion of fuels in stationary sources			
Diesel for power generators	litre	21,601	57.80
Scope 1 - Combustion of fuels in mobile sources			
Diesel for vehicles	litre	194,600	520.75
Petrol for vehicles	litre	83,835	190.47
Petrol for agricultural equipment	litre	14,736	33.48
Scope 2 - Purchased electricity			
Electricity purchased from CEB	KWh	7,024,021	4,776.33
Scope 3			
International air travel	km	26,748	3.12
Diesel used by outsourced transporters	litre	42,750	114.40
Total tCO_2e			**5,696.36**

GHG EMISSIONS BY SOURCE tCO_2e		
	2013	2012
Scope 1	802.51	819.92
Scope 2	4,776.33	4,759.30
Scope 3	117.52	245.86

GHG Emissions tCO_2e 2012



GHG Emissions tCO_2e 2013



Total GHG emissions in all operational areas amounted to 5,696.36 tCO_2e. The Company generated 9,083,773 KWh of electricity through the three hydropower plants during the year, which is an equivalent of a saving of 6,176.97 tCO_2e. This saving has not only neutralised the 5,696.36 tCO_2e, emitted through our operations but also procured a saving of 480.61 tCO_2e.

Fuel and electricity usage in all estates, factories, offices, buildings, bungalows and the head office has been taken into account for the computation. The consumption in all locations is monitored and controlled through our diverse 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 been excluded from the above calculations.

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 tCO_2e 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 minimize its usage.

Emission of ozone depleting substances from our production facilities is non-existent and in domestic equipment almost negligible. NOx or SOx gasses produced through our daily 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 accordance with guidelines prescribed by the Department of Agriculture Engineering, University of Peradeniya. These systems have enabled the factories to treat waste water prior to discharging as well as to purify domestic waste water generated. Periodic quality testing and monitoring is carried out 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, polythene, paper and E-waste are segregated, collected separately and sent for recycling to authorised collectors. The functioning of open waste dumps and burning of waste have been prohibited on all estates.

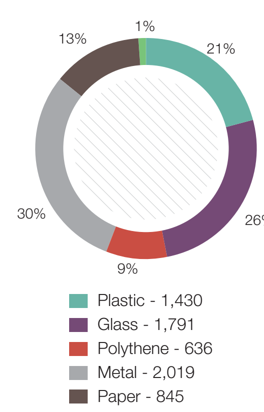
The quantity of solid waste sent for recycling in 2013 amounts to 6,794 kilograms which indicates an increase of 58 percent when compared with the quantity of 4,313 kilograms sent for recycling in 2012. Categories and quantities of solid waste sent for recycling during the year are detailed below:

Bio-filtering of waste water – Wattegoda Estate

Waste water purification systems – Mattakelle Estate

SOLID WASTE CATEGORY	2013	2012
	Quantity Recycled (kgs)	
Plastic	1,430	1,471
Glass	1,791	1,180
Polythene	636	846
Metal	2,019	816
Paper	845	-
E-waste	73	-
Total	6,794	4,313

Solid Waste Recycled by Category of Waste - 2013



Training and awareness programmes on integrated waste management are being carried out regularly to educate all employees and the resident 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.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

Solid Waste Management – Wattegoda Estate

On-site compost production - Kiruwanaganga Estate

Producing compost from biodegradable waste – Great Western & Radella Estates

Waste in our tea production process could be considered zero, as all refuse tea generated at each factory is sent for reprocessing in two separate factories - Wangioya in the high grown elevation and Pethiyagoda in low grown elevation. At the Wangioya factory, the absolute refuse tea is sent to Ceytea factory of Unilever for further extraction and at Pethiyagoda factory, the quantity of refuse tea produced is 186,656 kilogram which is 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. No waste deemed hazardous has been transported, imported, exported or treated. Due to effective preventive and precautionary measures implemented, discharges of water and run off have not affected any habitats and water bodies.

PRODUCTS AND SERVICES

The Company produces only black and green tea which is bio-degradable 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.

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.

COMPLIANCE

No monetary or non-monetary fines or sanctions were imposed on the Company for non-compliance of any environmental clause and regulations. We fully comply with the rules and regulations stipulated by the Central Environment Authority and the relevant legislation.

Ethical Tea Partnership

Sustainable Farm Certification International, Ltda.

certifies that

M/s Talawakelle Tea Estates PLC – Talawakelle Group
Mattakelle, Bearwell, Holyrood, Great Western, Wattegoda and Palmerston
Central Province Sri Lanka

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.

PEOPLE & SOCIAL DEVELOPMENT

At TTE PLC, we firmly believe that the overall quality of the product and the resultant satisfaction of our customers are intertwined with the quality of life we are able to extend to our employees and the job satisfaction they experience.

Nurturing, developing and retaining this valued resource really begins with the Company's established culture of "Treating people at all levels, with dignity and respect". Through facilitative leadership, empowerment, training and other human development strategies we create an environment that enables employees and all levels to be creative, innovative and reach their full potential.

"A Home for Every Plantation Worker" is an integrated sustainable social development programme implemented on all estates to consistently improve the quality of life of the estate community.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

OVERVIEW

As a responsible regional plantation company, we recognise the significance of providing an inclusive platform to nurture and develop our workforce of over 10,000 employees and empower resident communities to better their quality of life. This has always played a critical part in driving sustainable growth and returns which underscores our positioning in the industry. The Human Resource and Social Policy adopted by the Company clearly demonstrates our strategic focus on engaging our employees and the communities in which we operate.

STRENGTHS	WEAKNESSES
Commitment to inclusivity and diversity Worker productivity improvement initiatives Performance management system Focus on skills development and structured training Commitment to provide infrastructure & necessary/required amenities to resident communities Strong community collaborations and interactions Structured initiatives for continual social development	Absenteeism Availability of other employment opportunities Low productivity
OPPORTUNITIES	**THREATS**
Availability of a large human resource base within plantations High collaboration with Plantation Development Trust, non-government organisations and professional bodies for social development programmes	Out-migration of workers from the plantation sector Ageing workforce Influencing power of socio-techno-economic developments on worker attitudes and expectations

STRATEGIC FOCUS 2013

- Ensure availability and retention of manpower with required skills, competencies, and attitudes
- Enhance quality of life and satisfaction / motivational levels of all employees
- Sustain high performance and enabling culture
- Strengthen learning organisation and knowledge management strategies and programmes
- Reinforce performance based remuneration, rewards & recognition
- Reinforce career paths for talented and outstanding employees
- Consolidate the social development programme - "A Home for Every Plantation Worker"
- Consolidate the Rainforest Alliance Sustainable Agriculture Certification Programme and Ethical Tea Partnership (ETP) Programme

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.

PEOPLE

Workforce 10,321	Retention Rate 90.9%	Average Turnover Ratio 9.1%
Training Hours 22,618	Training Investment Rs. 1.5 Mn	Occupational Health & Safety 193 Programmes
Executives & Staff Promoted 45 Employees	New Recruitments 718 Employees	Salaries & Wages Rs. 1,960 Mn

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

LABOUR PRACTICES AND DECENT WORK

At TTE PLC, we firmly believe that the overall quality of the product and the resultant satisfaction of our customers are intertwined with the quality of life we are able to extend to our employees and the job satisfaction they obtain in carrying out their duties. Hence, we are focused in our efforts to create an inclusive work environment with best practices in labour management conducive to nurture employee skills, standards and their quality of life.

EMPLOYMENT

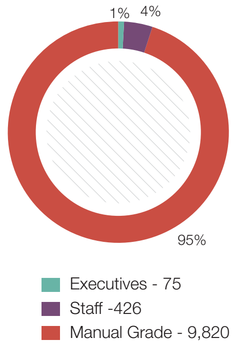
Workforce Analysis

The total workforce as at 31st December 2013 stands at 10,321 employees. Being a plantation company, out of the total workforce, 9,820 employees representing 95 percent of the total are employed under the manual grade category. The majority, nearly 82 percent of the manual grade is employed in the high grown estates. Staff grade category is 4 percent whilst the executive grade is less than 1 percent of the total cadre.

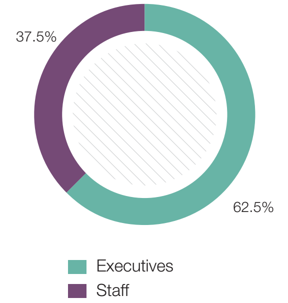
EMPLOYMENT TYPE FOR THE YEAR ENDED 2013	
Type of Employment	**Number of Employees**
Executives	75
Staff	426
Manual Grade	9,820
Total	**10,321**

EMPLOYEES - REGION WISE FOR THE YEAR ENDED 2013			
Region/Grade	**Executive**	**Staff**	**Manual Grade**
High Grown	42	302	8,022
Low Grown	13	112	1,798
Colombo	20	12	-
Total	**75**	**426**	**9,820**

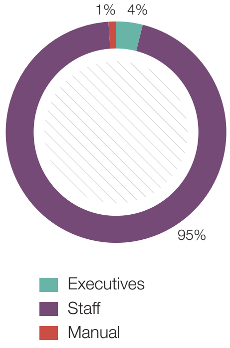
Employment Type For the Year Ended 2013



Employees in Colombo Office



Employees in High Grown & Low Grown Estates



Age Analysis

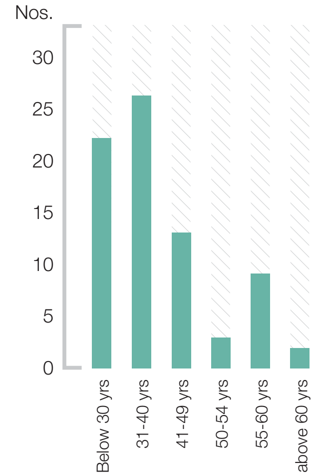
As evidenced by the age analysis, we have a strong workforce with a good combination between the senior employees and the younger generation across the grades, reflecting stability within the organisation. Majority of the staff and manual grade employees are between 31 to 40 age categories .The executive cadre is well represented to bring out the expertise and steadiness of the experienced staff combined with the vitality of the younger executives.

Service Analysis

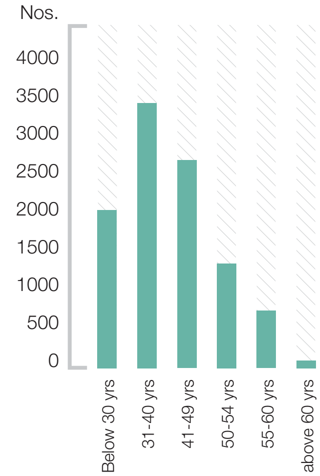
We maintain a healthy service record and as at 31st December 2013, within our estates, a substantial number of employees representing 54.3 percent of the staff and manual grades are between 05 to 14 years. In terms of the executive grade, over 69.3 percent is within this service category.

Employees - Kiruwanaganga Estate

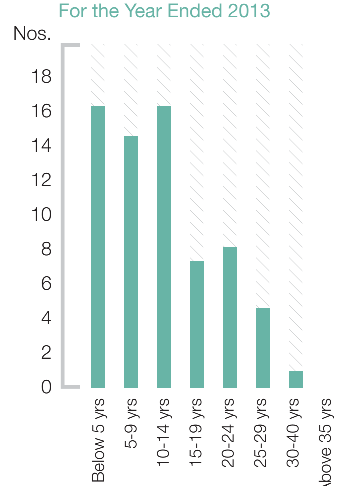
Age Analysis - Executives
For the Year Ended 2013



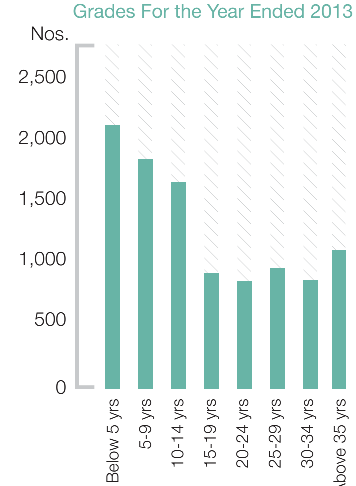
Age Analysis - Staff & Manual
Grades For the Year Ended 2013



Service Analysis of Executives
For the Year Ended 2013



Service Analysis - Staff & Manual
Grades For the Year Ended 2013



MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

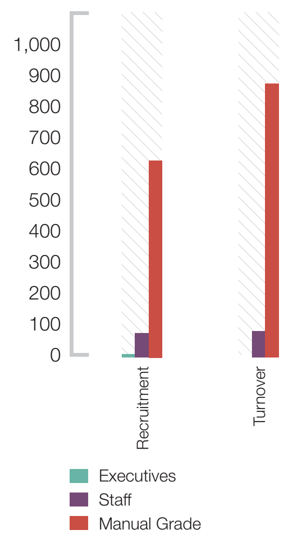
Recruitment, Retention & Turnover

During the year under review, we recruited a total of 718 employees with 88 percent in the manual grades.

Reinforcing the best practices of HR and labour management, the overall retention rate commendably stands at 90.9 percent for the year and the average turnover is 9.1 percent. The turnover of the manual and staff grades for the year corresponds to a ratio of 9.1 percent which is comparable with the industry norms. The turnover ratio for the executive grade is 7.7 percent.

In terms of maternity leave, out of 412 employees who availed this leave entitlement of 84 working days, 410 have returned back to work, corresponding to 99.5 percent.

Recruitment & Turnover
For the Year Ended 2013



RECRUITMENT & TURNOVER FOR THE YEAR ENDED 2013		
Type of Employment	Recruitments	Turnover
Executives	8	6
Staff	77	82
Manual Grade	633	875
Total	718	963

LABOR/MANAGEMENT RELATIONS

Over 98 percent of the workforce is covered by the relevant collective bargaining agreements with trade unions. Special clauses are included in these agreements to ensure transparency and accountability in making significant operational changes and corporate decisions. The clause – 'Labour Management Relations' included in the collective agreement assigned for the manual grade stipulates that any change to work arrangements, norms, productivity, etc. shall be effected only after a consensus has been reached through fortnightly consultations with the trade unions. Part II of the collective agreement assigned to the staff grade specifically sets out that any material change to the Company's structure or operations even amalgamation, sub-leasing of estates/divisions shall be finalised with prior notice and consensus between the management and unions.

OCCUPATIONAL HEALTH AND SAFETY

We are well aware of the significance of advocating health and saftey measures across the organisation, although there are no formal provisions within the collective agreements for same. As embodied in our Health and Safety Policy, we have a comprehensive occupational health and safety programme in place, covering all employee categories. Within the scope of this programme, employees are given training in all aspects of occupational health and safety. Medical centres with qualified health and medical staff are available on our estates whilst the ambulances are located at strategically placed estates providing 24 hour medical service.

We have also set up formal joint management-worker Health & Safety Committees in all divisions and factories within our estates. These Committees take an active role in leading special projects to address health and safety issues that may arise in day to day operations, targeting not only employees but also families and the communities within the estates. These projects include awareness training on health to upkeep mental and physical well-being as well as on safe manufacturing practices.

During the reporting period, these Committees were well represented comprising 33 executives, 201 staff and 761 manual grade employees to ensure effective implementation and monitoring of the health and safety programmes. There were 113 minor injuries, 150 lost man days and 32 absenteeisms reported in the year under review; occupational diseases or work related fatalities were not reported.

New washing and changing rooms and personal protective equipment's (PPE's) have been provided for all agrochemical sprayers to ensure their safety during handling and spraying agrochemical.
All agrochemical handlers and spraying workers have been given extensive training on safety requirements to be fulfilled during agrochemical transport, storage and applications.

TRAINING PROGRAMMES ON HEALTH AND SAFETY	PARTICIPATION/ TRAINED (NUMBER)
Awareness Training	
Good manufacturing practices	355
Health & safety	327
Water source protection	211
General hygiene	275
Self-protection	167
Boiler safety handling	57
Energy Management	12
First aid	97
Safety & fire drills	98
Agrochemical transport, storage, application and usage of PPE's	505
Emergency preparedness and response	70
Safe operating of machinery	42
Counselling Programmes	69
Prevention/Risk Control Programmes	161
Total	**2,446**

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 carryout regular **health and safety risk assessments** and **review** Health and Safety Standards, programmes and objectives periodically to ensure **Continual Improvements**.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

Awareness on Safe Handling & Spraying of Agrochemicals – Great Western Estate

Spacious Washing & Changing Room for Chemical Sprayers – Clarendon Estate

First Aid Mobile Box Given to a Worker - Holyrood Estate

TRAINING AND EDUCATION

Training and development is considered the cornerstone of the organisation's development strategy – securing its sustainability well into the future. We treat all our employees as an asset to the organisation - delivering the competitive edge we have established over the years. We are focused in our efforts to continuously and consistently motivate, enhance and upgrade their skills and competencies. Our objective is to develop core competencies of all employees to meet the present and future job requirements based on the Company's business and operational strategies.

Our training is structured to address the four-fold strategic objectives – sustainable agriculture practices, quality and environmental management, strategic management and HR development. During this reporting year, we have utilised 22,618 hours to conduct training programmes for 6,398 employees at all levels including a fair representation in terms of gender. The training covered sustainable agriculture, occupational health and safety, waste and energy management and certification standards for the staff and manual grades whilst the executive grades were given an exposure into the best practices in management, harvesting and field cultivation practices, plantation finance & management and environmental management. We invested Rs.1.51 million during the year on these training programmes.

Staff

- Quality & Environmental Management
- Sustainable Agriculture Practices
- Human Resource Development

Manual Grade

- Quality & Environmental Management
- Human Resource Development

Executives

- Quality & Environmental Management
- Strategic Planning and Management
- Sustainable Agriculture Practices
- Human Resource Development

EMPLOYEE CATEGORY	NO. OF EMPLOYEES		TRAINING HOURS	
	Male	Female	Male	Female
Executives	168	19	3,029	376
Staff	467	267	2,884	1,298
Manual Grade	2,385	3,092	7,483	7,548
Total	3,020	3,378	13,396	9,222

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

TRAINING - 2013

EXECUTIVE TRAINING
Plucking & Agricultural Practices towards Improving Field & Labour Productivity
Routine Harvesting & Field Cultivation Practices
Implementation of Energy Management Programme in Tea Sector
Adopting Resource Efficient & Cleaner Production (RECP) Indicators as KPIs for Tracking & Reporting Resource Productivity & Environment Performance
ISO 14001 EMS Consultant Development Training
Professional Programme in Tea Manufacture & Factory Practices
Certificate Course in Plantation Accounting & Financial Management for Plantation Executives
Seminar on “Company Law Obligations of Directors in a Listed Company”
Certificate Course in Human Resource Management for Plantation Executives
Industrial Relations & Labour Laws
Executive Development Programme
Extraordinary Breakthrough Thinking

STAFF TRAINING
National Certificate Examination in Tea Manufacture & Factory Management
Skill Development Programmes
Windows 7 Admin Training
Certificate Course in Occupational Safety & Health for Plantations
Awareness on Rainforest 10 principles & Company Policies
Interactive Communication Culture
ETP Global Standard Implementation
Occupational Health & Safety Practices
Food Safety Hazards, Safe Handling of Agrochemicals

MANUAL GRADE TRAINING
Waste Disposal, Waste Management & Composting
Awareness on Rainforest 10 Principles & Company Policies
Awareness on Eco System Conservation
Interactive Communication Culture
Dengue Prevention
Integrated Pest Management
Wildlife Protection
Energy Management, Conservation & Safety
ETP Global Standard Implementation
Occupational Health & Safety Practices – including agrochemical spraying & safe operating of factory machinery
Food Safety Hazards, Safe Handling of Agrochemicals
Tapping, Plucking , Pruning & Soil Fumigation

DIVERSITY AND EQUAL OPPORTUNITY

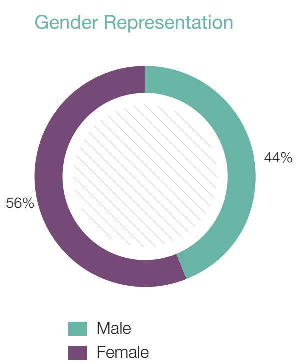
TTE PLC seeks to manage diversity and advocate an inclusive culture for all employees irrespective of any social prejudices and differences in values and perspectives. The Company policies coupled with the collective agreements enshrine 'equal opportunity'. Our certification programmes - Rainforest Alliance-Sustainable Farm Certification, Ethical Tea Partnership and UTZ Sustainable Tea complement and validate our efforts in this direction.

EQUAL REMUNERATION FOR WOMEN AND MEN

Set out below is the segmentation of our workforce by gender which represents our values that promote impartiality towards gender. Being an equal opportunity employer, the Company's Remuneration Policy is non-discriminatory and offers equality in remuneration and benefits to all employees without gender bias. This is further upheld within the collective agreements entered with the trade unions, for both staff and worker categories.

Gender Representation

GENDER	WORKFORCE
Male	4542
Female	5779
Total	10,321



SOCIAL, ETHICAL & ENVIRONMENTAL MANAGEMENT PRACTICES
RAINFOREST ALLIANCE-SUSTAINABLE FARM CERTIFICATION AND ETHICAL TEA PARTNERSHIP

Ethical Tea Partnership

- Freely chosen employment
- Freedom of Association & Right to Collective Bargaining
- Health and Safety
  - Workplace Safety,
  - Sanitation, Health & Welfare,
  - Accommodation/Housing
- Child Labour & Young Workers
- Wages & Benefits
- Working Hours
- Discrimination
- Regular Employment
- Disciplinary Procedures
- Community Relations
- Environment
  - Environmental Management Systems
  - Soil Conservation
  - Ecosystem & Water Conservation
  - Drinking and Waste Water Testing & Monitoring
  - Energy Management
  - Integrated Waste Management

HUMAN RIGHTS

Our Human Resource and Social Policy clearly sets out our commitment towards upholding human rights. We have also 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 & Environmental Management Practices'. We have trained during the year, 2,085 of all categories of employees for 573 hours on company's human resource policy.

INVESTMENT AND PROCUREMENT PRACTICES

At TTE PLC we are conscious and selective in our investments and procurement to ensure that our business partners follow the best practices in their business processes especially on upholding business ethics in terms of child and forced labour and other legal and regulatory requirements. The Company for the reporting year did not have any suppliers, contractors and other business partners who have undergone human rights screening.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

NON-DISCRIMINATION

TTE PLC follows a policy of non-discrimination in recruitment, promotions and remuneration. We have not received any complaints of discriminations or being subject to any legal action for discrimination during the reporting year.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

As mentioned above, our operations are fully open towards freedom of association and collective bargaining and almost the entirety of our workforce is covered by the relevant collective agreements with the trade unions. We have also not identified any suppliers that have violated or at significant risk towards the right to exercise freedom of association and collective bargaining.

CHILD LABOUR

As stipulated in our Human Resource and Social Policy, we do not engage nor complicit in child labour. We do not deploy minors in any activity paid or unpaid within our estates or production facilities. All recruitments are subject to a strict verification process with documentary proof of age of the potential employees.

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 as well as in conformity with the standards prescribed by the Ethical Tea Partnership, Rainforest Alliance and UTZ certification programmes.

TTE PLC has not identified any suppliers exposed to risk for incidents of forced or compulsory labour.

SECURITY PRACTICES

The security personnel have been given comprehensive training in the organization's policies.

INDIGENOUS RIGHTS

No incidents in violating indigenous rights were reported during this period.

ASSESSMENT

TTE PLC has not been subjected to human rights reviews or impact assessments.

REMEDIATION

Grievances or complaints were not received relating to human rights violation.

SOCIETY

LOCAL COMMUNITIES

Social Infrastructure Development Rs. 3.8 Mn	Capacity Development 8,063 Beneficiaries/ Participants	Health & Nutrition 147,981 Beneficiaries
Youth Vocational Training 396 Beneficiaries	SOCIAL DEVELOPMENT	Health & Welfare Initiatives Rs.115 Mn
Local Recruitments 633 Employees	Health & Welfare Staff 81 Employees	Youth Empowerment 4,711 Beneficiaries

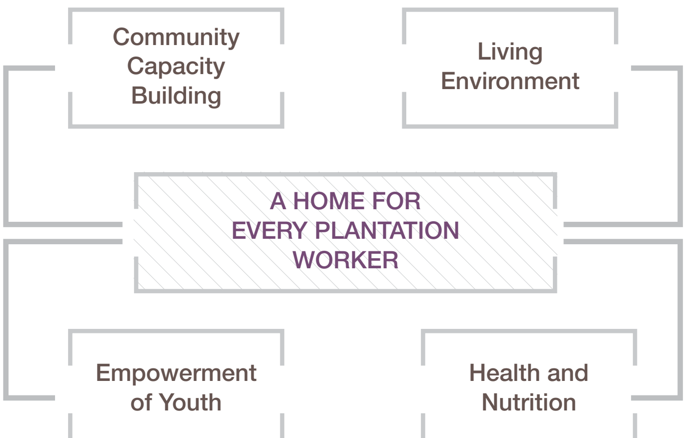
EMPOWERING OUR COMMUNITIES

A Tea Harvester - Moragalla Estate

Our social development initiatives have paved the way for our communities to move up the socio-economic ladder.

A HOME FOR EVERY PLANTATION WORKER

A plantation is much more than a simple unit of production; it is a host to vibrant and dynamic communities. Through our corporate social responsibility (CSR) programmes, we are committed to nurture and develop the untapped live forces within the communities in which we operate with trickle-down benefits to the entire society and the estate community in particular.



Our Social Development Project, **"A Home for Every Plantation Worker"** envisions making a difference in the quality of social and cultural lives of our workers and the communities, making them truly empowered stakeholders of their estates. Our ultimate goal is transform our plantations from being a mere place of residence into a "Home" in the true spirit, for each and every one of them.

Our resident communities of over 40,000 people in all the regions have benefitted from this project which encompasses improvements to the living environment through infrastructure development of basic amenities, capacity development, health and nutrition programmes and youth empowerment. The comparison with the prior year performance aptly demonstrates our commitment and progress in our efforts to enrich our communities within the scope of this project.

LIVING ENVIRONMENT

Our initiatives and special projects targeted at improving the living environment of our resident communities are carried out in collaboration with the Plantation Development Project (PDP), Plantation Human Development Trust (PHDT), National Housing Development Authority (NHDA), Ministry of Livestock and Rural Community Development, MJF Foundation and reputed non- government organisations. Our initiatives ranging from infrastructure development of housing, water, sanitation, recreation and learning facilities at an investment cost of Rs. 3.8 Mn during the reporting year are set as above:

DEVELOPMENT ACTIVITIES	1992-2013
Water Schemes	68
Re-roofing Houses	4,111
Ramps and Drains	1,314
Sanitation	4,213
Field Rest Rooms	62
Factory Rest Rooms	16
Child Development Centres (CDC) New/ Upgrading	52
New Houses Built	1,108
Play Grounds	25
Electrification (Housing units)	30
Community Centers	16
Road Rehabilitation- km	45
Roads (Concreted) – km	54
Upgraded Staff Quarters	158
Upgraded Houses	169

Field Rest Rooms – Logie Estate

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

COMMUNITY CAPACITY BUILDING

Community capacity building encompasses the activities of the Estate Worker Housing Co-operative Society (EWHCS) along with our training initiatives aimed at uplifting the lives of our resident communities. During the reporting year, 1,711 participants benefited from the activities within the scope of EWHCS whilst our awareness training programmes reached out to 6,352 participants.

COMMUNITY CAPACITY BUILDING	PARTICIPANTS/ BENEFICIARIES
EWHCS Initiatives	1,711
Awareness Programmes – EWHCS	6,352
Total	8,063

Medical Programmes – Indola Estate

EWHCS INITIATIVES

- Providing Micro Loans
- Dental Clinics
- Eye Clinics & Providing Spectacles
- Scholarships
- Free Set of School Accessories for School Beginners
- Donations - CDC Uniforms
- Celebrating World Children's Day
- Celebrating Women's Day
- Providing "Sahana Badu Malla"
- Distribution of "Maternity Kits & Baby Accessories"

AWARENESS TRAINING PROGRAMMES

- Rainforest Alliance
- Oral Hygiene
- First Aid Training
- Medical Programmes
- Child Vaccinations
- Dengue Awareness
- HIV/AIDS Awareness
- Waste Management
- Preventive of Drugs/Alcohol

Celebrating World Children's Day – Indola Estate

Distribution of Maternity Kits & Baby Accessories – Holyrood Estate

HEALTH AND NUTRITION

Our initiatives advocating health and nutrition amongst the resident communities seek to cover preventive healthcare through our comprehensive immunisation programme, nutrition, antenatal and postnatal care, early childhood development and auxiliary medical services. During the reporting year, we reached out to 147,981 residents with our structured programmes on health and nutrition.

HEALTH & NUTRITION PROGRAMMES	PARTICIPANTS/ BENEFICIARIES
Preventive Healthcare	
Immunization Coverage	7,578
Awareness Programmes – Preventive Healthcare	19,848
Nutrition	
Feeding Programme - mothers, infants and children	63,991
Awareness Programmes - Nutrition for Health	10,104
Antenatal/Postnatal Care	
Antenatal Programmes	6,476
Postnatal Programmes	2,574
Early Childhood Development	33,171
Auxiliary Medical Service	4,239
Total	**147,981**

Preventive Healthcare

IMMUNIZATION COVERAGE

- BCG Vaccine for Tuberculosis
- Oral Polio Vaccine
- DPT/DT/TT Vaccines for Tetanus, Diphtheria, & Pertussis (Whooping Cough)
- Japanese Encephalitis Vaccine
- MMR/ MR/MV for Measles,Mumps, and Rubella
- Penta Vaccine for Diphtheria, Tetanus, Pertussis, Hepatitis B and Influenzae Type B (Hib)

AWARENESS ON PREVENTIVE HEALTH

- HIV/AIDS
- Cancer
- Health & Personal Hygiene
- Oral Hygiene
- Dengue
- Diarrhea
- Deworming
- Safe Drinking Water

HIV/AIDS Awareness Programme – Mattakelle Estate

Nutrition

FEEDING PROGRAMMES ON NUTRITION

- Free Distribution of Milk Powder/ Milk
- Free Distribution of Flour
- Free Distribution of Thriposha
- Free Meals for Children
- Distributing Iron Tablets & Vitamins
- Kolakenda Programme

AWARENESS ON NUTRITION

- Food Safety Management
- Balance Diet
- Nutrition Pillars
- How to Prepare a Nutrition Meal
- Importance of “Iron”

Awareness on Health & Personal Hygiene – Wattegodde Estate

Awareness & Encouragement of Balance Diet – Indola Estate

Educating the Importance of “Iron” – Logie Estate

Meals for Children – Dessford Estate

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

Antenatal/Postnatal Care

ANTENATAL CARE

- Antenatal Clinics
- Education of Hygiene
- Well Women Clinics
- Free Transport for Clinics/ Scanning
- Free Transport for Hospitalization
- Issue of Vitamins
- Introducing Nutritious Food

POSTNATAL CLINICS

- Postnatal Clinics
- Well Women & Baby Clinics
- Free Transport for Clinics
- Weight Gain Programmes
- Lactation Management
- Educating on Family Planning
- Supply of Vitamins
- Health and Nutrition Clinics

Issue of Vitamins – Logie Estate

Antenatal Clinics – Holyrood Estate

Postnatal Clinics – Kiruwanaganga Estate

Education of Hygiene - Wattegodda Estate

Introducing Nutritious Food - Kiruwanaganga Estate

Health Clinics - Holyrood Estate

Early Childhood Development

Auxiliary Medical Service

EARLY CHILD DEVELOPMENT

- Free Mid-day Meal
- Dental Clinics
- Distribution of Milk/Thriposha
- Eye Care Clinics
- Daycare Extended to Children
- CDC Activities

AUXILIARY MEDICAL SERVICE

- Cataract Detection
- Dental Clinics
- Medical Camps
- Deworming Programmes
- Providing Ambulance/Transport
- Medical Screening for Workers

Cataract Detection - Kiruwanaganga Estate

CDC Activities – Kiruwanaganga Estate

Dental Clinics – Somerset Estate

Medical Camps - Calsay Estate

EMPOWERMENT OF YOUTH

We are well aware of the role played by youth not only in the plantation sector but also to take the nation forward in its development drive. We give precedence to youth programmes enabling them with vocational training as well as creating awareness on significant and current socio-economic issues. During the reporting period, we extended vocational training including scholarships for tertiary education for 396 young people within our communities based purely on merit and talent. Our awareness training programmes reached out to 4,315 youth.

EMPOWERMENT OF YOUTH	PARTICIPANTS/ BENEFICIARIES
Vocational Training	396
Awareness Programmes	4,315
Total	4,711

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

VOCATIONAL TRAINING

- Sewing & Dress Making Classes
- Information & Communication Techonolgoy
- Beauty Culture
- First Aid
- Sports Activities
- Scholarships - A/L & University Students
- Making Compost
- Re-Using Garbage
- Vegetable Cultivation

AWARENESS PROGRAMMES

- Personal Hygiene & First Aid
- Prevention of Alcoholism
- Programme on Identity Cards/ Birth Certificates
- Dengue Prevention
- Quality Circles Programme
- Teenage Programmes
- Leadership
- Cash Management
- Tree Planting

Improving Rugby Skills by a New Zealand Coach - Somerset Estate

First Aid Training – Great Western Estate

Youth Programmes "Tree Planting" – Wattegodde Estate

Teenage Programmes – Palmerston Estate

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, TTE PLC 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 corrupt practices.

PUBLIC POLICY

TTE PLC has not attempted to influence public policy during the reporting year. However, as an active member of the Planters Association which represents the plantation industry, TTE PLC plays its part in guiding and directing the industry in its present and future course.

ANTI-COMPETITIVE BEHAVIOUR

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

COMPLIANCE

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

PRODUCT RESPONSIBILITY

CUSTOMER HEALTH AND SAFETY

Superior product quality is our forte which underpins our positioning at the helm of the tea industry in the country. As a responsible producer, we are conscientious to ensure the highest standards of food safety and quality from the point of growing through harvesting and the processing of our teas.

The best practices we have adopted in agriculture in our field operations and manufacturing in all our factories ensure the highest standards in our teas. We maintain the requisite conditions in conformity with HACCP/ISO 22000 food safety criteria in harvesting and transporting of green leaf through to its manufacture, packaging and sale. Through these programmes, tea samples are tested for maximum residue levels, heavy metals, micro biological and physical parameters. Samples of each invoice of tea submitted for sale at the Colombo Auctions by the Company, is tested by the Sri Lanka Tea Board for conformity to ISO 3720 standard.

Further, in keeping with our philosophy of making our workers and service providers feel truly part of the process of producing superior quality teas, their roles have been valorised according to the guiding principles of ISO 22000 FSMS, Rainforest Alliance, Ethical Tea Partnership and UTZ-Sustainable certification programmes.

PRODUCT AND SERVICE LABELING

As specified by the Tea Board, we adhere to the labeling requirements and provide the following information in our packaging:

- Estate Name
- Selling Mark
- Grade, Manufacturing Number
- Number of Packages in the Invoice
- Net Weight

No incidents of non-compliance with regulations concerning product/service labeling have been reported during the year under review. A comprehensive process is in place within the accepted norms of the industry to ensure customer satisfaction and to deal with complaints and concerns if any.

MARKETING COMMUNICATIONS

We are not engaged in direct marketing of our products and therefore, we have not carried out structured marketing campaigns including advertising, promoting or sponsorships.

CUSTOMER PRIVACY

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

COMPLIANCE

Issues of non-compliance will not arise in terms of customer privacy.

QUALITY AND FOOD SAFETY POLICY

- We are committed to total assurance of **quality and food safety** of the tea we produce. Our goal is to become the **market leader** in the production of **finest quality teas**.
- To this end, we will ensure that **Good Agricultural and Manufacturing Practices** are adhered to on all our plantations.
- Building on these foundations, we strive to upgrade our production facilities and improve manufacturing processes continually at every stage, to conform to the stringent global food safety standards.
- We believe that the overall **quality** of our product and the satisfaction of **our customers** is greatly dependent on the **quality of life** of our employees and the satisfaction they obtain from working with us. Therefore we will endeavor to assure that our employee's **quality of life** and their skills are continuously improved.
- **Our responsibility to the society and valued customers** will always be the focal point of our operations and we are committed to consistently improve **communication** at all levels for an effective Food Safety Management system and to comply with relevant **statutory and regulatory requirements**.

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*


GRADE -BOP
GRADE -PEKOE
GRADE - PEKOE1
GRADE - OPI
GRADE - FFEXSP1

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

ACCREDITATION & CERTIFICATION

We are proud to have received international accreditations and certifications in many of our estates. This is testament to our pledge of being ethical and sustainable in everything we do. We uphold our values of quality and the preservation of our assets and our environment.

INTERNATIONAL CERTIFICATIONS AND ACCREDITATIONS

Certification and Accreditation	Estates Certified	
	Rainforest Alliance-Sustainable Farm Certification	**TALAWAKELLE GROUP** Mattakelle, Bearwell, Holyrood, Great Western, Wattegodde, Palmerston Estates
	Rainforest Alliance-Sustainable Farm Certification	**NANU OYA GROUP** Dessford, Somerset, Clarendon, Calsay, Logie, Radella, Kiruwanaganga Estates, Wangioya Factory
	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/IEC: 17021 FMS-001-01	ISO 22000 Food Safety Management Systems Certification	Somerset, Wattegodde, Radella, Dessford, Great Western, Holyrood, Mattakelle, Bearwell, Wangioya, Moragalla, Handford, Deniyaya & Kiruwanaganga

MANAGEMENT DISCUSSION & ANALYSIS *CONTD.*

FUTURE OUTLOOK

Despite the continuing structural and policy constraints, the global economy in the year 2014 is expected to have a stronger recovery. The intensity of the geopolitical issues that gripped the Middle East is expected to ease off and greater stability to prevail in the region. The anticipated relief from US Sanctions for Iran, one of Sri Lanka's key markets for tea will also add to the region's ensuing prospects.

In Sri Lanka, the macroeconomic environment and the anticipated growth to reach the heights achieved in the immediate post conflict years are expected to be broadly conducive for businesses to move forward. The tea industry in Sri Lanka is expected to perform well in 2014 especially given the buoyant tea market that is predicted to continue at least, to the first quarter of the year.

The Company with clear priorities reinforced by effective management practices and the commitment of the people is well poised to realise the strategic objectives in the year 2014. We will continue to be focused in our strategy to retain our competitive edge within the industry through our strong brand that brings out our expertise and dedication to produce premium quality teas. To this end, concerted efforts will be placed to utilise our resources efficiently, strengthen worker and land productivity; enhance sustainable agriculture practices; diversify earnings; further our measures to uplift the lives of our resident communities and protect the environment; strengthen our performance management system; give the necessary training for employee development which are vital to ensure the sustainability of our operations.

STRATEGIC PRIORITIES & TARGETS 2014	
Produce a quality tea	**Targets 2014**
- Increase worker productivity incentivise workers on performance - Product Diversification - Engage Mabroc Teas (Pvt) Ltd to promote value added teas - Mechanisation of field operations - Invest strategically on infrastructure development in both field and non-field operations - Consolidate sustainable agriculture policies, practices & programmes - Cost controls & strengthen performance management with motivation & target - Employee development through structured training on technical and soft skills - Performance Monitoring - Continue to focus on the social development project - 'Home for Every Plantation Worker'	- Rank no. 1 in prices among RPCs in both low and high grown elevations - High grown yields> 1,700 kg/HA - Low grown > 1,500 Kg/HA - Production 7.7 million kgs - Worker productivity > 3 kgs/worker - Field development - plant 52 hectare of tea - Field development - plant 19.64 hectares of rubber - Maintain quality & sustainable practices certification - Number of employees trained 6,398 - Training hours 22,618 - Training investment Rs. 1.5 Mn - Expenditure on Social Development Rs. 3.8 Mn

GRI 3.1 CONTENT INDEX

APPLICATION LEVEL C

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
1.0	Strategy and Analysis		
1.1	Statement from the most senior decision-maker of the organisation	Chairman's Statement	8-11
1.2	Description of key impacts, risks and opportunities	Stake Engagement	20-25
2.0	Organizational Profile		
2.1	Name of the organization	Corporate Information	Inner Back Cover
2.2	Primary brands, products and/or services.	Our Estates Annual Report of the Board of Directors	170 165
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures	Corporate Governance	135
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	01-Sri Lanka	-
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	28-110
2.8	Scale of the reporting organisation	Annual Report of the Board of Directors Our Estates	165-169 170
2.9	Significant changes during the reporting period regarding size, structure or ownership	Chairman's Statement MDA	8-11 28-110
2.10	Awards received in the reporting period	Awards	15-17
3.0	Report Parameters		
3.1	Reporting period (eg. Fiscal/calendar year) for information provided	Stakeholder Engagement	18
3.2	Date of most recent previous Report (if any)	Stakeholder Engagement	18
3.3	Reporting cycle (annual, biennial, etc)	Stakeholder Engagement	18
3.4	Contact point for questions regarding the report or its contents	Stakeholder Engagement	18
3.5	Process for defining report content	Stakeholder Engagement	19
3.6	Boundary of the Report (eg. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	Stakeholder Engagement	18-20

GRI 3.1 CONTENT INDEX *CONTD.*

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
3.7	State any specific limitations on the scope or boundary of the report	Stakeholder Engagement	19
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	Stakeholder Engagement	18-19
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	GRI 3.1 Content Index	115-125
3.13	Policy and current practice with regard to seeking external assurance for the Report	Stakeholder Engagement	18-19
4.0	Governance, Commitments and Engagement		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	Corporate Governance	134-155
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Corporate Governance	134-155
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	134-155
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Corporate Governance	134-155
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	134-155
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Corporate Governance	134-155

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics	Corporate Governance	134-155
4.8	Internally-developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	Vision Mission	3
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance, including relevant risks and opportunities and adherence or compliance with internationally agreed standards, codes of conduct and principles	Corporate Goveranance MD & A	134-155 165-169
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance	Remuneration Committee Report	164
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Corporate Governance	134-155
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organisation subscribes or endorses	MD & A	165-169
4.13	Memberships in associations (such as industry associations) and/ or national/international advocacy organisations in which the organisation • has positions in governance bodies • participates in projects or committees; • provides substantive funding beyond routine membership dues; or • views membership as strategic	MD & A	165-169
4.14	List of stakeholder groups engaged by the organisation	Stakeholder Engagement	18-20
4.15	Basis for identification and selection of stakeholders with whom to engage	Stakeholder Engagement	18-20
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Stakeholder Engagement	18-25
4.17	Key topics and concerns that have been raised through stakeholder engagement and how the organisation has responded to those key topics and concerns, including through its reporting	Stakeholder Engagement	18-25

GRI 3.1 CONTENT INDEX *CONTD.*

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
Economic Performance Indicators **Economic Performance**			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	MD & A	38-39
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Risk Management Report	126-133
EC3	Coverage of the organisation's defined benefit plan obligations	MD & A	39
EC4	Significant financial assistance received from Government	Not Applicable	
Market Presence			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	MD & A	28-114
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation	MD & A	28-114
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Not Applicable	
Indirect Economic Impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	MD & A	38
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	MD & A	38
Environment Management			
Materials			
EN1	Materials used by weight or volume	MD & A	74
EN2	Percentage of materials used that are recycled input materials	Not Available	
Energy			
EN3	Direct energy consumption by primary energy source.	MD & A	75
EN4	Indirect energy consumption by primary source	MD & A	76
EN5	Energy saved due to conservation and efficiency improvements	MD & A	75, 76, 86
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	MD & A	75, 76, 86
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	MD & A	75, 76, 86

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
Water			
EN8	Total water withdrawal by source	MD & A	77, 78
EN9	Water sources significantly affected by withdrawal of water	MD & A	77,78
EN10	Percentage and total volume of water recycled and reused	MD & A	77
Bio Diversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	MD & A	79
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	MD & A	79
EN13	Habitats protected or restored	MD & A	77-79
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	MD & A	39, 79-84, 87
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	MD & A	80-83
Emissions, Effluents, and Waste			
EN16	Total direct and indirect greenhouse gas emissions by weight	MD & A	85, 86
EN17	Other relevant indirect greenhouse gas emissions by weight	MD & A	86
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	MD & A	75, 76, 86
EN19	Emissions of ozone-depleting substances by weight	MD & A	86
EN20	NOx, SOx, and other significant air emissions by type and weight	MD & A	86
EN21	Total water discharge by quality and destination	MD & A	87
EN22	Total weight of waste by type and disposal method	MD & A	87
EN23	Total number and volume of significant spills	MD & A	88
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally	MD & A	88
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	MD & A	87

GRI 3.1 CONTENT INDEX *CONTD.*

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
Products and Services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	MD & A	88
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	MD & A	88
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	MD & A	88
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	MD & A	88
Overall			
EN30	Total environmental protection expenditures and investments by type	MD & A	72
Labour Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract, and region, broken down by gender	MD & A	94, 95
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region	MD & A	96
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operations		96, 101
LA15	Return on work and retention rates after parental leave by gender	MD & A	96
Labor/Management Relations			
LA4	Percentage of employees covered by collective bargaining agreements	MD & A	96
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements	MD & A	96
Occupational Health and Safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	MD & A	96

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities, by region and by gender	MD & A	96
LA8	Education, training, counseling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	MD & A	96-98
LA9	Health and safety topics covered in formal agreements with trade unions.	MD & A	96-98
Training and Education			
LA10	Average hours of training per year per employee, by gender, and by employee category	MD & A	99
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	MD & A	99, 100
LA12	Percentage of employees receiving regular performance and career development reviews, by gender	MD & A	93, 101
Diversity and Equal Opportunity			
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	MD & A	39
Equal Remuneration for Women and Men			
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	MD & A	101
Human Rights			
Investment and Procurement Practices			
HR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening	MD & A	101
HR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken	MD & A	101
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	MD & A	101
Non-Discrimination			
HR4	Total number of incidents of discrimination and corrective actions taken	MD & A	102

GRI 3.1 CONTENT INDEX *CONTD.*

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
Freedom of Association and Collective Bargaining			
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights	MD & A	102
Child Labour			
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	MD & A	102
Forced and Compulsory Labour			
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	MD & A	102
Security Practices			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	MD & A	102
Indigenous Rights			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	MD & A	102
Assessment			
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	MD & A	102
Remediation			
HR11	Number of grievances related to human rights filed, addressed, and resolved through formal grievance mechanisms	MD & A	102
Society			
Local Communities			
SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	MD & A	102-108
SO9	Operations with significant potential or actual negative impacts on local communities	MD & A	102-108
SO10	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	MD & A	102-108

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption	MD & A	108
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	MD & A	108
SO4	Actions taken in response to incidents of corruption	MD & A	108
Public Policy			
SO5	Public policy positions and participation in public policy development and lobbying	MD & A	108
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	Not Applicable	
Anti-Competitive Behaviour			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	MD & A	108
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	MD & A	108
Products Responsibility			
Customer Health and Safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	MD & A	109
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes	MD & A	109
Product and Service Labeling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	MD & A	109
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	MD & A	109
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	MD & A	109

GRI 3.1 CONTENT INDEX *CONTD.*

PROFILE DISCLOSURE	DESCRIPTION	REPORT SECTION	PAGES
Marketing Communications			
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	MD & A	109
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	MD & A	109
Customer Privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	MD & A	109
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	MD & A	109

ISSUES AREAS	GC PRINCIPLES	RELEVANT GRI INDICATORS	PAGES
Human Rights			
	Principle 01		
	Businesses should support and respect the protection of internationally-proclaimed human rights	LA4, HR4, HR5, HR6	
	Principle 02		
	Make sure that they are not complicit in human rights abuses	HR4, HR5, HR6, HR11	
Labour			
	Principle 03		
	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	LA4, LA5, HR5, HR6	
	Principle 04		
	Business should uphold the elimination of all forms of forced and compulsory labour	HR7	
	Principle 05		
	Business should uphold the effective abolition of child labour	HR6	
	Principle 06		
	Business should uphold the elimination of discrimination in respect of employment and occupation	LA13, LA14, HR4, EC5, EC7	

ISSUES AREAS	GC PRINCIPLES	RELEVANT GRI INDICATORS	PAGES
Environment			
	Principle 07		
	Businesses should support a precautionary approach to environmental challenges	EN9, EN14, EN26	
	Principle 08		
	Business should undertake initiatives to promote greater environmental responsibility	EN1, EN3, EN4, EN5, EN6, EN8, EN10, EN11, EN12, EN13, EN14, EN15, EN16	
	Principle 09		
	Business should encourage the development and diffusion of environmentally friendly technologies	EN5, EN6, EN10, EN26	
Anti-Corruption			
	Principle 10		
	Businesses should work against corruption in all its forms, including extortion and bribery	SO4	

REPORT APPLICATION LEVEL

We have self-assessed our report as…

			C	C+	B	B+	A	A+
Mandatory	Self-Declared		✓	Report Externally Assured		Report Externally Assured		Report Externally Assured
Optional	Third Party Checked							
	GRI Checked							

RISK MANAGEMENT

Our approach to risk management is structured and tactical - paving the way for sound business decisions and sustainable returns on entrepreneurism.

Businesses across the board face a wide range of risks - inherent and characteristic to the business, as well as unknown risks that may emerge. Sustainability and growth of an enterprise depends on the ability of an organisation to manage risks in achieving its objectives.

Being a mono crop labour intensive agri-business, TTE PLC places great emphasis on sound risk management which in effect is integrated into the daily operations and processes. In the decision making process, the Company is conscious of the risks and seeks to control the impact whilst availing the opportunities therein. This has essentially supported the organisation to take the path towards sustainable growth and meet stakeholder expectations.

The Company has a sound risk management structure in place.
This involves the implementation of comprehensive policies, procedures and practices which work in conjunction to identify, prioritise, evaluate and monitor risks across the organisation. This process is followed by the application of coordinated and strategic solutions to counteract, minimise, transfer or retain the vulnerabilities identified, based on the Company's risk appetite and significance.

At the strategic level, the focus is on managing risks with prudence and discipline. The Board has the ultimate responsibility for identification and management of risks at an acceptable level. The Board initiates risk management strategies, ensures that an effective risk management system is in place. The Internal Audit also plays a key role within this process.

The overall responsibility of implementing effective risk management controls lies with the Managing Director and the Corporate Management team. Risk management policies and procedures are regularly reviewed and modified to reflect the changes in markets and business strategies. The front line managers are assigned with the primary responsibility of taking action and providing feedback. The major risks are reported to the Board with an action plan including the key personnel responsible for implementation.

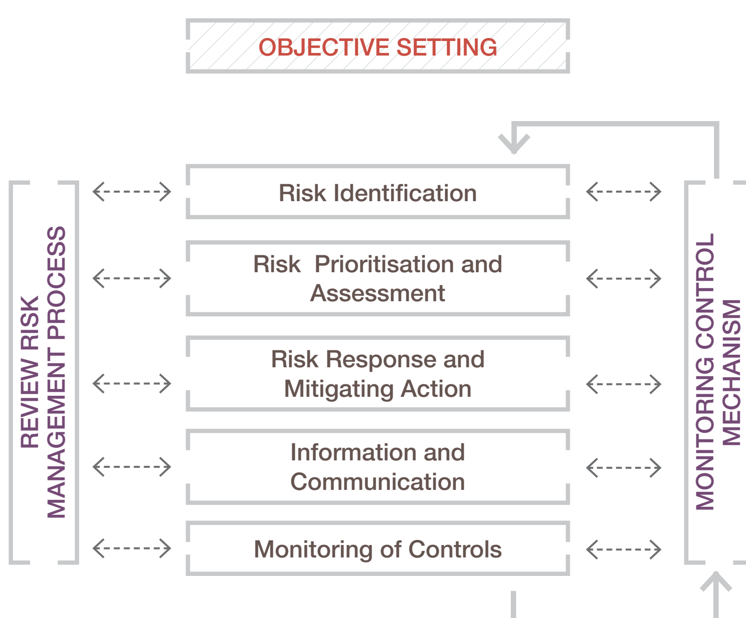
The integrated approach to manage corporate risks ensures effectiveness, transparency and aggregation within the framework of reporting and is implemented with consistency throughout our estates with a direct reporting line to the Managing Director.

RISK MANAGEMENT FRAMEWORK

TTE PLC's Risk Management Framework supports and sustains the risk management in the organisation. The framework covers management policies, objectives, mandates, commitments, accountabilities, resources, processes and activities targeted at effective risk management.

All identified risks are assessed based on the likelihood and the potential impact on the business as per the guidelines set out in the Risk Matrix. The risk management framework supports the Company to accept and manage unavoidable risks and minimise uncertainties. The framework also gives a firm basis for effective resource allocation in the decision making process.

RISK MANAGEMENT FRAMEWORK OF TTEPLC



OBJECTIVE SETTING

The Board is ultimately responsible to set the corporate goals and objectives which are done on an annual basis. Prior to decision making on the goals and objectives, the Board reviews the overall risk profile and the tolerance levels of the Company over identified risks. This ensures a sound basis in formulating the Company's strategic and the related action plans.

RISK IDENTIFICATION

The Company's risk management system has combined a top down and bottom up approach in its risk identification process. The top down approach ensures potential new risks are identified whilst the bottom up approach enables identification of financial and operational risks and any deviations from internal controls that are in place. Internal Audit reports support the risk identification process.

RISK PRIORITISATION AND ASSESSMENT

All identified risks are rated based on the probability of occurrence and the impact. Risk rating matrix as illustrated below is used to facilitate the rating process. The level of risk absorption is influenced by the Company's risk appetite. Risk exceeding the tolerance level will require prompt management responses.

RISK RESPONSE AND MITIGATING ACTION

In response to the risk identified, the Managing Director together with the management team sets out risk response strategies to balance the impact of risk against returns. The gaps in risk management capabilities are reviewed and addressed with firmer mitigatory strategies.

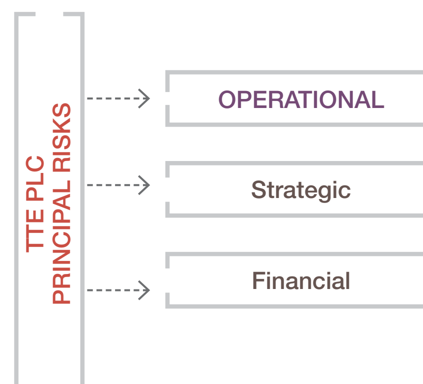
INFORMATION AND COMMUNICATION

Documentation and reporting play a key role in the monitoring process. Monthly and Quarterly Review meetings are held by Heads of Operations and Managing Director to assess performance and risks.

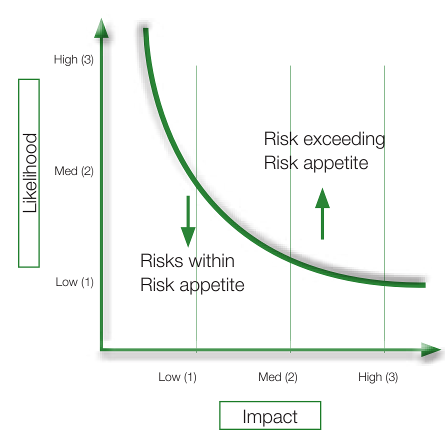
Key economic and performance indicators together with relevant external reports are presented quarterly to the Audit Committee and to the Board for necessary deliberations on identifying possible risks and mitigatory actions to counter such risks. Internal and external audit reports including the level of compliance with risk mitigation recommendations are tabled at meetings of the management and the Audit Committee for review and action. 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.

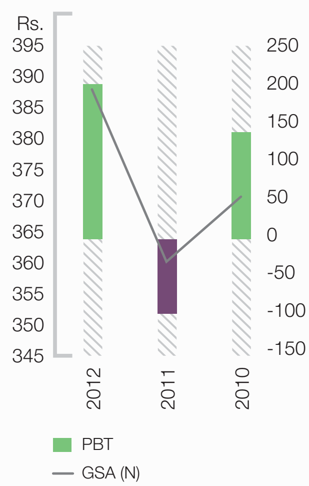


IMPACT	Low	Med	High
High	Caution	Monitor / Manage	Extensive Management
Med	Accept / monitoring	Caution	Considerable management effort
Low	Accept	Accept / monitoring	Monitor/ Manage
			LIKELIHOOD



RISK MANAGEMENT *CONTD.*

The principal risks along with their impacts and the mitigating strategies are elaborated in the table below.

RISK FACTORS	RATING
STRATEGIC RISK: Associated with future business plans and strategies	
SOCIO-ECONOMIC & POLITICAL RISK • Volatility of the global economy. • Political and economic upheaval in key markets.	High
RISK ASSESSMENT Our principal line of business is cultivation and manufacture of black tea. 95 % of the total revenue is from tea. Hence, the Company's profitability is susceptible to the changes in global demand and prices for tea. • Drop in demand and fluctuating prices affect profitability and erode margins. National GSA Vs PBT 	**RISK MANAGEMENT STRATEGIES** • The product portfolio of teas from different agro climatic regions enables to cater to different markets. • Focus on producing 'quality teas'. • Increase production of low grown teas. • Converting low yielding tea lands to timber & fuel wood. • Develop revenue streams from hydro power, timber, fuel wood and leisure projects. • Value addition to our teas with 'Mabroc' expertise. • Work closely with relevant authorities and associations to ensure best interest for the industry.
IMPACT OF CLIMATIC CHANGE • Adverse weather conditions and changes in ambient temperature levels	High
RISK ASSESSMENT • Inconsistent and extreme changes in weather and climate impact the yield and quality of teas • Makes forecasting of crop difficult resulting in over/short supply of crop with lower quality of harvest affecting the end product. Drop in market share and profitability • Geographical distribution of the estates in the high and low grown elevations distributes risk.	**RISK MANAGEMENT STRATEGIES** • Engaging in sustainable agriculture practices. • Planting of drought resistant cultivars. • Monitoring of rainfall and ambient temperatures trends. • Proactive participation of the small holder in the supply chain. • Fore-plan managing rush crop.

RISK FACTORS	RATING

WAGE STRUCTURE

- Strong Trade Unions play an active role in determining wages.
- Wage structure not aligned to worker productivity.

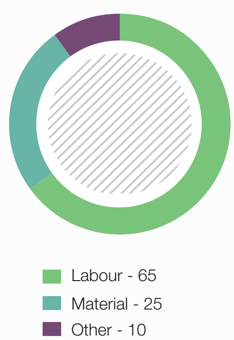
Rating: High

RISK ASSESSMENT

High increases in wage rates have a substantial impact on cost of production and gratuity liability, thereby affecting the competitiveness and profitability.

- Collective Agreement is revised every two years.
- Industry is highly labour intensive and labour cost accounts for 67% of the total cost.

Cost Structure



RISK MANAGEMENT STRATEGIES

- Increase land and worker productivity through coaching, monitoring, motivation and mechanisation.
- Optimise deployment of labour to maximise productivity.
- Outsourcing of non-value adding activities.
- Motivate and empower employees to unleash their potential.
- Negotiating with trade unions and stakeholders for a wage structure that is in line with productivity.
- Making stakeholders aware of the impact on the industry.
- Introduce an 'Out Grower' model on estates.
- Wage negotiations are done collectively with the EFC and the plantation industry.

MARKET & MARKET PRICES

- Changes in consumer /tea buyer preferences

Rating: Moderate

RISK ASSESSMENT

- Change in consumer preferences with busy life styles and demands from being conscious of the sustainability of the globe.
- Consolidation of existing suppliers.
- Changes in demand patterns from other beverages.

RISK MANAGEMENT STRATEGIES

- Focus on producing 'quality tea'.
- Change grade mix to meet buyer/ consumer preferences.
- Expand product range from black tea to other varieties of tea.
- Monitor market trends.
- Be an ethical organisation with a commitment for global sustainability, hence obtain international certifications such as Rainforest Alliance – Sustainable Farm, ISO 22000 Food Safety Management, Ethical Tea Partnership.

COMPETITION

- Global supply.
- Competition from substitutes.

Rating: Moderate

RISK ASSESSMENT

Sri Lanka's tea industry faces intense global competition mainly flowing from low cost producers and substitute beverages.

- Competition results in loss of markets and erosion of margins.

RISK MANAGEMENT STRATEGIES

- Strengthen the Company's Brand image.
- Focus on quality and productivity.
- Broaden and add value to the product range viz. Green Tea.
- Market promotions with Mabroc Teas (Pvt) Ltd.
- Strengthen relationships with brokers and buyers.

RISK MANAGEMENT *CONTD.*

RISK FACTORS	RATING
BUSINESS RISK • Failure to implement strategic plans, revenue enhancing and cost saving measures and initiatives on profitable investments.	Moderate
RISK ASSESSMENT • Impede future growth. • Reduce revenue, cash flow and profitability	**RISK MANAGEMENT STRATEGIES** • An annual corporate plan with strategic and operational objectives and related actions submitted to the Board of Directors for review. • The Board of Directors and the Management Committee holds regular meetings to formalise strategies and plans for the future. • Operations are monitored and controlled by a management information and budgetary control system and remedial action is taken including sector comparisons and monitoring performances of competitors. • Regularly hold review meetings and share information on relevant areas.
RISKS FROM NATURAL OR MAN-MADE DISASTERS. • Damages from fire and floods. • Accidents.	Low
RISK ASSESSMENT • Risks related to natural disasters, accidents, human error, dishonest activity may cause financial losses and disruption to operations.	**RISK MANAGEMENT STRATEGIES** • Transferring risks to third party through insurance. • Regularly review and update the adequacy of insurance covers. • Ensure sound internal control systems, compliance audits and disaster management systems. • Standardisation of procedures and policies to mitigate risks. • Employ suitable and qualified personnel.
OPERATIONAL RISK: Arising from regular business operations	
PRODUCT QUALITY • Inconsistencies in product quality	Moderate
RISK ASSESSMENT • Buyers curtailing purchases leading to a lower demand. • Drop in market price and eroding market share.	**RISK MANAGEMENT STRATEGIES** • Adherence to a “Quality Policy”. • Adopt and implement quality assurance measures such as food hygiene standards and certification of factories under HACCP and ISO. • Maintain a regular dialogue with buyers and brokers to obtain feedback. • Take prompt and corrective action on broker reports.

RISK FACTORS	RATING

HUMAN RESOURCE

- Failure to recruit and retain appropriately skilled employees.
- Immobility of labour within/between estates.
- Reduction in resident manpower.
- Migration of workforce to other sectors.

Rating: Moderate

RISK ASSESSMENT

- Human resource concerns will expose the Company to difficulties in achieving the targeted crop/ tasks /objectives
- Disruption to operations and performance which will reflect on productivity and profitability.

Employee Type	Cadre 31st December 2013
Labour	9,835
Staff	453
Executives	78
Total	10,366

RISK MANAGEMENT STRATEGIES

- Ensure industrial peace through Collective Agreements entered into with the Trade Unions in the Company's capacity as a member of the Employers Federation.
- Maintain a close dialog with employees.
- Training and development programmes to improve performance.
- Increase productivity and norms of tasks.
- Prioritise human resources management viz. performance management, training and development, motivation and empowerment to attract and retain high caliber employees.
- Determine remunerations in line with the industry and not on an ad hoc basis.

REPUTATION

- Failure to comply with legal and statutory requirements.
- Engaging in unethical practices.

Rating: Low

RISK ASSESSMENT

Reputation is considered as the most valued intangible asset of the Company. Non-compliance to legal and statutory requirements and unethical behavior may lead to loss of reputation, fines and litigation.

- May lead to the loss of stakeholders including customers, suppliers and employees.
- Drop in market value of the company.

RISK MANAGEMENT STRATEGIES

The following measures are taken to ensure the highest standards of business conduct:

- Adoption of the Code of Corporate Governance by all employees, senior management and Board of Directors.
- Seek expert legal advice to incorporate risk mitigatory clauses in drafting legal contracts and agreements especially those of new ventures and investments.
- Maintain internal control systems and procedures to minimise fraud and malpractices.
- Implement Company's policies on health, safety and environment to ensure best practices in the industry.
- Adopt ethical and sustainable practices .
- Corporate membership in Employers Federation, Ceylon Chamber of Commerce and Planters Association of Ceylon.
- Close dialog with the Golden Shareholder.
- Sustainability framework of the group addresses the economic, social and environmental impact of the company's operations.

RISK MANAGEMENT *CONTD.*

RISK FACTORS	RATING
INVESTMENTS • Investments made without proper feasibility study and technical know-how.	Moderate
RISK ASSESSMENT • Project failures. • May impact future profitability and sustainability.	**RISK MANAGEMENT STRATEGIES** • Annual investment plan is formulated and included in the corporate plan. • Subject proposed investments to in-depth evaluation and feasibility process which require a minimum return on investment. • Seek Board approval prior to embarking on proposed investments. • Obtaining expert advise. • Closely monitor the progress to ensure project deliverables are achieved within given budgets and timelines.
INFORMATION & INFORMATION SYSTEMS • Failure to provide accurate and timely information from information systems is vital for decision making and control.	Low
RISK ASSESSMENT 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.	**RISK MANAGEMENT STRATEGIES** • Sound IT Policy, internal controls including IT security, privacy and confidentiality. • Disaster recovery plans and sound backup system to gear for system failure. • Monitoring of internet & e mail usage. • Enter into maintenance contracts for hardware and software with a well -established information technology company. • Use of licensed software.
FRAUD RISK • Break down of internal control systems, processes and procedures.	Low
RISK ASSESSMENT • Disruptions to normal course of operations. • Operational and financial loss.	**RISK MANAGEMENT STRATEGIES** • Review of effectiveness of internal control systems by Internal Auditors as well as third party auditors regularly and by external auditors annually. • Standardise procedures and policies to mitigate. • Employ suitable and qualified personnel. • Close monitoring and supervision of operations and personnel.
CONTRACTUAL RISK • Entering into legal contracts contravening law. • Contracts which are not commercially viable.	Low
RISK ASSESSMENT Oversight on contractual obligations may lead to loss of reputation, litigation and financial losses.	**RISK MANAGEMENT STRATEGIES** • Subject all agreements to professional legal review and advice • Board review and approval of all major contracts.

RISK FACTORS	RATING
FINANCIAL RISK: Arising from inadequacy of cash flows to meet financial obligations	
LIQUIDITY • Inadequate funding , mismatch of availability and needs.	Moderate
RISK ASSESSMENT • Availability of sufficient funds is crucial as the industry is cyclical with long gestation periods for returns. • Inadequacy of funds would affect sustainability of operations, funding at higher costs or postponement of critical investments.	**RISK MANAGEMENT STRATEGIES** • Structure borrowings appropriately to ensure maturity profile is not beyond the Company's ability to repay or re-finance. • Set borrowing limits and gearing levels in the financial objectives. • Prioritise capital investments . • Maintain cash flow and budgetary controls systems for effective monitoring
FINANCE COSTS • Fluctuating interest rates.	Moderate
RISK ASSESSMENT • High lending rates erode profitability and cash flows.	**RISK MANAGEMENT STRATEGIES** • Employ a mix of floating and fixed rates of interest to reduce the impact of any upward movement of finance cost while benefiting from a downward movement. • Increase share of equity funding in total capital employed. • Resort to concessionary funding from available sources.

CORPORATE GOVERNANCE

> "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."

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

Throughout our corporate journey, Talawakelle Tea Estates PLC has upheld the highest standards of business ethics of integrity, transparency, accountability and professionalism. We are consistent in advocating good governance in our actions and interactions with all our stakeholders across the organisation be it with our employees, our buyers and business partners or the communities in which we operate.

The "Code of Conduct and Business Governance" is documented and clearly sets out to all our employees, senior management and the Board of Directors the corporate ethos, statutory obligations and guidelines to best practices in governance and conduct. We are in compliance to the updated principles set out in 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 and the Rules set out in Section 7.10 of the Colombo Stock Exchange's Listing Rules on Corporate Governance. We also comply with the Company's Act No. 07 of 2007.

I present to you on behalf of my Board this year's Corporate Governance Report outlining our actions and commitment to ethical governance practices which form an integral part of our value creation process. The Board is of the opinion that TTE PLC has and continues to comply with the relevant regulatory and governance framework. The Board also affirms that there have not been any material violations during the year under review in the aforementioned "Code of Corporate Conduct".

Chairman
Talawakelle Tea Estates PLC

17 February 2014

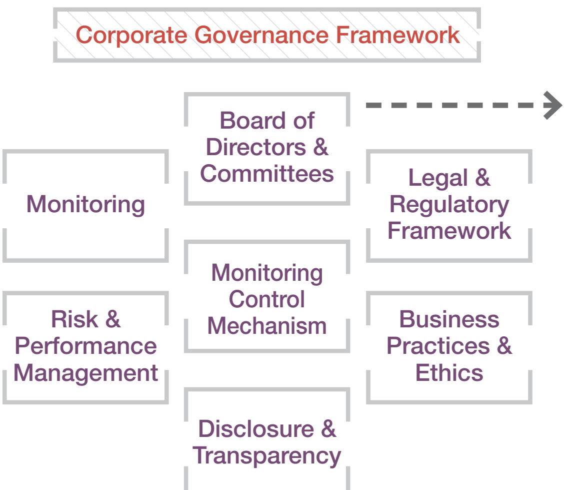
OVERVIEW

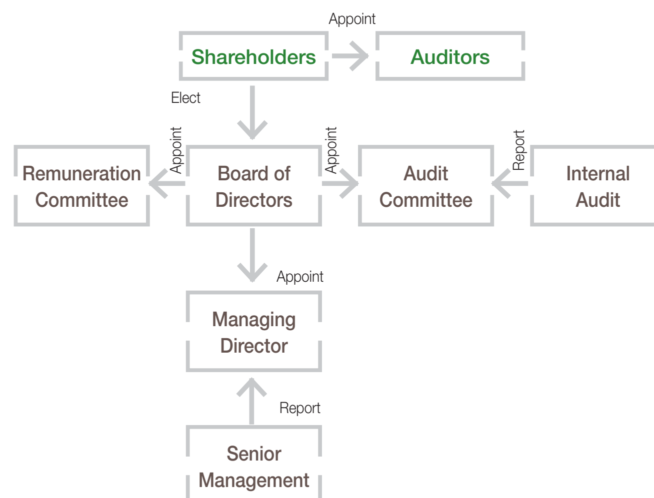
Corporate governance is a system which directs and controls the organisation through accountability and transparency in its endeavours in enhancing wealth of its shareholders. The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long term success of the company.

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. We recognise 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. 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.

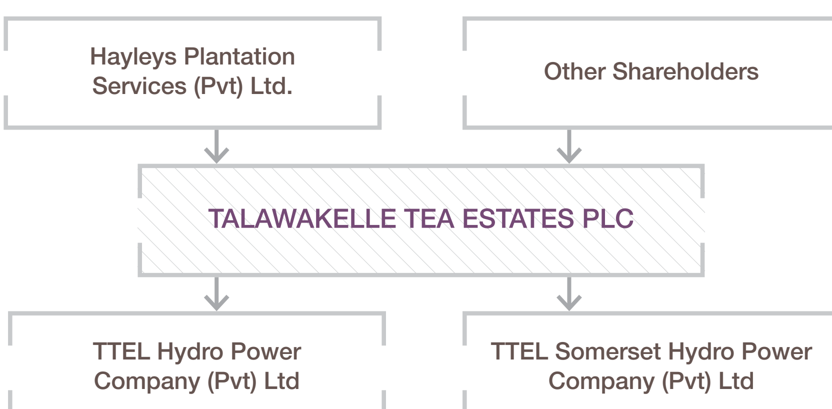
We operate within an integrated Governance Framework formulated based on the current codes of best practices on corporate governance. Our approach is based on each individual taking responsibility for performance, management of risk and value creation of the organisation. Our Code of Corporate Conduct and Guidelines on Corporate Governance which are updated periodically, detail clearly on the matters requiring the Board and Management Committee approval, advice or review. This Corporate Governance Report herein covers the issues such as Board structure, roles and processes.

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





GROUP STRUCTURE

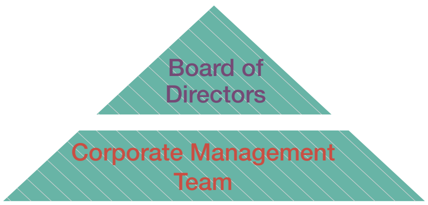


ORGANISATION

The Board has 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 Corporate Management Team, just below the Board overseeing the corporate management processes.

CORPORATE GOVERNANCE *CONTD.*



CORPORATE MANAGEMENT TEAM

The Corporate Management Team consists of the Managing Director and the Senior Management. The Corporate Management Team formulates, seeks Board approval and implements the corporate strategy within the policy framework established by the Board. The Managing Director reviews the annual budget, operational targets, monthly performance against budget and capital expenditure proposals prior to recommending to the Board.

The Corporate Management team is responsible for reviewing management of risks and internal control systems designed to safeguard Company assets, to ensure an 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 Managing Director for the implementation of policy and achieving of strategic objectives of the Company. The Managing Director exercises this authority within the policy framework established by the Board, the ethical framework and business processes inherent to the Company which demand that best practices are followed in dealing with employees, customers, suppliers and the community at large.

The Managing Director is entrusted with optimising the use of the 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 COMMITTEES

Meetings organised to bring together representatives from Finance, Corporate Communications and HR clusters from different sectors within the Hayleys Group give an ideal platform for the management to communicate relevant matters, areas of special interests and concerns and share best practices.

The Chief Financial Officer (CFO) of the Company reports to the group CFO on a quarterly basis on any significant risks or concerns affecting the business activities of their sector and the financials therein. This reporting maybe more frequent if warranted. The CFO Forum enables relevant matters to be debated among the Group CFOs.

INFORMATION TECHNOLOGY (IT) GOVERNANCE

IT Governance plays a vital role in the way we manage and control IT related services, enabling us to establish highest standards and assurance in IT investments, business processes and in mitigating the associated risks. We continuously seek to ensure that our IT systems are well maintained and updated to implement our corporate strategies and operational objectives. The Company utilises IT Systems provided by the Hayleys Group and of its own. The former includes an ERP (Enterprise Resource Planning) System, internet, email, other collaborative services and data communication systems. The latter includes systems deployed at the estates.

Competent and dedicated staff is deployed by the Company and by Hayleys PLC to support IT systems and processes.

INFORMATION TECHNOLOGY -VALUE AND ALIGNMENT

We give precedence to align our IT strategy with our business strategy. Investments in IT projects and systems are made after careful consideration of their suitability, cost savings, client satisfaction and timely information. Further aspects such as balance between cost of investment and the scale of operations are also taken into account in decision making.

INFORMATION TECHNOLOGY -RISK MANAGEMENT

Management of IT related risks and Information Security Management Systems (ISMS) are assessed in the process of Enterprise Risk Management. TTE PLC complies with the 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 and 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

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 in 2013 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: CODE OF GOVERNANCE ISSUED BY ICASL & SEC	SECTION 2: RULES FOR LISTED COMPANIES ISSUED BY CSE, 7.10
Directors	Non-Executive Directors
Director's Remuneration	Independent Directors
Relations with Shareholders	Disclosures Relating to Directors
Accountability & Audit	Remuneration Committee
Institutional Investors	Audit Committee
Other Investors	
Sustainability Reporting	

CORPORATE GOVERNANCE *CONTD.*

Section 1: Levels of Compliance to the Code of Best Practice on Corporate Governance 2013 issued jointly by ICASL and SEC

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
SECTION 1: THE COMPANY			
A. Directors			
A.1. The Board TTE PLC is headed by an effective Board of Directors with professionals and business leaders drawn from diverse fields; their profiles are given on pages 156 to 158 of this Annual Report. As at 31.12.2013, the Board comprised 12 directors including the Chairman, Managing Director and 04 Non-Executive Independent Directors. The Board with their multidisciplinary acumen and leadership directs the Company in achieving goals within a budgetary framework and a responsible governance structure.			
Board Meetings	A 1.1	Compliant	The Board discharges its responsibilities through quarterly scheduled meetings to make strategic decisions and to review the performance of the Group. Special meetings are also held as necessary. These meetings enhance shareholder value and all stakeholder interests are considered in corporate decisions. Details of the meetings and attendance of the members are set out on page 155 of this Report.
Responsibilities of the Board	A 1.2	Compliant	The Board of Directors : • formulates, implements, monitors and communicates business policy and strategy; • ensures that the Managing Director and the management team possess the requisite skills, experience and knowledge to implement the strategy effectively; • ensures that the adoption of an effective Managing Director and key management personnel succession strategy is in place; • ensures effective systems to secure integrity of information, internal controls, business continuity and risk management, compliance with laws and regulations and ethical standards; • ensures all stakeholder interests are considered in corporate decisions; • ensures recognising sustainable business development in Corporate Strategy, decisions and activities; • ensures that the Company's values and standards are set with emphasis on adoption appropriate accounting policies and fostering compliance with financial regulations; and • ensures fulfillment of other Board functions as are vital, given the scale, nature and complexity of the business concerned.
Compliance with Laws and access to independent professional advice	A.1.3	Compliant	The Board collectively and Directors individually, act in accordance with the Laws and Regulations of Sri Lanka as applicable to the Group. The Directors are permitted to obtain independent professional advice when required at the expense of the Company.

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Company Secretary	A.1.4	Compliant	All Directors have access to, advice and services of the Company Secretary who is responsible to the Board in ensuring that proper Board procedures are followed, complying with the applicable rules and regulations. The removal of the Company Secretary is a collective Board decision.
Independent judgment of Directors	A.1.5	Compliant	All Directors bring independent judgment on issues of strategy, performance, resources including key appointments and standards of business conduct.
Dedication of adequate time and effort by the Directors	A.I.6	Compliant	The Chairman and Directors dedicate adequate time and effort to matters of the Board and the Group to ensure that the duties and responsibilities owed to the Group is satisfactorily discharged. Directors dedicate sufficient time before a meeting to review Board Papers and call for additional information and clarification and follow-up on issues consequent to the meeting. Individual Directors also devote time to serve as members of various sub committees of the Board for familiarisation with business changes, operations, risks and controls.
Training for new and existing Directors	A.I.7	Compliant	Every Director is given appropriate training when first appointed to the Board and subsequently as and when necessary. The training curricular encompasses both general aspects of directorship and matters specific to the industry. The Board recognises the importance of continuous training and expansion of the knowledge and skills to effectively perform their duties as Directors. The Board regularly reviews and agrees on their training and development needs.

A.2. Chairman and Chief Executive Officer

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, such that no one individual has unfettered powers of decision. The Chairman is responsible for leading and providing strategic direction and guidance to the Board. The Chief Executive Officer's (Managing Director in terms of the Company) 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 Managing Director are clearly distinct from one another. The Chairman is also the ultimate point of contact for shareholders, particularly on matters related to Corporate Governance.

Separation of the roles of Chairman and Chief Executive Officer	A.2.1	Compliant	The functions of the Chairman and of the Managing Director are clearly defined and are separated. This ensures balance of power and authority within the Company.

CORPORATE GOVERNANCE *CONTD.*

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
A.3. Chairman's Role The Chairman is responsible for preserving good Corporate Governance and responsible for running the Board, preserve order and facilitate effective discharge of Board's functions.			
Role of the Chairman	A.3.1	Compliant	The Chairman is responsible for the efficient conduct of Board meetings and ensures, inter alia, that: • effective participation of both Executive and Non-Executive Directors is secured; • all Directors are encouraged to make an effective contribution within their respective capabilities for the benefit of the Company; • balance of power between Executive and Non-Executive Directors is maintained; • ascertain the views of Directors on issues under consideration. The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders.
A .4. Financial Acumen The Code requires that the Board comprise members with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
Availability of sufficient financial acumen	A.4.1	Compliant	Three 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 of finance and investment.
A.5. Board Balance The Code requires the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision making.			
Presence of Non-Executive Directors	A.5.1	Compliant	Nine out of twelve Directors are Non-Executive Directors which is well-above the minimum prescribed by the Code i.e. two or such number equivalent to 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 2012 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	Four out of nine Non- Executive Directors are independent which meets the minimum prescribed by the Code i.e., two or one-third of the Non-Executive Directors appointed to the Board whichever is higher.

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Independence of Non-Executive Directors	A.5.3	Compliant	All Independent Non- Executive Directors are independent of management and free of any business or other relationship that could materially interfere with or 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 signed and dated declaration annually of his/ her independence or non-independence against the specified criteria set out in the prescribed format of Schedule H of this Code. This information is made available to the Board.
Determination of independence of the Directors	A.5.5.	Compliant	The Board determines annually: • independence of each Non-Executive Director based on the declaration made of decided criteria and other information available to the Board. • independence of the Director in character and judgment and whether there are relationships or circumstances which are likely to affect or could appear to affect the Director's judgment Independent Non-Executive Directors are: Prof. U Liyanage Dr. S S S B D G Jayawardena Mr. L N De S Wijeyeratne Mr. N T Bogahalande
Alternate Director	A.5.6	Compliant	Alternate Director appointed by Non- Executive Directors are not Executives of the Company. Alternate Directors have not been appointed by Independent Directors.
Senior Non-Executive Director	A.5.7 & 5.8	Not Applicable	This does not arise as the roles of the Chairman and the Managing Director are clearly segregated.
Chairman conducting meetings with Non-Executive Directors	A.5.9	Compliant	The Chairman holds meetings with the Non- Executive Directors only, without the presence of the Executive Directors as necessary and at least once a year.
Recording of concerns in the Board Minutes	A.5.10	Compliant	Concerns raised by the Directors which could not be unanimously resolved during the year, if any, were recorded in the Board Minutes.
A.6. Supply of Information The Code requires the management to provide the Board with timely information in a form and of quality appropriate to enable the Board to discharge its duties effectively.			
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 properly briefed on issues arising at the Board meetings.

CORPORATE GOVERNANCE *CONTD.*

CORPORATE GOVERNANCE PRINCIPLE	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 provided to Directors at least seven days before the meeting, to facilitate effective participation and decision making.
A.7. Appointments to the Board The Code requires having a formal and transparent procedure for the appointment of new Directors to the Board.			
Nomination Committee	A.7.1	Compliant	The Board collectively 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	Annually, the Board collectively assesses the board composition to ascertain whether the combined knowledge and experience of the Directors match the strategic demands facing the Company. The findings of such assessments are taken into account when the new Board appointments are considered and when incumbent Directors come up for re-election.
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 • brief resume of the Director; • the nature of his expertise in relevant functional areas; • the names of companies in which the Director holds directorships or memberships in Board Committees; and • 'independence' of such Director.
A.8 Re-election The Code requires that all Directors to submit themselves for re-election at regular intervals at least once in every three years.			
Appointments of Non-Executive Directors and Directors in the Board	A.8.1 & A.8.2	Compliant	Non-Executive Directors are appointed for a specified term subject to re-election and to the provisions in the Companies Act relating to the removal of a Director and their re appointment should not be automatic. All Directors including the Chairman of the Board is subject to election by Shareholders at the first opportunity after their appointment and to re-election thereafter at intervals of no more than three years. The names of directors submitted for election or re-election is accompanied by a resume as set out in A.7.3 above, to enable shareholders to make an informed decision on their election. The Managing Director does not retire by rotation.
A.9. Appraisal of Board Performance The Code requires that the Board periodically appraises their own performance in order to ensure that Board responsibilities are satisfactorily discharged.			

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Annual performance evaluation of the Board and its Sub Committees	A.9.1 & A.9.2	Compliant	The Board undertakes an annual self-evaluation of its own performance in terms of the key responsibilities as set out in A.1.2 and that of its Committees.
Disclosure of performance evaluation criteria	A.9.3	Compliant	Performance evaluation criteria is given in the Remuneration Committee Report on page 164 of this Report.
A.10. Disclosure of Information in Respect of Directors The Code requires that the shareholders to be informed on the relevant details in respect of Directors in the Annual Report.			
Details in respect of Directors	A 10.1	Compliant	The following information in relation to Directors with page references is disclosed in the Annual Report. • Name, qualifications and brief profile - (Refer pages 156 to 158) • Nature of expertise (Refer pages 156 to 158) • Directors' interest in contracts (Refer page 222) • Number of meetings of the Board and Committees held and attendance (Refer page 155) • Names of Committees in which the Director serves as the Chairman or member (Refer pages 144, 149)
A. 11 Appraisal of Chief Executive Officer The Code requires the Board to assess the performance of the Chief Executive Officer. The Company does not have a CEO; A Managing Director is appointed.			
Setting annual targets and appraisal of the performance of the Chief Executive Officer by the Board	A.11.1 & A.11.2	Compliant	At the commencement of every financial year, the Board in consultation with the Managing Director sets reasonable financial and non-financial targets which are in line with short, medium and long-term objectives of the Company. Performance evaluation of the Managing Director is carried out by the Board quarterly and at the end of each fiscal year to ascertain if the pre-agreed targets have been achieved and if not, the reasons and justification for the failure to meet such targets and the circumstances.
B. Directors' Remuneration			
B.1. Remuneration Procedure The Code requires the Company to establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the 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 makes recommendations to the Board within agreed Terms of Reference, on the Company's framework of remunerating Executive Directors.
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.

CORPORATE GOVERNANCE *CONTD.*

<table>
<tr><th>CORPORATE GOVERNANCE PRINCIPLE</th><th>REFERENCE TO CODE</th><th>COMPLIANCE STATUS</th><th>DETAILS OF COMPLIANCE</th></tr>
<tr><td>Chairman and the members of the Remuneration Committee</td><td>B.1.3</td><td>Compliant</td><td>The Remuneration Committee consists of the following Non-Executive Directors:<table><tr><th>Name of Member</th><th>Position</th><th>Status</th></tr><tr><td>Prof. U. Liyanage</td><td>Chairman</td><td>Independent Non-Executive Director</td></tr><tr><td>Mr. L.N.De. S Wijeyeratne</td><td>Member</td><td>Independent Non-Executive Director</td></tr></table></td></tr>
<tr><td>Determination of remuneration of Non-Executive Directors</td><td>B.1.4</td><td>Compliant</td><td>The Board collectively determines the remuneration of the Non-Executive Directors including the members of the Remuneration Committee, within the limits set in the Articles of Association.</td></tr>
<tr><td>Consultation of the Chairman and access to professional advice</td><td>B.1.5</td><td>Compliant</td><td>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.</td></tr>
<tr><td colspan="4">B.2 Level and Make up of Remuneration
The Code requires the levels of remuneration of both Executive and Non-Executive Directors to be sufficient to attract and retain the Directors needed to run the business successfully. The proportion of remuneration of Executive Directors should be structured to link rewards to corporate and individual performance.</td></tr>
<tr><td>Executive Director's remuneration package</td><td>B .2.1</td><td>Compliant</td><td>The Remuneration Committee structures the packages needed to attract, retain and motivate Executive Directors of the required calibre within reasonable limits.</td></tr>
<tr><td>Comparison of remuneration with other companies</td><td>B.2.2</td><td>Compliant</td><td>The Remuneration Committee ensures correct positioning of remuneration levels of the Company in relation to other companies and is aware of what comparable companies are paying and takes account of relative performance.</td></tr>
<tr><td>Comparison of remuneration with other companies in the Group</td><td>B.2.3</td><td>Compliant</td><td>The Remuneration Committee is sensitive to remuneration and employment conditions of other companies within the Group.</td></tr>
<tr><td>Performance related elements of remuneration of Executive Directors</td><td>B.2.4</td><td>Compliant</td><td>Performance-based elements of remuneration of executives have been designed and tailored to align their interest with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.</td></tr>
<tr><td>Executive share options</td><td>B.2.5</td><td>Not Applicable</td><td>The Company does not have Executive Share Option Schemes.</td></tr>
<tr><td>Executive Directors' remuneration</td><td>B.2.6</td><td>Compliant</td><td>The Remuneration Committee follows the provisions set out in Schedule E of the Code as required.</td></tr>
</table>

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Early termination of Executive Directors	B.2.7 & B.2.8	Not Applicable	Special early termination clauses are not included in the contract of employment of Executive Directors that would entitle them to extra compensation. However, any such compensation would be determined by the Board of Directors.
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.
B.3 Disclosure of Remuneration The Code requires that the Company's Annual Report contains a statement of remuneration policy and details of remuneration of the Board as a whole.			
Disclosure of Remuneration	B.3.1	Compliant	Refer Section B.1.3 on page 144 for the names of Directors in the Remuneration Committee, page 164 in the Remuneration Committee Report for the remuneration policy and page 166 for the aggregate remuneration paid to Executive and Non- Executive Directors.
C. Relations with Shareholders			
C.1. Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings The Code requires the Board to use the AGM 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 proxy votes and indicate proxies lodged on each resolution and the balance for and against the resolution and withheld, is conveyed to the Chairman.
Separate resolution for all separate issues at the Annual General Meeting	C.1.2	Compliant	TTE PLC proposes a separate resolution at the AGM on each substantially separate issue and adoption of the Annual Report of the Board of Directors on the Affairs of the Company, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered as a separate resolution.

CORPORATE GOVERNANCE *CONTD.*

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Availability of Chairman of the Board and Sub-Committees to respond to queries at the AGM	C.1.3	Compliant	The Chairman of TTE PLC ensures that the Chairman of the Audit and Remuneration Committees are available to answer questions at the AGM if so required. The active participation of shareholders at the AGM is encouraged. The Board makes use of the opportunity presented by the AGM to have an effective dialogue with shareholders. The Board offers clarifications and responds to concerns shareholders have over the content of the Annual Report as well as other matters which are important to them. The AGM is also used to adopt the Financial Statements for the year.
Notice of the Annual General Meeting and General Meetings	C.1.4	Compliant	Annual Report containing the Notice of the AGM, the Agenda, instructions for voting and the Form of Proxy are sent to shareholders 15 working days prior to the date of the AGM, as required by the statute.
Procedures of voting at the Annual General Meeting	C.1.5	Compliant	A summary of the procedures governing voting at the General Meetings is circulated to shareholders with every Notice of the General Meeting.
C.2. Communication with Shareholders The Code requires the Board to implement effective communication with shareholders.			
Communication Channels	C.2.1	Compliant	TTE PLC reaches its shareholders through its website and the Colombo Stock Exchange in order to disseminate timely information.
Disclosure of policy	C.2.2	Compliant	Any information that the Board considered as price sensitive is disseminated to the shareholders as necessary.
Implementation of Policy	C.2.3	Compliant	Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Group considers as its principal communication with them and other stakeholders and are published through the CSE.
Disclose the contact person for shareholder communications	C.2.4	Compliant	Shareholders may bring up their concerns on communication with the Company Secretary.
Directors awareness on major Issues of shareholders	C.2.5	Compliant	The Chairman ensures that all Directors are aware of major issues and concerns of shareholders.
Contact person in relation to shareholders' matters	C.2.6	Compliant	Shareholders may bring up their concerns either with the Company Secretary or the Chairman as appropriate.
Response to shareholders	C.2.7	Compliant	The Chairman and the Directors answer all the queries raise by the shareholders at the AGM. The Company Secretary maintains a dialogue with the shareholders to answer and to attend to all the correspondences.

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
C.3 Major and Material Transactions The Code requires the Directors to disclose to shareholders all proposed material transactions, which if entered into, would materially alter/vary the Company's or Group's net asset base.			
Disclosure on 'major and material transactions'	C.3.1	Compliant	During the year, there were no transactions which fall within the definition of 'Major and Material' as set out in the Companies Act No. 07 of 2007, SEC Law and CSE regulations which materially affect the net asset base of TTE PLC or consolidated Group net asset base. Transactions, if any, which materially affect the net asset base of TTE PLC are disclosed in the Quarterly/Annual Financial Statements.
D. Accountability and Audit			
D. 1. Financial Reporting The Code requires the Board to present a balanced and understandable assessment of Companies financial position, performance and prospects.			
Balanced and understandable information	D.1.1	Compliant	The Board places great emphasis on presenting 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 Annual Report includes descriptive, non-financial content through which an attempt is made to provide stakeholders with information to assist them to make more informed decisions. Due care is exercised with respect to share price sensitive information.
Directors' Report in the Annual Report	D.1.2	Compliant	The Annual Report of the Board of Directors on the Affairs of the Company is given on pages 165 to 169 of this Annual Report which contains the following : • Declaration that the Company has not engaged in activities that contravene Laws and Regulations of Sri Lanka (Refer page 165) • Directors Declaration on all material interests in contracts involving the Company and has refrained from voting on matters in which they were materially interested (Refer page 166). • Equitable treatment to shareholders (Refer page 168) • Going concern of the business (Refer page 169) • Review of internal controls, risk management and reasonable assurance of effectiveness and adherence (Refer page 168)

CORPORATE GOVERNANCE *CONTD.*

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Statement of Directors' and Auditor's responsibility for the Financial Statements	D.1.3	Compliant	The "Statement of Directors' Responsibilities" for the preparation and presentation of Financial Statements is given on page 171 and the Auditor's responsibilities are set out on the "Independent Auditors' Report" on page 177 of this Annual Report. Statement on internal controls is given on page 168.
Management Discussion and Analysis	D.1.4	Compliant	Refer to the "Management Discussion and Analysis" on pages 28 to 114 of this Annual Report.
Declaration by the Board on the going concern of the business	D.1.5	Compliant	Refer page 169 of the "Annual Report of the Board of Directors" and the "Statement of Directors' Responsibility" on page 171 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.
Disclosure of Related Party transactions	D.1.7	Compliant	This Annual Report contains disclosure on the following on the Board; • Each related party has submitted signed and dated declarations annually (Refer page 166). • The Company Secretary is responsible to keep record on related party transactions and make necessary disclosures. • A process is in place and is operational to capture related parties and related party transactions and is properly documented. Further a report is presented by the Audit committee to the Board on identified related parties and their transactions on regular basis. • The Company maintains records on related parties and related party transactions. The information captured complies with the respective related party disclosure of SEC/ Accounting Standards, Auditing Standards and related regulations.
D.2. Internal Control The Code requires the Board to have a process of risk management and a sound system of internal controls to safeguard shareholders' investments and the Company's assets.			
Directors to review internal controls	D.2.1	Compliant	The Board together with the Audit Committee is responsible and reviews the risks faced by the Company and the effectiveness of the system of internal controls quarterly.
Internal Audit Function	D.2.2	Compliant	The Company has its own internal audit function and also employs independent professional accounting firms to complement the work done by them.

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Review of effectiveness of the risk management and internal audit function	D.2.3	Compliant	The Audit Committee carries out reviews of the process and the effectiveness of risk management and internal controls and document to the Board and the Board takes responsibility for the disclosure on Company's system of internal controls. 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 and risk management. It is noteworthy that any system can ensure only reasonable and not absolute, assurance that errors and irregularities are prevented or detected within a reasonable time. 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, Managing Director, 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.
Responsibility of Directors	D.2.4	Compliant	Directors take responsibility in maintaining a sound system of internal controls and the Internal Control Statement as described in Schedule K is given on page 171 of this Report.
D.3. Audit Committee The Code requires the Board to establish formal and transparent arrangements to select and apply accounting policies, financial reporting, internal control principles and maintain an appropriate relationship with the external auditors.			
Composition of the Audit Committee **Audit Committee** Mr. L N De S Wijeyeratne - Independent Non-Executive Director - *Chairman* Dr. S S S B D G Jayawardena - *Independent Non-Executive Director*	D.3.1	Compliant	Audit Committee consists of two Independent Non-Executive Directors including the Chairman and a Non-Executive Director who are appointed by the Board. The Company Secretaries Hayleys Group Services (Pvt) Ltd serves as its Secretary. The Director /Managing Director and the Chief Financial Officer 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 supports the Group to achieve a balance between conformance and performance.
Duties of the Audit Committee	D.3.2	Compliant	The Audit Committee is responsible for reviewing the scope and results of the Audit and effectiveness and the independence and the objectivity of the Auditors.

CORPORATE GOVERNANCE *CONTD.*

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
Terms of Reference of the Audit Committee	D.3.3	Compliant	The Terms of Reference (refer page 175) of the Audit Committee has been agreed to by the Board. This addresses the purpose of the Committee, its duties and responsibilities including the scope and functions of the Committee.
Disclosures of the Audit Committee	D.3.4	Compliant	Names of the Directors of the Audit Committee are given in this table under reference D.3.1.The independence of the Auditors is disclosed on page 175 under the Section on the 'External Audits' in the 'Audit Committee Report'.
D.4 Code of Business Conduct & Ethics The Code requires the Company to adopt a Code of Business Conduct & Ethics for Directors, and members of senior management team and to promptly disclose any waivers or material violations of the Code.			
Disclosure of Code of Business Conduct and Ethics	D.4.1	Compliant	A comprehensive Corporate Governance and Code of Conduct and Business Governance have been adopted by the Board. All Directors and key management personnel have declared compliance with the Code of Conduct and Business Governance.
Affirmation Statement by Chairman	D.4.2	Compliant	Refer the Chairman's Statement on Corporate Governance above on page 134 of this Report.
D.5 Corporate Governance Disclosures The Code requires the Directors to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.			
Disclosure of Corporate Governance	D.5.1	Compliant	This Report from pages 134 to 155 sets out the manner and extent to which TTE PLC has complied with the principles and provisions of relevant Codes.
2: SHAREHOLDERS			
E. Institutional Investors			
E.1 Shareholder Voting The Code requires institutional shareholders to make use of their votes and encourages them to ensure their voting intentions are translated to practice.			

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
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 AGM. 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 considers as price sensitive is disseminated to the shareholders, as necessary. Shareholders may bring up concerns they have, either with the Chairman or the Managing Director or the Company Secretary as appropriate.
E.2 Evaluation of Governance Disclosures The Code requires the institutional investors to give due weight to all relevant factors drawn to their attention.			
Due weight by institutional investors	E.2.1	Compliant	The institutional investors are encouraged to give due weight to all relevant matters relating to the Board structure and composition.
F. Other Investors			
F.1 Investing and Divesting Decision			
Individual shareholders	F.1.1	Compliant	Individual investors are encouraged to carry out adequate analysis or seek independent advice in making investing or divesting decisions.
F.2 Shareholder Voting			
Individual shareholders voting	F.2.1	Compliant	Individual shareholders are encouraged to actively participate in the AGM of the Company and exercise their voting rights. The AGM 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.*

CORPORATE GOVERNANCE PRINCIPLE	REFERENCE TO CODE	COMPLIANCE STATUS	DETAILS OF COMPLIANCE
G. Sustainability Reporting			
G.1 Principles of Sustainability Reporting The Code requires the Business to maintain policy and procedures to develop a sustainable business environment.			
Economic sustainability	G.1.1.	Compliant	The company takes responsibility for the impact of strategies, decisions and activities on economic performance and integrates corporate citizenship in its daily operations across the organisation.
The Environment	G.1.2.	Compliant	The organisation adopts an integrated approach that takes into account the direct and indirect economic, social, health and environmental implications of their decisions and activities including pollution prevention, sustainable resource use, climate change, protection of environment, bio-diversity and restoration of natural resources.
Labor practice	G.1.3.	Compliant	The company encompasses all policies and practices in relation to work performed by or on behalf of the company.
Society	G.1.4.	Compliant	Company engages in supporting and building relationships with the community and striving for sustainable development. This includes responsible public policy participation, fair competition and responsible community involvement.
Product Responsibility	G.1.5.	Compliant	Company manufactures quality tea and distributes them ensuring that the products are safe for the consumers so that they can make an informed choice. Company complies with the international food safety standards: • HACCP and ISO 22000 Certification • Rainforest Alliance (RA) Certification.
Stakeholder identification, engagement and effective communication	G.1.6.	Compliant	Internal and external stakeholder groups are identified in relation to the Company's sphere of influence, impact and implication. Communication with them is proactive and transparent. Communications with stakeholders include reporting on economic, social and environmental issues which are relevant, material, comparable with past performance and focuses on substance over form.
Sustainable reporting and disclosure	G.1.7.	Compliant	Sustainable reporting and disclosure is formalised as part of the Company's reporting process on a regular basis. Company's sustainability reporting is done based on the GRI standards G3.1 version. This is Board's responsibility which is built on several guidelines.

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

RULE NO.	CORPORATE GOVERNANCE PRINCIPLES	COMPLIANCE STATUS	EXTENT OF ADOPTION
7.10.(a)	Non-Executive Directors	Compliant	Nine out of twelve Directors were Non-Executive Directors
7.10.2(a)	Independent Directors	Compliant	Four out of nine Non-Executive Directors were independent as at 31st December 2013.
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 Corporate Governance issued by the SEC and ICASL with reference to A.5.5 on page 141 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, 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 on pages 156 to 158of this Report.
7.10.3(d)	Disclosure relating to New Directors	Compliant	Brief resumes of new Directors appointed have been provided to the CSE
7.10.5(a)	Composition of Remuneration Committee	Compliant	The Remuneration Committee comprised two Non-Executive Independent Directors at the conclusion of the preceding AGM and as at 31 December 2013.
7.10.5(b)	Functions of the Remuneration Committee	Compliant	Please refer to the above table in relation to the Code of Corporate Governance issued by the SEC and ICASL with reference to B.1.1 on page 143 for the details of the functions of the Remuneration Committee

CORPORATE GOVERNANCE *CONTD.*

RULE NO.	CORPORATE GOVERNANCE PRINCIPLES	COMPLIANCE STATUS	EXTENT OF ADOPTION
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 Corporate Governance issued by the SEC ICASL B.1.3 on page 144. Report of the Remuneration Committee is given on page 164 of this Report. The remuneration paid to the Directors is given in page 166 of this Annual Report.
7.10.6(a)	Composition of the Audit Committee	Compliant	The Audit Committee comprised three Non-Executive Directors of whom two are Independent as at the conclusion of the immediately preceding AGM and as at 31 December 2013. Chairman of the Audit Committee is an Independent Non-Executive Director and is appointed by the Board. The Managing Director and Chief Financial Officer attend meetings by invitation. Chairman of the Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. Please refer page 157 of this Annual Report.
7.10.6(b)	Audit Committee Functions	Compliant	Please refer to the above table in relation to the Code of Corporate Governance issued by the SEC and ICASL with reference to D.3.2 on page 149 for the details of the functions of the Audit Committee. The Terms of Reference of the Audit Committee has been agreed by the Board
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	Compliant	Refer above table in relation to the Code of the Corporate Governance of SEC and ICASL with reference D.3.1 on page 149 for the details of the names of members of the Audit Committee The basis of determination of the independence of the Auditors is given in the Audit Committee Report on page 175 of this Report.

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	5/5
Mr. R Rajadurai (Managing Director)	Executive	5/5
Mr. J A G Anandarajah (resigned – 31/03/13)	Executive	1/2
Mr. Merrill J Fernando	Non-Executive	0/5
Mr. Malik J Fernando	Non-Executive	2/5
Mr. D C Fernando (Alternate to Mr. Malik J Fernando)	Non-Executive	0/5
Mr. G K Seneviratne (resigned – 08/04/13)	Non-Executive	1/2
Dr. K I M Ranasoma	Non-Executive	3/5
Mr. W D N H Perera	Non-Executive	0/5
Ms. M D A Perera	Non-Executive	4/5
Pro. U Liyanage	Independent Non-Executive	2/5
Dr. S S S B D G Jayawardena	Independent Non-Executive	4/5
Mr. L N De S Wijeyeratne	Independent Non-Executive	5/5
Mr. N T Bogahalande (appointed – 13/05/13)	Independent Non-Executive	2/2
Mr. D S Seneviratne (appointed – 13/05/13)	Executive	2/2

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.

Honorary Consul of United Mexican States (Mexico). 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.

MR. W G ROSHAN RAJADURAI

*Managing Director**

Joined Talawakelle Tea Estates PLC and appointed to the Board on 01.01.2013.

Managing Director of Talawakelle Tea Estates PLC and Kelani Valley Plantations PLC from January 2013 and a member of the 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.

Chairman of the Planters' Association of Ceylon, a member of the Sri Lanka Tea Board, Rubber Research Board, Tea Small Holdings Development Authority (TSHDA) and in the Tea Council of Sri Lanka.

MR. MERRILL J FERNANDO **

Appointed to the Board of Talawakelle Tea Estates PLC in 1998.

Chairman of MJF Holdings Limited and one of Sri Lanka's first tea tasters in the then British-dominated trade. Founder of "DILMAH TEA" brand name which re-launched, redefined and re-established the quality of Ceylon tea. DILMAH is now, a much respected global name, renowned for its quality and the philosophy of caring and sharing behind the brand.

He incorporated the MJF Charitable Foundation, a low profile charity which works to create better conditions for plantation workers' underprivileged children, elders and society's victims.

MR. MALIK J FERNANDO **

Appointed to the Board of Talawakelle Tea Estates PLC in 1998.

Holds a Bachelor of Science Degree in Management from Babson College, USA. Director - Operations of the MJF Group, which comprises several tea growing and tea packing/exporting companies, supplying the 'Dilmah Tea' brand around the world.

PROF. UDITHA LIYANAGE ***

Appointed to the Board of Talawakelle Tea Estates PLC in December 2008.

Professor of Management of the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura and Adjunct Professor of Management of University of Canberra, Australia. Counts over 15 years experience in industry, having held senior marketing management positions in three leading companies in Sri Lanka. He, thereafter, joined the academia and read for the doctoral program at the PIM, of the University of Sri Jayewardenepura, Sri Lanka, where he has been the senior faculty member for Marketing over the past 20 years. He was the Director of PIM and the Chairman of the Institute's Board of Management. He has published many articles on Branding and Strategic Marketing in leading journals, both here and abroad, and addressed numerous local and international conferences. Also holds an MBA and is a Chartered Marketer, a Fellow of the Chartered Institute of Marketing (CIM), and the first Sri Lankan Honorary Fellow of the Sri Lanka Institute of Marketing (SLIM). The first Sri Lankan Honorary Fellow of the Asia Marketing Federation (AMF). He was the Chairman of the CIM Sri Lanka region, and a member of the international Board of CIM (U.K.).

He is a Marketing Consultant to a number of leading local companies and international agencies and a developer of senior managers. Serves on the Boards of Directors of a number of leading companies in Sri Lanka.

DR. S S S B D G JAYAWARDENA ***

Appointed to the Board of Talawakelle Tea Estates PLC in December 2008.

Chairman of the Tea Research Institute. 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. Currently a member of the Research & Development Committee of National Science Foundation.

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

MR. L N DE S WIJEYERATNE ***

Appointed to the Board of Talawakelle Tea Estates PLC in December 2008.

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. Group Finance Director of Richard Pieris PLC from January 1997 to June 2008 and also held senior management positions at Aitken Spence & Company, Brooke Bonds Ceylon and Zambia Consolidated Copper Mines Limited. Serves as a member of the Quality Assurance Board of the Institute of Chartered Accountants and was a former member of the Sri Lanka Accounting Standards Monitoring Board. Presently, an Independent Director of several listed and unlisted Companies.

MR. J A G ANANDARAJAH *

(Retired w.e.f. 31.03.2013)

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.

Served on the Boards of Kelani Valley Plantations PLC since acquisition in 1996 and Talawakelle Tea Estates PLC from 2010. He was the Managing Director of DPL Plantations (Pvt) Ltd., Hayleys Plantation Services (Pvt) Ltd., the owning companies of Kelani Valley Plantations PLC and Talawakelle Tea Estates PLC. Also, he was the 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 **

(Retired w.e.f. 08.04.2013)

Appointed to the Board of Talawakelle Tea Estates PLC in April 2010.

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 **

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 **

Appointed to the Board of Talawakelle Tea Estates PLC in October 2011.

Managing Director of Royal Ceramics Lanka PLC. Executive Director of LB Finance PLC. Chairman of Pan Asia Banking Corporation PLC, Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramics PLC, Horana Plantations PLC, Swisstek Ceylon PLC, N Sports (Pvt) Ltd. and N Capital (Pvt) Ltd. Deputy Chairman of Vallibel One PLC. Director of Hayleys PLC, Haycarb PLC, Amaya Leisure PLC, Hotel Services (Ceylon) PLC and Vallibel Finance PLC. Alternate Director of Vallibel Power Erathna PLC and The Fortress Resorts PLC.

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

Professional Affiliations & Memberships – Sri Lanka Institute of Marketing.

DIRECTORS PROFILES *CONTD.*

MS. MINETTE D A PERERA**

Appointed to the Board of Talawakelle Tea Estates PLC in January 2012.

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

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

MR. N T BOGAHALANDE ***

(Appointed w.e.f. 13.05.2013)

Appointed to the Board of Talawakelle Tea Estates PLC on 13th May 2013.

Mr. Bogahalande counts over 25 years of Managerial experience in Plantation, Manufacturing, Trading, and Financial sectors.

Member of the Institute of Certified Management Accountants Australia, Associate Member of the Institute of Personnel Management (Inc) Sri Lanka, Graduate in Master of Business Administration from the University of Sunderland UK. Conferred with the most prestigious 'Pride of HR Profession' award by the World HRD Congress in 2010.

Group Head of Human Resources of Vallibel One PLC /Royal Ceramics Lanka PLC. Serves as an Alternate Director of Horana Plantations PLC, Ceytea Plantation Management Ltd., LB Management Services (Pvt) Ltd., Delmege Coir (Pvt) Ltd and Uni Dil Packaging Ltd., and the Chairman of Elkaduwa Plantation Ltd.

MR D S SENEVIRATNE *

(Appointed w.e.f. 13.05.2013)

Appointed to the Board of Talawakelle Tea Estates PLC on 13th May 2013.

Director of Hayleys Plantation Services (Pvt) Ltd., and Deputy Chief Executive Officer of Talawakelle Tea Estates PLC. Counts over 15 years of experience in the Plantation Sector.

Fellow of the Institute of Chartered Accountants of Sri Lanka (FCA) and a Fellow of the Institute of Certified Management Accountants (FCMA) with over 25 years of post-qualifying experience in Finance, General Management & Commercial operations in the corporate sector.

Served as a member of the Steering Committee on IAS 41 – Agriculture of the Institute of Chartered Accountants of Sri Lanka and the Chairman of the CSR Steering Committee of Ceylon Chamber of Commerce. Director of Plantation Human Development Trust and a Trustee of the Plantation Trust Fund.

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

CORPORATE MANAGEMENT PROFILE

BOARD OF DIRECTORS

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.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)
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	
Mr N T Bogahalande	(Appointed- 13/05/2013)
Mr D S Seneviratne	(Appointed- 13/05/2013)

MANAGEMENT TEAM	
DIRECTORS	
Mr A M Pandithage	Chairman
Mr.W G R Rajadurai	Executive Director/Managing Director (Appointed- 01/01/2013)
Mr D S Seneviratne	Director-Deputy Chief Executive Officer

HEAD OFFICE MANAGEMENT TEAM	
Mr L H Munasinghe	Director Plantations
Mr T Dharmaratne	General Manager - Human Resource & Quality Management Development
Mrs A R Wijesekera	General Manager - Finance
Mr M T D Rodrigo	Deputy General Manager - Estates
Mr D M Wickramaratne	Senior Manager - Marketing
Mrs V A Perera	Manager - Finance
Mr H H Jayasundera	Manager - Resource Development

CORPORATE MANAGEMENT PROFILE *COND.*

ESTATE MANAGEMENT TEAM	
Mr S B Alawattegama	Regional General Manager - Bearwell Estate
Mr N P Abeysinghe	Regional General Manager - Dessford Estate
Mr D M H U Mahadivulwewa	Deputy General Manager - Kiruwanaganga Estate
Mr G K Wijesekera	Deputy General Manager - Great Western Estate
Mr P G G Jayathilake	Deputy General Manager - Mattakelle Estate
Mr H P W Vithanage	Group Manager - Moragalla Estate
Mr H P W Vithanage	Group Manager - Pitiyagoda Factory
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	Senior Manager - Holyrood Estate
Mr E S B A Egodawela	Senior Manager - Radella Estate
Mr D M A S Dissanayake	Manager - Clarendon Estate
Mr W D Jayasinghe	Manager - Indola Estate
Mr U B Udawatte	Acting Manager - Palmerston Estate
Mr K G M N Gamage	Acting Manager - Handford Factory
Mr A G R M S Ranaweera	Acting Manager - Logie Estate
Mr S G N N Kumara	Acting Manager - Calsay Estate

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 Merrill J Fernando
Mr Malik J Fernando
Mr A R De Zilva
Mr W G R Rajadurai
Dr K I M Ranasoma
Dr A Sivagananathan

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 Merrill J Fernando
Mr Malik J Fernando
Mr A R De Zilva
Mr W G R Rajadurai
Dr K I M Ranasoma
Dr A Sivagananathan

WHEN WE LOOK TO THE FUTURE, WE DONT JUST PREDICT THE TRENDS, WE LOOK TO REINVENT THEM. **THAT IS WHY OUR STRATEGY IS BASED ON ACTION AND NOT MERE WORDS. WE INCORPORATE NEW STRATEGIES THAT HELP US CONSOLIDATE OUR GAINS AND PERFORM BETTER THAN EVER BEFORE.**

MORE THAN A PLAN

REMUNERATION COMMITTEE REPORT

The Remuneration Committee consists of two Independent Non-Executive Directors including the Chairman of the committee. The Managing Director 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 Directors. In addition, they lay down guidelines and parameters for the compensation structure of the management staff of TTE PLC taking in to consideration industry norms.

The primary objective of the 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.

Prof U Liyanage
Chairman
Remuneration Committee
17 February 2014

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of Talawakelle Tea Estates PLC (TTE PLC) has pleasure in presenting the Annual Report of the Board of Directors on the affairs of the Company and audited Consolidated Financial Statements of the Group for the year ended 31st December 2013.

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 17th February 2014.

PRINCIPAL ACTIVITIES

Talawakelle Tea Estates PLC is the holding company, of TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited.

The principal activity of Talawakelle Tea Estates PLC is cultivation and manufacture of black tea and the subsidiaries are engaged in generation of hydro power.

There were no significant changes in the nature of the principal activities of the Company or its subsidiaries during the year under review.

GROUP STRUCTURE

The Group Structure is given on page 135.

BUSINESS REVIEW/FUTURE DEVELOPMENTS

A review of financial and operational performance and future business developments of the group is contained in the Chairman's Statement (pages 8 to 11) Managing Director's Review (pages 12 to 14) and Management Discussion and Analysis (pages 28 to 114) of the Annual Report. These reports, together with the audited financial statements, reflect the state of affairs of the Company and the Group.

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

FINANCIAL STATEMENTS

The Financial Statements of the Company and the Group are prepared in conformity with the Sri Lanka Accounting Standards (SLFRS/LKAS) as required by Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 and comply with the requirements of the Companies Act No 07 of 2007.

The Financial Statements of the Company and the Group for the year ended, 31st December 2013, have been duly signed by the Chief Financial Officer and two directors of the Board are given on pages 178 to 225.

AUDITOR'S REPORT

The Company's Auditors Messrs. Ernst and Young, Chartered Accountants carried out an audit on the Financial Statements of the company and the group as at 31st December 2013, and their Report is given on page 177.

ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of the Financial Statements of the company and the group are given on pages 184 to 197.
There were no material changes in the Accounting Policies adopted with those of the last year.

GROUP REVENUE

The revenue of the Group during the year was Rs. 3,646.8 mn (2012-Rs. 3,318.1mn). An analysis of the Group's revenue, profits and asset allocation relating to different segments are given in Note 6 to the Financial Statements.

The contribution to revenue from tea increased by Rs. 269.3 mn (2012- increased by Rs. 642.5mn), where as revenue from rubber decreased by Rs. 1.0 mn (2012- decreased by Rs. 14.9 mn). Revenue contribution from hydro power increased by Rs. 59.5 mn (2012- decreased by Rs. 50.4 mn) during the year.

Trade between Group Companies is conducted at fair market prices.

OPERATIONAL RESULTS OF THE GROUP

FOR THE YEAR ENDED (FIGURES IN Rs. Mn)	31/12/2013	31/12/2012
Turnover	**3,646.8**	3,318.1
Profit before Tax	236.7	231.2
Income Tax Expense	(37.2)	(4.5)
Profit after Taxation	199.5	226.7
Other Comprehensive Income net tax	28.8	7.3
Total Comprehensive income	**228.3**	234.0
Transferred : to Timber Reserve to Non Controlling Interest	 (13.1) (26.0)	 (22.5) (10.7)
Profit carried forward Retained earnings brought forward	189.2 865.6	200.8 664.8
Appropriations Dividend paid	 (59.4)	 -
Profit Carried forward	995.4	865.6

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY *CONTD.*

The Group profit before taxation, amounted to Rs. 236.7mn (2012 - Rs. 231.2 Mn) during the year under review. After charging Rs. 37.2 mn (2012 - Rs. 4.5mn) for taxation and a consolidation profit of Rs. 26.0 mn (2012-Rs10.7 Mn) for non-controlling interests, the Group profit attributable to equity holders of the company from operating activities for the year was Rs. 173.5 mn (2012-Rs. 215.9 mn). The final dividend of Rs. 2.50 per share for the financial year -2012 was paid on 2nd May 2013.

A sum of Rs. 71.25 mn (2012-Rs. 59.3 mn) has been set aside for proposed dividend. As required by Section 56(2) of the companies Act No 07 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test requirement under section 57 of the Companies Act No. 07 of 2007 for the first and final dividend proposed. A solvency certificate has been obtained from the Auditors in respect of the first and final dividend of Rs. 3.00 per share (2012 - Rs. 2.50) proposed to be paid on 9 April 2014 to the holders of issued ordinary shares of the Company as at the close of business on 31 March 2014 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. 126.9 mn (2012-Rs. 151.3 mn)

PROPERTY, PLANT & EQUIPMENT

Group investment on property, plant & equipment and capital work in progress during the year amounted to Rs. 47.7 mn (2012 - Rs79.8mn) whilst that of the Company was Rs. 47.7 mn (2012-Rs. 79.8 Mn). The Company's investment on replanting of tea, rubber and timber during the year amounted to Rs. 55.4 mn (2012-Rs. 54.0 mn), Rs. 19.5mn (2012- Rs. 15.2 mn) and Rs. 4.3mn (2012-Rs. 2.3mn) respectively.

Information relating to movement in property, plant & equipment and replanting is given in Notes 13, 14A, B & C to the Financial Statements.

MARKET VALUE OF PROPERTIES

The Group does not possess any freehold land.

STATED CAPITAL AND RESERVES

The stated capital of the Company as at 31st December, 2013 consists of 23,750,000 Ordinary Shares and one Golden Share amounting to Rs. 350,000,010. There was no change in the stated capital during the year.

Total group reserves at 31st December, 2013 amounts to Rs. 1148.3 mn (2012-Rs. 1,005.4mn) comprising retained earnings of Rs. 995.4 mn (2012- Rs. 865.6 mn) and timber reserves of Rs. 152.8 mn (2012-Rs. 139.7 mn). The movement in reserves during the year is shown in the Statement of Changes in Equity in the Financial Statements.

PREFERENCE SHARES

As at 31st December 2013 the company holds 14% Redeemable Cumulative Preference Shares of TTEL Hydro Power Company (Pvt) Limited and of TTEL Somerset Hydro Power (Pvt) Limited amounting to Rs. 53.1mn (2012-Rs. 53.1mn) and Rs. 16.0mn (2012 – 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.

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:
Directors and Officers (D&O) of the Company and its subsidiaries have 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 2013 is Rs. 5.1 mn (2012-Rs. 5.3 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 2013 is Rs. 2.4mn (2012-Rs1.8mn) 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 (2012- 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 156 to 158.

EXECUTIVE DIRECTORS

Mr. A M Pandithage (Chairman)
Mr. W G R Rajadurai (Managing Director)
(Appointed – 1st January 2013)
Mr. D S Seneviratne
(Appointed – 13th May 2013)

NON- EXECUTIVE DIRECTORS

Mr. Merrill J Fernando
Mr. Malik J Fernando
(Alternate Mr. D C Fernando)
Dr. K I M Ranasoma
Mr. W D N H Perera
Ms. M D A Perera

INDEPENDENT NON- EXECUTIVE DIRECTORS

Prof. U Liyanage
Dr. S S S B D G Jayawardena
Mr. L N De S Wijeyeratne
Mr. N T Bogahalande
(Appointed – 13th May 2013)

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

RESIGNATIONS, NEW APPOINTMENTS AND RE-ELECTIONS TO THE BOARD

Mr. W G R Rajadurai was appointed the Managing Director with effect from 1st January 2013.

Mr. J A G Anandarajah and Mr. G K Seneviratne retired from the Board effective from 31st March 2013 and from 8th April 2013 respectively.

Mr. N T Bogahalande and Mr. D S Seneviratne were appointed to the Board with effect from 13th May 2013.
In terms of the Article 28(2) of the Articles of Association of the Company, shareholders will be requested to re-elect Mr. N T Bogahalande and Mr. D S Seneviratne at the Annual General Meeting.

Mr. K I M Ranasoma, Mr. W D N H Perera and Ms. M D A Perera 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 83 years old.

BOARD COMMITTEES

The Board, while assuming the overall responsibility and accountability for the affairs in the management of the company, has appointed an Audit Committee and a Remuneration Committee with specific terms of reference. The Reports of these Committees are given on pages 175 and 164 of this report.

MANAGEMENT FEES

The management fee has been charged at 5% of Earnings before Interest Tax Depreciation and Amortisation (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 134 to 155 discusses this further.

AUDITORS

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

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

The Auditors Messrs Ernst & Young Chartered Accountants were paid Rs. 3.08mn (2012-Rs. 2.8mn) as audit fees and audit related work of the company and Rs. 0.16mn (2012-Rs. 0.16mn) 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.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY *CONTD.*

SHARE INFORMATION

Information relating to earnings, dividends, net assets, market value per share and share trading is given on pages 226 to 228.

GOLDEN SHAREHOLDER

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

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

- The concurrence of the Golden Shareholder in writing shall be first obtained to amend the definition of the words 'Golden Share' and 'Golden Shareholder' and the Articles 5(1) to 5(12) of the Articles of Association of the Company which deals with the Golden shareholder.
- The Golden Share may be converted into an ordinary share with the concurrence of the Golden Shareholder and the concurrence of a majority of the shareholders.
- The Company shall obtain the written consent of the Golden Shareholder prior to sub-leasing, ceding or assigning its rights in part or all of the lands set out in the Article of Association of the Company.
- 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 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 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 232.

HUMAN RESOURCES

The number of persons employed by the Company at year end was 10,018 (2012 -10,566) of which 9,986 (2012- 10,532) 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 171.

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 Management Discussion and Analysis on pages 72 to 109.

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 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. Accordingly, going concern basis has been adopted in preparation of the Financial Statements.

DIRECTORS' SHAREHOLDINGS

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

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

Mr. Merrill J Fernando - *1,184,700 shares (2012 -1,184,700 shares)*.
These shares are held through
Merrill J Fernando & Sons (Private) Limited.

Dr K I M Ranasoma - *500 shares (2012 – 500 shares)*
Mr D S Seneviratne - *600 shares (2012 – 500 shares)*

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

SHAREHOLDING

As at 31st December, 2013, there were 13,662 (2012- 13,727) registered shareholders and the percentage of shares held by the public was 20.27%(2012-20.27%) of the issued shares.

The twenty major shareholders as at 31st December, 2013 and the number of shares held and their percentage share holdings are given on page 228 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 31st March 2014. The Notice of the Annual General Meeting appears on page 231.

For and on behalf of the Board

A M Pandithage
Chairman

W G R Rajadurai
Managing Director

Hayleys Group Services (Pvt) Ltd.
Secretaries

Date : 17 February 2014

OUR ESTATES AND FACTORIES

Estate	Total Extent	Area in Tea		Area in Rubber		Other Cultivations	Total cultivated	Buildings, Bungalows, Garden & Roads	Name of manager	No. of workers	crop with B/L	Yield	Factory Elevation	Type of Factory	Factory Capacity
		Immature	Mature	Immature	Mature										
	Ha	Ha	Ha	Ha	Ha	Ha	Ha	Ha			Kg'000	Kg/Ha	m		Kg'000
Talawakelle/Nanu Oya															
Bearwell	423.41	25.76	319.17			28.41	373.34	50.07	SB Alawattegama	626	562,764	1,763	1,280	Ortho/ RV	720
Calsay	282.25	17.95	186.55			32.05	236.55	45.70	SGN Nalin Kumara	448	226,430	1,214	1,463	Ortho	430
Clarendon	191.42	13.81	150.04			6.10	169.95	21.47	DMAS Dissanayake	315	306,430	1,166	1,555	Ortho/ RV	600
Dessford	431.99	29.16	295.63			25.42	350.21	81.78	NP Abeysinghe	809	439,176	1,486	1,382	Ortho/ RV	720
Great Western	628.48	21.98	397.85			66.97	486.80	141.68	GK Wijesekara	843	596,694	1,500	1,448	Ortho/ RV	720
Holyrood	465.96	22.50	323.20			68.44	414.14	51.82	DMGB Dassanayake	677	497,754	1,540	1,341	Ortho/ RV	720
Logie	329.88	17.63	210.59			27.47	255.69	74.19	AGRMS Ranaweera	485	334,685	1,589	1,220	Ortho/ RV	500
Mattakelle	361.96	16.08	241.08			44.34	301.50	60.46	PGG Jayathilake	738	527,173	2,187	1,372	Ortho/ RV	720
Palmerston	203.11	10.25	145.36			24.00	179.61	23.50	UB Udawatte	334	250,770	1,725			
Radella	458.76	21.60	248.98			102.67	373.25	85.51	ESBA Egodawela	757	482,746	1,939	1,402	Ortho/ GR.T	720
Somerset	455.64	34.86	305.20			34.81	374.87	80.77	ACM Bandaranayake	834	527,129	1,727	1,102	Ortho/ RV	720
Wattegoda	529.89	17.75	300.00			99.90	417.65	112.24	MWSSK Wijewardena	690	472,640	1,575	1,219	Ortho/ RV	720
Sub Total	4,762.75	249.33	3,123.65	-	-	560.58	3,933.56	829.19		7,556	5,224,391	1,630.41			7,290
Galle															
Moragalla	384.78	10.89	85.90	40.92	121.14	44.61	303.46	81.32	HPW Vithanage	354	372,785	1,716	38	Ortho	600
Pitiyagoda	-								HPW Vithanage	10				Ortho	400
Sub Total	384.78	10.89	85.90	40.92	121.14	44.61	303.46	81.32		364	372,785	1,716			1,000
Deniyaya/Urubokka															
Deniyaya	578.15	20.20	211.16	17.80		56.40	305.56	272.59	GPGK Pathirana	460	557,185	1,192	310	Ortho	600
Handford									KGMN Gamage	58	229,325		400	Ortho	600
Indola	282.16	3.22	82.77	0.50	59.20	81.99	227.68	54.48	WD Jayasinghe	255	92,463	1,117		Ortho	
Kiruwanaganga	482.71	15.31	344.01	13.75		19.08	392.15	90.56	DMHU Mahadivulwewa	720	815,031	1,322	310	Ortho	1050
Sub Total	1,343.02	38.73	637.94	32.05	59.20	157.47	925.39	417.63		1,493	1,694,004	1,483			2,250
Grand Total	6,490.55	298.95	3,847.49	72.97	180.34	762.66	5,162.41	1,328.14		9,413	7,291,180	1,570			10,540

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible, under Section 150 (1), 151, 152 (1), 153 of the Companies Act No.07 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. 07 of 2007 and the Listing Rules of The Colombo Stock Exchange. Further the Financial Statements provide the information required by the Companies Act and the Listing Rules of the Colombo Stock Exchange.

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

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.

As required by the Section 56(2) of the Companies Act, the Board of Directors has authorised distribution of the dividend now proposed, being satisfied based on information available to it that the Company would satisfied the solvency test after such distribution in accordance with Section 57 of the Companies Act, and have sought in respect of the dividend now proposed, a certificate of solvency from the Auditors.

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 177 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

17 February 2014

WE HAVE BEATEN THE ODDS IN A CHALLENGING YEAR WHICH SAW EVERYTHING FROM WAGE HIKES TO PLANTATIONS AND EXPERIENCING THE WORST WEATHER WE HAVE SEEN IN 55 YEARS. WHILE WE ARE PROUD OF WHAT WE HAVE ACHIEVED, WE WILL NOT BE CONTENT TILL WE HAVE BETTERED OUR BEST. OUR RESULTS, THOUGH IMPRESSIVE, IS ANOTHER RUNG IN OUR LADDER OF SUCCESS.

MORE THAN RESULTS

FINANCIAL INFORMATION

Financial Calendar

Q1 Report	-	13th May 2013
Q2 Report	-	02nd August 2013
Q3 Report	-	29th October 2013
Q4 Report	-	17th February 2014

22nd Annual General Meeting	-	31st March 2014
First and Final Dividend Proposed	-	31st March 2014
First and Final Dividend Payable	-	09th April 2014

AUDIT COMMITTEE REPORT

ROLE OF THE AUDIT COMMITTEE

The role of the Committee, which has specific terms of reference, is described in the Corporate Governance Report on pages 134 to 155.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors two of whom are Independent. The Company Secretary acts as the Secretary to the Audit Committee. The Managing Director, and Chief Financial Officer (CFO) attend the meetings. The Chairman, Manager- Management Audit and Systems review, and General Manager Plantations attend meetings by invitation.

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

The names of the members of the committee are given below and their brief profiles are given on pages 156 to 158 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
Ms M D A Perera	4/4

Relevant members from the senior management team, representative from Hayleys Management Audit &Systems Review Department (MA&SRD), internal auditors as well as the external auditors were present at these meetings as appropriate. The proceedings of the Audit Committee are regularly reported to the Board of Directors.

TASKS OF THE AUDIT COMMITTEE

Financial Reporting System

The Committee reviewed the financial reporting system adopted by the Company in the preparation of its quarterly and annual Financial Statements to ensure reliability of the processes and consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka 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.

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 meetings 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 2014.

AUDIT COMMITTEE REPORT *CONTD.*

SUPPORT TO THE COMMITTEE

The Committee received information and support from management during the year to enable it to carry out is 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

17 February 2014

INDEPENDENT AUDITORS' REPORT

Building a better working world

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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 31 December 2013 and the Income Statements, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flow for the year then ended, and a summary of significant Accounting Policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal 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, 2013 and the financial statements give a true and fair view of the Company's financial position as at December 31, 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

– GROUP

In our opinion, the consolidated financial statements give a true and fair view of the financial position as at December 31, 2013 and the financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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.

17 February 2014
Colombo

INCOME STATEMENT

		COMPANY		GROUP	
Year ended 31 December	Notes	2013 Rs.000'	2012 Rs.000'	2013 Rs.000'	2012 Rs.000'
Revenue	6	3,528,338	3,259,211	3,646,838	3,318,149
Cost Of Sales		(3,191,077)	(2,864,620)	(3,225,010)	(2,894,951)
Gross Profit		337,261	394,591	421,828	423,197
Gain/(Loss) On Fair Value Of Biological Assets	14C	13,120	22,476	13,120	22,476
Other Income and Gains	7	50,740	42,408	39,274	40,388
Administrative Expenses		(101,513)	(89,517)	(109,046)	(96,065)
Management Fee		(26,728)	(27,253)	(26,728)	(27,253)
Results from Operating Activities		272,881	342,705	338,448	362,744
Finance Income	8.1	2,789	2,789	2,145	2,789
Finance Expenses	8.2	(58,684)	(89,934)	(80,565)	(111,466)
Interest Paid to Government on Finance Lease	8.3	(23,241)	(22,783)	(23,241)	(22,783)
Net Finance Expense		(79,136)	(109,928)	(101,661)	(131,461)
Profit/ (Loss) Before Tax	9	193,745	232,777	236,787	231,283
Income Tax Expense	10	(35,314)	(25,765)	(37,216)	(4,586)
Profit/ (Loss) for the year		158,431	207,012	199,571	226,698
Attributable To:					
Equity Holders of the Parent		158,431	207,012	173,533	215,949
Non - Controlling Interest		-	-	26,038	10,748
		158,431	207,012	199,571	226,698
Basic Earnings/ (Loss) per Share	11	6.67	8.72	7.31	9.09

The Accounting Policies and Notes on pages 184 to 225 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Notes	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Profit/ (Loss) for the year		**158,431**	207,012	**199,571**	226,698
Other comprehensive income					
Actuarial Gain on Defined Benefit Plans	24	**34,188**	8,715	**34,188**	8,715
Income Tax Effect	10.2	**(5,388)**	(1,373)	**(5,388)**	(1,373)
Other comprehensive income for the year, net of tax		**28,800**	7,341	**28,800**	7,341
Total comprehensive income for the year, net of tax		**187,232**	214,353	**228,371**	234,039
Attributable to:					
Equity Holders of the Parent		**187,232**	214,353	**202,333**	223,291
Non - Controlling Interest		**-**	-	**26,038**	10,748
		187,232	214,353	**228,371**	234,039

Actuarial gain on defined benefit plan has been recognized in Statement of Other Comprehensive Income in terms of provisions in LKAS 19. Where necessary, comparative figures have been reclassified to conform with the current period's presentation.

The Accounting Policies and Notes on pages 184 to 225 form an integral part of the Financial Statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 December	Notes	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
ASSETS					
Non Current Assets					
Right-to-use of Land	12	185,294	171,960	185,294	171,960
Immovable estate assets on finance lease (other than Right-to-use of land)	13	101,935	112,918	101,935	112,918
Tangible assets other than Immature/Mature Plantations	14A	669,260	667,276	1,064,353	1,078,423
Immature/Mature Plantations	14B	1,704,106	1,697,202	1,704,106	1,697,202
Consumable Biological Assets	14C	183,083	166,844	183,083	166,844
Development Cost		-	-	9,360	10,580
Investments in Subsidiaries	15	134,933	134,933	-	-
		2,978,611	2,951,134	3,248,131	3,237,928
Current Assets					
Inventories	16	606,288	486,278	606,656	486,278
Trade and Other Receivables	17	112,205	69,400	140,315	99,097
Amounts due from Related Companies	18	132	2,478	-	6,048
ACT Recoverable		7,473	7,473	7,473	7,473
Short Term Investments	19	9,434	6,675	14,434	11,675
Cash and Bank Balances		9,294	5,797	29,784	9,467
		744,826	578,102	798,662	620,040
TOTAL ASSETS		3,723,437	3,529,236	4,046,793	3,857,968
EQUITY AND LIABILITIES					
Equity					
Stated Capital	20	350,000	350,000	350,000	350,000
Timber Reserves		152,863	139,743	152,863	139,743
Retained Earnings		968,040	853,304	995,500	865,662
Equity attributable to Equity holders of the parent		1,470,904	1,343,047	1,498,363	1,355,405
Non-Controlling Interests	21	-	-	152,855	136,921
Total Equity		1,470,904	1,343,047	1,651,218	1,492,326
Non Current Liabilities & Deferred Income					
Interest Bearing Loans & Borrowings	22	341,885	407,068	439,159	546,552
Retiring Benefit Obligations	24	912,752	888,170	912,752	888,170
Deferred Tax Liability	10.2	36,546	8,077	41,870	12,772
Deferred Income	25	190,958	210,292	190,958	210,292
Liability to make Lease Payment after one year	26	189,113	171,072	189,113	171,072
		1,671,255	1,684,679	1,773,852	1,828,858
Current Liabilities					
Trade and Other Payables	27	377,081	338,307	379,688	350,431
Interest Bearing Loans & Borrowings	22	84,784	64,009	123,424	91,507
Liability to make Lease Payment within one year	26	504	431	504	431
Amounts due to Related Companies	28	15,793	12,405	14,685	8,057
Short Term Borrowings	23	55,000	60,000	55,000	60,000
Bank Overdraft		48,117	26,358	48,423	26,358
		581,279	501,510	621,723	536,784
TOTAL LIABILITIES		2,252,533	2,186,189	2,395,575	2,365,642
TOTAL EQUITY AND LIABILITIES		3,723,437	3,529,236	4,046,793	3,857,968

The Accounting Policies and Notes on pages 184 to 225 form an integral part of the Financial Statements.
These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

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

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

17 February 2014
Colombo.

STATEMENTS OF CHANGES IN EQUITY

As at 31 December	Stated Capital Rs.000’	Retained Earnings Rs.000’	Timber Reserve Rs.000’	Total Equity Rs.000’
Company				
Balance as at 1 January 2012	350,000	661,427	117,267	1,128,694
Profit/ (Loss) for the year	-	184,536	22,476	207,012
Other Comprehensive Income	-	7,341	-	7,341
Dividends	-	-	-	-
Balance as at 31 December 2012	350,000	853,304	139,743	1,343,047
Profit/ (Loss) for the year	-	145,311	13,120	158,431
Other Comprehensive Income	-	28,800	-	28,800
Dividends	-	(59,375)	-	(59,375)
Balance as at 31 December 2013	350,000	968,040	152,863	1,470,904

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
	Stated Capital Rs.000’	Retained Earnings Rs.000’	Timber Reserve Rs.000’	Total Rs.000’	Non Controlling Interest Rs.000’	Total Equity Rs.000’
GROUP						
Balance as at 1 January 2012	350,000	664,848	117,267	1,132,115	128,329	1,260,444
Profit/ (Loss) for the year	-	193,473	22,476	215,949	10,748	226,698
Other Comprehensive Income	-	7,341	-	7,341	-	7,341
Dividends	-	-	-	-	(2,157)	(2,157)
Balance as at 31 December 2012	350,000	865,662	139,743	1,355,405	136,921	1,492,326
Profit/ (Loss) for the year	-	160,413	13,120	173,533	26,039	199,571
Other Comprehensive Income	-	28,800	-	28,800	-	28,800
Dividends	-	(59,375)	-	(59,375)	(10,105)	(69,480)
Balance as at 31 December 2013	350,000	995,500	152,863	1,498,363	152,855	1,651,218

The Accounting Policies and Notes on pages 184 to 225 form an integral part of the Financial Statements.

STATEMENTS OF CASH FLOW

Year ended 31 December	Notes	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit/ (Loss) before Taxation		193,745	232,778	236,787	231,283
ADJUSTMENTS FOR					
Provision For Defined Benefit Plan Costs	24	146,594	139,337	146,594	139,337
Depreciation/Amortisation	9	131,167	118,083	148,441	136,097
Amortisation of Grants	25	(19,852)	(19,847)	(19,852)	(19,847)
Dividend Income	7	(11,466)	(2,020)	-	-
Finance Costs	8.2	58,684	89,934	80,565	111,466
Government Lease Interest	8.3	23,241	22,783	23,241	22,783
(Profit)/ Loss on disposal of Assets	7	-	(16,121)	-	(16,121)
(Gains)/Losses on Fair Value of Biological Assets	14C	(13,120)	(22,476)	(13,120)	(22,476)
Operating Profit before Working Capital Changes		508,993	542,449	602,656	582,522
(Increase)/Decrease in Inventories		(120,009)	(102,574)	(120,377)	(102,574)
(Increase)/Decrease in Trade and Other Receivables		(42,805)	2,160	(41,218)	(4,318)
Increase/(Decrease) in Trade and Other Payables		35,354	37,485	24,564	41,670
(Increase)/Decrease in amounts due from Related Companies		2,346	2,017	6,048	2,303
Increase/(Decrease) in amounts due to Related Companies		3,388	(1,912)	6,628	4,450
Cash Generated from Operations		387,266	479,625	478,301	524,053
Finance Costs Paid	8.2	(58,684)	(89,934)	(80,565)	(111,466)
Payment of ESC / Income Tax / SRL		(8,812)	(7,087)	(8,812)	(7,087)
Defined Benefit Plan Costs paid	24	(87,824)	(69,367)	(87,824)	(69,367)
Net Cash from Operating Activities		231,946	313,237	301,099	336,133
CASH FLOWS FROM INVESTING ACTIVITIES					
Grant Received	25	518	3,607	518	3,607
Proceeds from Disposal of Property, Plant & Equipment		-	16,121	-	16,121
Field Development Expenditure (Note A)	14B	(79,230)	(71,541)	(79,230)	(71,541)
Purchase of Property, Plant & Equipment (Note B)		(47,748)	(79,841)	(47,748)	(79,841)
Dividend Income Received	7	11,466	2,020	-	-
Net Cash used in Investing Activities		(114,994)	(129,634)	(126,460)	(131,654)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend Paid		(59,375)	-	(69,480)	(2,157)
Payment of Government lease rentals		(23,673)	(23,153)	(23,673)	(23,153)
Proceeds from loans		33,600	17,500	33,600	17,500
Repayment /Transfer of loans		(78,009)	(31,318)	(109,077)	(58,230)
Net Cash from Financing Activities		(127,456)	(36,971)	(168,629)	(66,040)
Net Increase / (Decrease) in Cash & Cash Equivalents		(10,504)	146,633	6,010	138,439
C. Cash & Cash Equivalents at the beginning of the year		(73,885)	(220,518)	(65,215)	(203,654)
D. Cash & Cash Equivalents at the end of the year		(84,389)	(73,885)	(59,205)	(65,215)

The Accounting Policies and Notes on pages 184 to 225 form an integral part of the Financial Statements.

STATEMENTS OF CASH FLOW

	Tea Rs.000'	Rubber Rs.000'	Company Unallocated Rs.000'	Hydro Rs.000'	Total Rs.000'
NOTE A: Investment in field development expenditure					
Investment in Immature Plantations and field development 2013	62,638	16,592	-	-	79,230
Investment in Immature Plantations 2012	56,327	15,214	-	-	71,541
NOTE B:Investment in Property, Plant & Equipment					
Investment in Property, Plant & Equipment 2013	47,748	-	-	-	47,748
Investment in Property, Plant & Equipment 2012	79,841	-	-	-	79,841

	Tea Rs.000'	Rubber Rs.000'	Group Unallocated Rs.000'	Hydro Rs.000'	Total Rs.000'
NOTE A: Investment in field development expenditure					
Investment in Immature Plantations and field development 2013	62,638	16,592	-	-	79,230
Investment in Immature Plantations 2012	56,327	15,214	-	-	71,541
NOTE B: Investment in Property, Plant & Equipment					
Investment in Property, Plant & Equipment 2013	47,748	-	-	-	47,748
Investment in Property, Plant & Equipment 2012	79,841	-	-	-	79,841

	COMPANY		GROUP	
	2013 Rs.000'	2012 Rs.000'	2013 Rs.000'	2012 Rs.000'
NOTE C				
Cash & Cash Equivalents at the beginning of the year				
Cash & Bank Balances	5,797	11,242	9,467	23,146
Short term Investments	6,675	9,964	11,675	14,964
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 D				
Cash & Cash Equivalents at the end of the year				
Cash & Bank Balances	9,294	5,797	29,784	9,467
Short term Investments	9,434	6,675	14,434	11,675
Bank Overdrafts	(48,117)	(26,358)	(48,423)	(26,358)
Short term Loans	(55,000)	(60,000)	(55,000)	(60,000)
	(84,389)	(73,885)	(59,205)	(65,215)

NOTE

During the Financial Year, the Company & the Group acquired Property, Plant & Equipment to the aggregate value of Rs.47,748,493/=.
The Accounting Policies and Notes on pages 184 to 225 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, 2013 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 Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes to the 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 2013 were authorized for issue in accordance with a resolution of the Board of Directors on 17 February 2014.

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 promulgated by the Institute of Chartered Accountants of Sri Lanka (CASL) and with the requirements of the Companies Act No. 07 of 2007.

2.2 Basis of Measurement

These Consolidated Financial Statements have been prepared in accordance with the historical cost convention other than Right to Use of Land and leased assets of SLSPC, which have been revalued as described in Note 12 to the Financial Statements and managed biological assets, those 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 Consolidated 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.

2.4 Materiality and Aggregation

Each material class of similar items is presented separately in the Consolidated Financial Statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year. Accounting policies of subsidiaries 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 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.

3.1.1 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.

Transaction costs, other than those associated with the issue of debt or equity securities that Group incurs in connection with a business combinations 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.

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 re-measured to fair value at the acquisition date through profit or loss.

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. If the contingent consideration is classified as equity, it will not be re-measured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of LKAS 39, it is measured in accordance with the appropriate SLFRS.

3.1.2 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.

Entities that are subsidiaries of another entity which is a subsidiary of the Company are also treated as subsidiaries of the Company.

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. Non-Controlling Interest is measured at the proportionate share of the acquiree's identifiable net assets. Subsidiaries are disclosed in Note 15 to the Financial Statements.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the 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

3.1.3 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.

Losses within a subsidiary are attributed to the Non-Controlling Interest even if that results in a deficit balance.

3.1.4 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.

3.1.5 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)'.

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

3.1.6 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 Interest'.

3.2 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.

3.2.1 Property, Plant & Equipment

3.2.1.1 Recognition and Measurement

Items of Property, Plant & Equipment are measured at cost (or at fair value in the case of Right to Use of land and Consumable Biological Assets), less accumulated depreciation and accumulated impairment losses, if any.

3.2.1.2 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 (Major Components) with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the 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.

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.

3.2.1.3 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.

Operating lease payments are recognised as an operating expense in the Income Statement on a straight-line basis over the lease term.

3.2.1.4 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.

3.2.1.5 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. When revalued assets are sold, any related amount included in the Revaluation Reserve is transferred to Retained Earnings.

3.2.1.6 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.

3.2.1.7 Bearer Biological Asset

Immature and Mature Plantations

The cost of land preparation, rehabilitation, new planting, replanting, crop diversification, inter-planting and fertilizing, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct costs plus attributable overheads. The expenditure incurred on bearer biological assets (Tea, Rubber) which comes into bearing during the year, is transferred to mature plantations.

Permanent impairments to Biological Assets 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.

3.2.1.8 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.

3.2.1.9 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'.

3.2.1.10 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	32 (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.

(b) Amortisation

The leasehold rights of assets taken over from SLSPC are amortised in equal amounts over the shorter of the remaining lease period and the useful lives as follows:

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

	No. of Years
Right to Use of Land	53
Improvements to land	30
Mature Plantations (Tea & Rubber)	30
Buildings	25
Machinery	20
Development Cost	10

3.2.1.11 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.

3.2.2 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 assets includes tea and rubber plants, those that are not intended to be sold or harvested, however used to grow for harvesting agricultural 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 events, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably. 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.

The bearer biological assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any, in terms of LKAS 16 – "Property, Plant & Equipment".

The 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. 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 species 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 species by factoring the forestry plan of the Company.
Selling price	Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be 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: MatureTimber trees - 17.5% Immature Timber Trees - Compound-ing Rate 14%.

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.

3.2.3 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 amortised 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 amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The amortisation period and method of intangible assets with a finite and indefinite useful life are reviewed annually.

A summary of the policy applied to the Group.

Development Cost
Useful lives - Finite
Amortisation Method Used - Amortised Straight line over the right to generate hydro power.
Period of amortisation - 15 Years
Internally generated or acquired - Acquired

3.2.3.1 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. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion the cash-generating unit retained.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

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 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.

3.2.4 Financial Instruments

3.2.4.1 Financial assets

3.2.4.1.1 Initial Recognition & Measurement

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,

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

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 directly attributable transaction costs, except in the case of assets not at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, short-term investments, and trade and other receivables.

3.2.4.1.2 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as described below:

(a) 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 as at fair value through profit or loss.

(b) 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 amortised cost using the effective interest rate method (EIR), less impairment. Amortised 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.

Loans and receivables comprise of trade receivables, amounts due from related parties, deposits, advances and other receivables and cash and cash equivalents.

(c) 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 amortised cost using the effective interest method, less impairment. Amortised 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 year ended 31 December 2013.

(d) 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.

3.2.4.1.3 Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3.2.4.1.4 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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.2.4.2 Financial liabilities

3.2.4.2.1 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 amortised cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings.

3.2.4.2.2 Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are 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.

(b) Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised 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) amortisation process.

Other financial liabilities comprise interest bearing loans and borrowings, trade payables, other payables, income tax payables and amounts due to related parties.

(c) Financial guarantee contracts

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortization.

3.2.4.2.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Income Statement.

3.2.4.3 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.

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

3.2.4.3 Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.
For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

3.2.5 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. Accordingly the Group has exposure to namely Credit Risk, Liquidity Risk and Interest Rate Risk 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.

3.2.5.1 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.

3.2.5.2 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.

3.2.5.3 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.

3.2.6 Inventories

Finished 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

Agricultural produce harvested from biological assets 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.

3.2.7 Trade and Other Receivables

Trade and other receivables are stated at their estimated realisable amounts inclusive of provisions for bad and doubtful debts.

3.2.8 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand form an integral part of the Group's cash management and are included as a component of cash and cash equivalents for the purpose of the Statements of Cash Flow.

3.2.9 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.

3.2.9.1 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.

3.2.9.2 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.

3.3 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 obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.3.1 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 in other comprehensive income in the period in which they arise. Actuarial gains and losses recognised in other comprehensive income are recognised immediately in retained earnings and are not reclassified to profit or loss. 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.

3.3.2 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.3.3 Trade and Other Payables

Trade and other payables are stated at their costs.

3.3.4 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the Group have been disclosed in the respective Notes to the Financial Statements.

3.3.5 Events Occurring after the Reporting Period

All material events after the statement of Financial Position Date have been considered where appropriate; either adjustments have been made or adequately disclosed in the Financial Statements.

3.3.6 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.

3.3.7 Deferred Income

3.3.7.1 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 amortised over their useful lives as follows.

Buildings	40 years
Roads	5 Years

3.4 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.

3.4.1 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.

3.4.2 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.

3.4.2.1 Finance Income and Expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.4.2.2 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.

Current tax relating to items recognised directly in equity is recognised in equity and not in the Income Statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised using the liability 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 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 is recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

3.5 Statement of Cash Flow

The Statement of Cash Flow has been prepared using the 'indirect method'. Interest paid is classified as operating cash flows, while dividends paid and Government grants received are classified as financing and investing cash flows, for the purpose of presenting the Cash Flow Statement.

3.6 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 40 and 41 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.

All operating segments' operating results are reviewed regularly to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of 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

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

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.C - Biological Assets

4.1 Income Taxes

The Group is subject to income taxes and other taxes. Significant judgement was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements. The Group recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

4.2 Measurement of 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 Fair Valuation of 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.

4.3.1 Impairment of property, plant and equipment and intangible assets other than goodwill

The impairment analysis is principally based upon discounted estimated cash flows from the use and eventual disposal of the assets. Factors like lower than anticipated sales and resulting decreases of net cash flows and changes in the discount rates could lead to impairment.

4.4 Measurement of the recoverable amount of cash-generating units containing goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

- **SLFRS 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 2014.

- **SLFRS 11-Joint Arrangements**

SLFRS 11 replaces LKAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. SLFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidating of joint ventures being changed to equity accounting. This standard becomes effective for annual periods beginning on or after 1 January 2014.

- **SLFRS 12-Disclosure of Interests in other entities**

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in LKAS 31 and LKAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2014.

- **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 2014.

- **SLFRS 9 Financial Instruments**

SLFRS 9 replaces 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 2015. 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.

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

6. REVENUE
6.1 Summary

Year ended 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Sale of Goods				
Tea	3,469,886	3,200,507	3,469,886	3,200,507
Rubber	39,147	40,161	39,147	40,161
Mini Hydro Power	-	-	118,500	58,938
Others	19,305	18,543	19,305	18,543
	3,528,338	3,259,211	3,646,838	3,318,149

6.2. Segment Information
a) Segment Revenue

	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Tea				
Revenue	3,469,886	3,200,507	3,469,886	3,200,507
Revenue Expenditure	(2,873,435)	(2,566,789)	(2,873,435)	(2,566,789)
Depreciation	(128,571)	(115,984)	(128,571)	(115,984)
Other Non Cash Expenditure	(146,594)	(139,337)	(146,594)	(139,337)
Segment Results	321,286	378,396	321,286	378,396
Rubber				
Revenue	39,147	40,161	39,147	40,161
Revenue Expenditure	(39,881)	(40,410)	(39,881)	(40,410)
Depreciation	(2,595)	(2,099)	(2,595)	(2,099)
Other Non Cash Expenditure	-	-	-	-
Segment Results	(3,330)	(2,348)	(3,330)	(2,348)
Mini Hydro Power				
Revenue	-	-	118,500	58,938
Revenue Expenditure	-	-	(16,659)	(12,317)
Depreciation	-	-	(17,274)	(18,014)
Other Non Cash Expenditure	-	-	-	-
Segment Results	-	-	84,566	28,607
Unallocated				
Revenue	19,305	18,543	19,305	18,543
Revenue Expenditure	-	-	-	-
Depreciation	-	-	-	-
Other Non Cash Expenditure	-	-	-	-
Segment Results	19,305	18,543	19,305	18,543

6. REVENUE (Contd..)

6.2 Segment Information (Contd..)

Year ended 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Total				
Revenue	3,528,338	3,259,211	3,646,838	3,318,149
Revenue Expenditure	(2,913,316)	(2,607,200)	(2,929,975)	(2,619,517)
Depreciation	(131,167)	(118,083)	(148,441)	(136,097)
Other Non Cash Expenditure	(146,594)	(139,337)	(146,594)	(139,337)
Segment Results	337,261	394,591	421,828	423,197
Gains on fair value of biological assets	13,120	22,476	13,120	22,476
Other Income	50,740	42,408	39,274	40,388
Administrative Expenses	(101,513)	(89,517)	(109,046)	(96,065)
Management Fees	(26,728)	(27,253)	(26,728)	(27,253)
Government Lease Interest	(23,241)	(22,783)	(23,241)	(22,783)
Finance Income	2,789	2,789	2,145	2,789
Finance Expense	(58,684)	(89,934)	(80,565)	(111,466)
Operating Profit of the Company	193,745	232,778	236,787	231,283

As at 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
b) Segment Assets				
Non Current Assets				
Tea	2,569,484	2,572,242	2,569,484	2,572,242
Rubber	91,112	77,115	91,112	77,115
Mini Hydro Power	-	-	404,453	421,727
Investment	134,933	134,933	-	-
Consumable Biological Asset	183,083	166,844	183,083	166,844
	2,978,611	2,951,134	3,248,131	3,237,928
Current Assets				
Tea	740,150	573,585	740,150	573,585
Rubber	4,676	4,517	4,676	4,517
Mini Hydro Power	-	-	53,836	41,938
	744,826	578,102	798,662	620,040
Total Assets	3,723,437	3,529,236	4,046,793	3,857,968

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

6. REVENUE (Contd..)

6.2 Segment Information (Contd..)

As at 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
c) Segment Liabilities				
Non Current Liabilities and Deferred Income				
Tea	1,671,255	1,684,679	1,671,255	1,684,679
Rubber	-	-	-	-
Mini Hydro Power	-	-	102,597	144,180
	1,671,255	1,684,679	1,773,852	1,828,858
Current Liabilities				
Tea	581,279	501,510	581,279	501,510
Rubber	-	-	-	-
Mini Hydro Power	-	-	40,445	35,274
	581,279	501,510	621,723	536,784
Total Liabilities	2,252,533	2,186,189	2,395,575	2,365,642
d) Segment Capital Expenditure				
Cost				
Tea	103,195	133,863	103,195	133,863
Rubber	19,516	15,214	19,516	15,214
Mini Hydro Power	-	-	-	-
Consumable Biological Asset	4,268	2,306	4,268	2,306
	126,978	151,382	126,978	151,382

7. OTHER INCOME AND GAINS

Year ended 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Sale of Trees	18,723	3,859	18,723	3,859
Amortisation of Capital Grants	19,852	19,847	19,852	19,847
Profit on Disposal of Assets	-	16,121	-	16,121
Dividend Income	11,466	2,020	-	-
Lease of land for towers	699	560	699	560
	50,740	42,408	39,274	40,388

8. FINANCE INCOME/ EXPENSE

8.1 Finance Income

Year ended 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Interest Income	2,789	2,789	2,145	2,789
	2,789	2,789	2,145	2,789

8.2 Finance Expenses

Guarantee Chargers	-	-	(175)	-
Overdraft Interest	(3,416)	(6,996)	(3,416)	(6,996)
Short Term Loan Interest	(4,181)	(26,182)	(4,191)	(26,182)
Term Loan Interest	(51,087)	(56,757)	(72,784)	(78,289)
	(58,684)	(89,934)	(80,565)	(111,466)

8.3 Interest Paid to Government on Finance Lease	(23,241)	(22,783)	(23,241)	(22,783)
Net Finance Expense	(79,136)	(109,928)	(101,661)	(131,461)

9. PROFIT BEFORE TAX IS STATED AFTER CHARGING

Year ended 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Directors Emoluments	5,120	5,361	5,120	5,361
Key Management Compensation	10,553	10,537	10,553	10,537
Auditors Fees	2,419	2,160	2,489	2,230
Depreciation/Amortisation	131,167	118,083	148,441	136,097
Defined Benefit Plan Costs	146,594	139,337	146,594	139,337
Defined Contributions Plan Costs - EPF & ETF	179,735	164,102	179,735	164,102
Others - Staff Costs	1,643,892	1,422,115	1,643,892	1,422,115

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

10. INCOME TAX EXPENSE

The major component of income tax expenses for the year ended 31st December 2013 are as follows :

10.1 INCOME STATEMENT

	COMPANY		GROUP	
Year ended 31 December	**2013 Rs.000'**	**2012 Rs.000'**	**2013 Rs.000'**	**2012 Rs.000'**
Current Tax Expenses				
Current Income Tax Charges	**12,232**	13,101	**13,506**	13,313
Under Provision in respect to current income tax of previous years	**-**	6,447	**-**	6,447
	12,232	19,548	**13,506**	19,760
Deferred Tax Expense				
Deferred Taxation Charge /(Reversal)	**23,082**	6,217	**23,709**	(15,175)
	23,082	6,217	**23,709**	(15,175)
Total Tax Expense	**35,314**	25,765	**37,216**	4,586

10.2 STATEMENT OF COMPREHENSIVE INCOME

Deferred tax related to items charged or credited directly to OCI during the year;				
Net gain/ (loss) on actuarial gains and losses	**5,388**	1,373	**5,388**	1,373
Income tax charged directly to other comprehensive income	**5,388**	1,373	**5,388**	1,373

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

10.3 RECONCILIATION BETWEEN TAX EXPENSES AND THE PRODUCT OF ACCOUNTING PROFIT MULTIPLIED BY THE STATUTORY EFFECTIVE TAX RATES ARE AS FOLLOWS:

	COMPANY		GROUP	
Year ended 31 December	**2013 Rs.000'**	**2012 Rs.000'**	**2013 Rs.000'**	**2012 Rs.000'**
Profit before Tax	193,745	232,778	236,787	231,283
Effective Rate	10%	11.22%	10%	11.22%
Tax effect on Accounting Profit / (Loss) Before Tax	19,375	26,125	23,679	25,958
Tax effect on Aggregate disallowed items	31,057	31,448	31,057	31,448
Tax effect on Aggregate allowable items	(27,168)	(35,356)	(27,168)	(35,356)
	23,263	22,217	27,567	22,050
Tax effect on Non Tax Receipt	(4,444)	(2,781)	(8,748)	(2,781)
Tax effect on Profit from Agriculture	-	-	-	168
Tax effect on Tax Loss B/F & Utilised	(6,587)	(7,054)	(6,587)	(7,054)
	12,232	12,382	12,232	12,382
Other Income	-	719	-	719
	12,232	13,101	12,232	13,101
Dividend Tax @ 10%	-	-	1,274	212
Income Tax Charge/(Reversal)	12,232	13,101	13,506	13,313

10.4 DEFERRED TAX ASSETS AND LIABILITIES

As at 31 December	2013		2012	
Company	**Temporary Difference Rs.000'**	**Tax Effect Rs.000'**	**Temporary Difference Rs.000'**	**Tax Effect Rs.000'**
As at 1 January	112,227	8,077	55,006	486
Amount originating during the year	186,580	28,470	57,222	7,591
As at 31 December	298,807	36,546	112,227	8,077
Temporary difference of property, plant and equipment	418,335	65,930	341,264	53,783
Temporary difference Immature/Mature	1,704,106	268,567	1,697,202	267,479
Temporary difference of biological asset	183,083	18,308	166,844	16,684
Temporary difference of retirement benefit obligation	(912,752)	(143,850)	(888,170)	(139,976)
Temporary difference Deferred Income	(190,958)	(30,095)	(210,292)	(33,142)
Carried forward tax losses	(903,007)	(142,314)	(994,621)	(156,752)
As at 31st December	298,807	36,546	112,227	8,077

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

10.4 DEFERRED TAX ASSETS AND LIABILITIES CONTD.

Group	2013 Temporary Difference Rs.000'	2013 Tax Effect Rs.000'	2012 Temporary Difference Rs.000'	2012 Tax Effect Rs.000'
As at 1 January	133,418	12,772	173,673	26,574
Amount originating during the year	184,401	29,097	(40,255)	(13,801)
As at 31 December	317,819	41,870	133,418	12,772
Temporary difference of property, plant and equipment	437,348	71,253	362,454	58,479
Temporary difference Immature/Mature	1,704,106	268,567	1,697,202	267,479
Temporary difference of biological asset	183,083	18,308	166,844	16,684
Temporary difference of retirement benefit obligation	(912,752)	(143,850)	(888,170)	(139,976)
Temporary difference Deferred Income	(190,958)	(30,095)	(210,292)	(33,142)
Carried forward tax losses	(903,007)	(142,314)	(994,621)	(156,752)
As at 31 December	317,819	41,870	133,418	12,772

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.

As at 31 December		COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Amounts used as the Numerator :					
Net profit/ (loss) applicable to ordinary shareholders for basic earnings per share		158,431	207,012	173,533	215,949
		158,431	207,012	173,533	215,949
Amounts used as the Denominator :					
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
Earnings/ (Loss) per Share	Rs.	6.67	8.72	7.31	9.09

12. RIGHT-TO-USE OF LAND

"Right-To-Use of Land on Lease" as above was previously titled "Leasehold Right to Bare Land". The change is in order to comply with Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka dated 21st August 2013. 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 Alternative Treatment (SoAT) 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 1992 Statement of Financial Position Date and amortization of the right to use land up to 31 December 2013 are as follows.

	COMPANY		GROUP	
	2013 Rs.000'	2012 Rs.000'	2013 Rs.000'	2012 Rs.000'
Capitalised Value				
As at 1st January	182,382	182,382	182,382	182,382
Increase due to reassessment of liability	18,545	-	18,545	-
As at 31st December	200,927	182,382	200,927	182,382
Amortization				
As at 1st January	10,422	5,211	10,422	5,211
Amortization charge for the year	5,211	5,211	5,211	5,211
As at 31st December	15,633	10,422	15,633	10,422
Carrying amount	185,294	171,960	185,294	171,960

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

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 Statement of Financial Position and the amortisation of immovable estate assets to 31 December 2013 are as follows.

	COMPANY					GROUP				
	Improvement to Land Rs.000'	Mature Plantations Rs.000'	Buildings Rs.000'	Plant & Machinery Rs.000'	Total Rs.000'	Improvement to Land Rs.000'	Mature Plantations Rs.000'	Buildings Rs.000'	Plant & Machinery Rs.000'	Total Rs.000'
Cost/ Revaluation										
*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
As at 1st January 2013	9,084	243,838	63,826	12,007	328,755	9,084	243,838	63,826	12,007	328,755
As at 31st December 2013	9,084	243,838	63,826	12,007	328,755	9,084	243,838	63,826	12,007	328,755
Accumulated Amortisation										
As at 1st January 2013	6,054	146,713	51,062	12,007	215,836	6,054	146,713	51,062	12,007	215,836
Amortisation for the year	303	8,128	2,553	-	10,984	303	8,128	2,553	-	10,984
As at 31st December 2013	6,357	154,841	53,615	12,007	226,820	6,357	154,841	53,615	12,007	226,820
Written down value										
As at 31st December 2013	2,727	88,997	10,211	-	101,935	2,727	88,997	10,211	-	101,935
As at 31st December 2012	3,030	97,125	12,764	-	112,918	3,030	97,125	12,764	-	112,918

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.

14. A. TANGIBLE ASSETS OTHER THAN IMMATURE/MATURE PLANTATIONS

	COMPANY				GROUP			
	Balance as at 1.1.2013 Rs.000'	Additions for the year Rs.000'	Disposals during the Year Rs.000'	Balance as at 31.12.2013 Rs.000'	Balance as at 1.1.2013 Rs.000'	Additions for the year Rs.000'	Disposals during the Year Rs.000'	Balance as at 31.12.2013 Rs.000'
Cost								
Buildings	445,632	7,771	-	453,403	445,632	7,771	-	453,403
Motor Vehicles	127,697	19,922	-	147,619	127,697	19,922	-	147,619
Plant & Machinery	533,697	22,744	-	556,441	1,015,103	22,744	-	1,037,847
Furniture & Fittings	8,617	654	-	9,271	8,617	654	-	9,271
Equipment & Tools	65,329	5,396	-	70,725	65,359	5,396	-	70,755
	1,180,973	56,486	-	1,237,459	1,662,409	56,486	-	1,718,896

	Balance as at 1.1.2013 Rs.000'	Additions for the year Rs.000'	Accumulated depreciation on disposals Rs.000'	Balance as at 31.12.2013 Rs.000'	Balance as at 1.1.2013 Rs.000'	Additions for the year Rs.000'	Accumulated depreciation on disposals Rs.000'	Balance as at 31.12.2013 Rs.000'
Accumulated Depreciation								
Buildings	75,757	11,886	-	87,644	75,757	11,886	-	87,644
Motor Vehicles	91,156	11,144	-	102,300	91,156	11,144	-	102,300
Plant & Machinery	291,071	20,408	-	311,480	361,341	36,455	-	397,797
Furniture & Fittings	5,935	474	-	6,409	5,935	474	-	6,409
Equipment & Tools	59,381	1,852	-	61,232	59,400	1,859	-	61,259
	523,301	45,765	-	569,065	593,590	61,819	-	655,409
Written Down Value	657,672			668,394	1,068,819			1,063,487
Capital Work-in-Progress	9,604	2,560	(11,298)	866	9,604	2,560	(11,298)	866
TOTAL WRITTEN DOWN VALUE	667,276			669,260	1,078,423			1,064,353

Note :

The assets shown above are those movable assets vested in the Company by Gazette Notification at the date of formation of the Company (22nd June 1992) and all investments in tangible assets by the Company since its formation. The assets taken over by way of estate leases are set out in Notes 12 and 13.

No borrowing costs have been capitalised into Capital Work-in-Progress.

The cost of fully depreciated Property, Plant & Equipment of the Company which are still in use as at the date of the Statement of Financial Position is Rs. 348.8Million (2012 - 276.1 Million).

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

14. B. IMMATURE/MATURE PLANTATIONS - (BEARER BIOLOGICAL ASSET)

	COMPANY					GROUP				
	Permanent Land Development Cost	Roads	Immature Plantations	Mature Plantations	Total	Permanent Land Development Cost	Roads	Immature Plantations	Mature Plantations	Total
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
*Cost										
As at 1st January 2013	22,555	81,225	273,061	1,693,107	2,069,947	22,555	81,225	273,061	1,693,107	2,069,947
Additions	618	-	75,494	-	76,112	618	-	75,494	-	76,112
Transfers	-	-	(152,910)	152,910	-	-	-	(152,910)	152,910	-
As at 31st December 2013	23,172	81,225	195,645	1,846,017	2,146,059	23,172	81,225	195,645	1,846,017	2,146,059
Accumulated Depreciation										
As at 1st January 2013	8,036	54,832	-	309,877	372,745	8,036	54,832	-	309,877	372,745
Charge for the year	752	16,127	-	52,329	69,207	752	16,127	-	52,329	69,207
As at 31st December 2013	8,788	70,959	-	362,205	441,952	8,788	70,959	-	362,205	441,952
Written Down Value										
As at 31st December 2013	14,384	10,266	195,645	1,483,811	1,704,106	14,384	10,266	195,645	1,483,811	1,704,106
As at 31st December 2012	14,518	26,393	273,061	1,383,230	1,697,202	14,518	26,393	273,061	1,383,230	1,697,202

*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 March, 2 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 (2012- Nil).

14. C. CONSUMABLE BIOLOGICAL ASSETS
TIMBER PLANTATIONS - MANAGED TREES

	COMPANY		GROUP	
	2013 Rs.000'	2012 Rs.000'	2013 Rs.000'	2012 Rs.000'
As at 1st January	**166,844**	142,062	**166,844**	142,062
Increase due to development	**4,268**	2,306	**4,268**	2,306
Gain/(loss) arising from changes in fair value less cost to sell attributable to physical change	**13,120**	22,476	**13,120**	22,476
Decrease due to harvest	**(1,149)**	-	**(1,149)**	-
As at 31st December	**183,083**	166,844	**183,083**	166,844

Managed trees include commercial timber plantations cultivated on estates. The cost of immature trees is treated as approximate fair value particularly on the ground of little biological transformation has taken place and impact of the biological transformation on price is not material. When such Plantations become mature, the additional investments since taken over to bring them to maturity are transferred from Immature to Mature.

The fair value of 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.

The key assumptions used in valuation
1. The harvesting is approved by the PMMD and the Forestry Department based on the Forestry Development Plan.
2. The prices adopted are net of expenditure.
3. Discount rate is 17.5%.
4. Compounding rate is 14%.
5. Through the replanting is a condition precedent for harvesting yet the costs are not taken in to consideration.

The valuations, as presented in the external valuation models based on net present values, take into account the long term exploitation of the timber plantations. The Board of Directors retains their view that commodity markets are inherently volatile and that long term price projections are highly unpredictable. The Board of Directors is of the opinion that the sensitivity analysis regarding selling price and discount rate variations 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 as at the date of the statement of financial position is nil. (2012 - 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:

	Rs.000'	Rs.000'	Rs.000'
Managed Timber	+10%	0%	-10%
As at 31st December, 2013	198,422	183,083	167,739
As at 31st December, 2012	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:

	Rs.000'	Rs.000'	Rs.000'
	19%	17.50%	16%
As at 31st December, 2013	179,022	183,083	187,890
As at 31st December, 2012	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	
As at 31 December	2013 Rs.000'	2012 Rs.000'
Ordinary Shares		
TTEL Hydro Power Company (Pvt) Ltd	35,190	35,190
TTEL Somerset Hydro Power (Pvt) Ltd	30,600	30,600
	65,790	65,790
Preference Shares		
TTEL Hydro Power Company (Pvt) Ltd	53,108	53,108
TTEL Somerset Hydro Power (Pvt) Ltd	16,034	16,034
	69,143	69,143
Total Investment	134,933	134,933

Subsidiaries	Principle Activity
TTEL Hydro Power Company (Pvt) Ltd	Generates Hydro Power
TTEL Somerset Hydro Power (Pvt) Ltd	Generates Hydro Power

16. INVENTORIES

As at 31 December	COMPANY 2013 Rs.000’	COMPANY 2012 Rs.000’	GROUP 2013 Rs.000’	GROUP 2012 Rs.000’
Biological Assets - Nurseries	12,520	13,654	12,520	13,654
Biological Assets -Harvested Crop	563,478	449,877	563,478	449,877
Input Stocks, Consumables & spares	30,290	22,748	30,658	22,748
	606,288	486,278	606,656	486,278

17. TRADE AND OTHER RECEIVABLES

As at 31 December	COMPANY 2013 Rs.000’	COMPANY 2012 Rs.000’	GROUP 2013 Rs.000’	GROUP 2012 Rs.000’
Produce Debtors	36,716	4,517	36,716	29,664
Advances & Prepayments	55,068	43,982	83,916	42,874
Other debtors	20,421	20,901	19,683	26,559
	112,205	69,400	140,315	99,097

18. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 December	Relationship	COMPANY 2013 Rs.000’	COMPANY 2012 Rs.000’	GROUP 2013 Rs.000’	GROUP 2012 Rs.000’
Hayleys Plantation Services(Pvt) Ltd	Parent Enterprise	-	2,478	-	2,478
Hayleys Industrial Solutions(Pvt) Ltd	Group Company	-	-	-	3,570
TTEL Somerset Hydro Power(Pvt) Ltd	Subsidiary Company	132	-	-	-
		132	2,478	-	6,048

19. SHORT TERM INVESTMENT

As at 31 December	COMPANY 2013 Rs.000’	COMPANY 2012 Rs.000’	GROUP 2013 Rs.000’	GROUP 2012 Rs.000’
Savings at The Hongkong and Shanghai Banking Corporation Ltd.	5,776	6,195	5,776	6,195
Savings at Sampath Bank PLC	1,718	481	1,718	481
Savings at DFCC Vardhana Bank	1,940	-	1,940	-
Fixed Deposits with Hatton National Bank PLC	-	-	5,000	5,000
	9,434	6,675	14,434	11,675

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

20. STATED CAPITAL

As at 31 December	COMPANY 2013 Number	COMPANY 2012 Number	GROUP 2013 Number	GROUP 2012 Number
Issued and Fully Paid Ordinary Shares				
Number of ordinary shares including one golden share held by the Treasury which has special rights	23,750	23,750	23,750	23,750
	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Stated Capital including one Golden Share held by the Treasury which has special rights	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

As at 31 December	2013 Rs.000'	2012 Rs.000'
TTEL Hydro Power Company (Pvt) Ltd	76,747	71,816
TTEL Somerset Hydro Power (Pvt) Ltd	75,827	65,105
	152,855	136,921

22. INTEREST BEARING LOANS AND BORROWINGS

	2013					2012				
	Repayable within 1 year	Repayable after one year less than five year	Repayable after five year	Sub Total	Total as at 31.12.2013	Repayable within 1 year	Repayable after one year less than five year	Repayable after five year	Sub Total	Total as at 31.12.2012
Company	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	63,445	215,494	-	215,494	278,939	47,465	251,323	27,616	278,939	326,404
22.2 Sampath Bank PLC	16,194	85,982	11,953	97,935	114,129	13,044	93,126	21,003	114,129	127,173
22.3 Hatton National Bank PLC	-	-	-	-	-	3,500	14,000	-	14,000	17,500
22.4 Central Finance Company PLC	5,144	28,456	-	28,456	33,600	-	-	-	-	-
	84,784	329,932	11,953	341,885	426,668	64,009	358,449	48,619	407,068	471,077

	2013					2012				
	Repayable within 1 year	Repayable after one year less than five year	Repayable after five year	Sub Total	Total as at 31.12.2013	Repayable within 1 year	Repayable after one year less than five year	Repayable after five year	Sub Total	Total as at 31.12.2012
Group	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	63,445	215,494	-	215,494	278,939	47,465	251,323	27,616	278,939	326,404
22.2 Sampath Bank PLC	33,834	165,100	11,953	177,053	210,887	23,304	193,454	21,003	214,457	237,761
22.3 Hatton National Bank PLC	21,000	18,156	-	18,156	39,156	20,738	53,156	-	53,156	73,894
22.4 Central Finance Company PLC	5,144	28,456	-	28,456	33,600	-	-	-	-	-
	123,424	427,206	11,953	439,159	562,582	91,507	497,933	48,619	546,552	638,059

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

22. INTEREST BEARING LOANS AND BORROWINGS (Contd..)
22.1 National Development Bank PLC

	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2013	Total as at 31.12.2012	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
Company								
Field Development								
4th Disbursement	11,706	46,792	-	46,792	58,498	70,203	9.42%	96 monthly instalments commencing from January 2011.
5th Disbursement	29,432	85,839	-	85,839	115,272	144,704	13.25%	60 monthly instalments commencing from December 2012.
Process Development	22,307	82,863	-	82,863	105,170	111,497	13.07%	60 monthly instalments commencing from July/October 2013
	63,445	215,494	-	215,494	278,939	326,404		

	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2013	Total as at 31.12.2012	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
Group								
Field Development								
4th Disbursement	11,706	46,792	-	46,792	58,498	70,203	9.42%	96 monthly instalments commencing from January 2011.
5th Disbursement	29,432	85,839	-	85,839	115,272	144,704	13.25%	60 monthly instalments commencing from December 2012.
Process Development	22,307	82,863	-	82,863	105,170	111,497	13.07%	60 monthly instalments commencing from July/October 2013
	63,445	215,494	-	215,494	278,939	326,404		

22. INTEREST BEARING LOANS AND BORROWINGS (Contd..)

22.2 Sampath Bank PLC

	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2013	Total as at 31.12.2012	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
Company								
Replanting Loan	13,044	39,132	11,953	51,085	**64,129**	77,173	10.24%	92 monthly instalments commencing from April 2011.
Replanting Loan	3,150	46,850	-	46,850	**50,000**	50,000	10.76%	48 monthly instalments commencing from October 2014.
	16,194	85,982	11,953	97,935	**114,129**	127,173		
Group								
Replanting Loan	13,044	39,132	11,953	51,085	**64,129**	77,173	10.24%	92 monthly instalments commencing from April 2011.
Replanting Loan	3,150	46,850	-	46,850	**50,000**	50,000	10.76%	48 monthly instalments commencing from October 2014.
Mini Hydro - TTELHydro	17,640	79,118	-	79,118	**96,758**	110,588	AWDR+5%	96 monthly instalments commencing from January 2010.
	33,834	165,100	11,953	177,053	**210,887**	237,761		

22.3 Hatton National Bank PLC

	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2013	Total as at 31.12.2012	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
Company								
Factory Loan	-	-	-	-	-	17,500	Money Market	
	-	-	-	-	-	17,500	-	
Group								
Factory Loan	-	-	-	-	-	17,500	Money Market	
Mini Hydro -TTEL Somerset	21,000	18,156	-	18,156	**39,156**	56,394	AWDR+4%	96 monthly instalments commencing from January 2010.
	21,000	18,156	-	18,156	**39,156**	73,894		

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

22.4 Central Finance Company PLC

	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2013	Total as at 31.12.2012	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
Company								
Factory Loan	5,144	28,456	-	28,456	33,600	-	5year Treasury Bond rate+2%	60 monthly instalments commencing from January 2014.
	5,144	28,456	-	28,456	33,600	-		
Group								
Factory Loan	5,144	28,456	-	28,456	33,600	-	5year Treasury Bond rate+2%	60 monthly instalments commencing from January 2014.
	5,144	28,456	-	28,456	33,600	-		

23. SHORT TERM BORROWINGS

	Repayable within one year	Repayable after one year less than five years	Repayable after five years	Sub Total	Total as at 31.12.2013	Total as at 31.12.2012	Rate of Interest	Terms of Repayment
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'		
Company								
Hatton National Bank PLC	37,000	-	-	-	37,000	-	Prevailing money market rates	
The Hongkong and Shanghai Banking Co. Ltd	18,000	-	-	-	18,000	60,000		
	55,000	-	-	-	55,000	60,000		
Group								
Hatton National Bank PLC	37,000	-	-	-	37,000	-	Prevailing money market rates	
The Hongkong and Shanghai Banking Co. Ltd	18,000	-	-	-	18,000	60,000		
	55,000	-	-	-	55,000	60,000		

24. RETIRING BENEFIT OBLIGATIONS

	COMPANY		GROUP	
	2013	2012	2013	2012
	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Provision for retiring gratuity				
At the beginning of the year	888,170	826,914	888,170	826,914
Interest Cost	88,817	82,691	88,817	82,691
Current Service Cost	57,777	56,646	57,777	56,646
Gratuity Payments for the year	(87,824)	(69,367)	(87,824)	(69,367)
Actuarial (Gain) / Loss on experience adjustment	(34,188)	(8,715)	(34,188)	(8,715)
At the end of the year	912,752	888,170	912,752	888,170

According to the actuarial valuation report issued by the actuarial valuer as at 31 December 2013 the actuarial present value of promised retirement benefits amounted to Rs. 912,752,138/=. 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.923,720,738 /=. Hence, there is a contingent liability of Rs. 10,968,600/= , which would crystallise only if the company ceases to be a going concern.

LKAS 19 requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit that employees have earned in return for their service in the current and prior periods using the Projected Unit Credit Method and discount that benefit in order to determine the present value of the retirement benefit obligation and the current service cost. This requires an entity to determine how much benefit is attributable to the current and prior periods and to make estimates about demographic variables and financial variables that will influence the cost of the benefit. The following key assumptions were made in arriving at the above figure.

The Present Value of Retirement Benefit Obligation is carried on annual basis.

The following payments are expected from the defined benefit plan obligation in future years.

Future Working Life Time	Defined Benefit Obligation	
	Staff	Worker
	Rs.000'	Rs.000'
Within the next 12 months	28,583	25,782
Between 1-5years	12,120	83,664
Between 5-10 years	26,703	222,905
Beyond 10 years	24,681	488,313
Total	92,087	820,665

The weighted average duration of the Defined Benefit plan obligation at the end of the reporting period is 6.26 years and 11.10 years for staff and workers respectively.

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

The key assumptions used by Messers. Actuarial & Management Consultants (Pvt) Ltd include the following.

		2013	2012
(i)	Rate of Interest	10% (per annum)	10% (per annum)
(ii)	Rate of Salary Increase		
	Workers	20% (every two years)	20% (every two years)
	Staff	10% (per annum)	10% (per annum)
(iii)	Retirement Age		
	Workers	60 years	60 years
	Staff	55 years	55 years
(iv)	Daily Wage Rate		
	Tea	Rs. 450/-	Rs. 380/-
	Rubber	Rs. 450/-	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.

		WORKERS			STAFF	
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Company						
Rate of wage/salary increment in every two years/per annum	19%	20%	21%	9%	10%	11%
As at 31 December 2013	783,805	820,665	859,869	87,507	92,087	97,182
As at 31 December 2012	756,262	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.

		WORKERS			STAFF	
	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Company						
Rate of discount	9%	10%	11%	9%	10%	11%
As at 31 December 2013	910,649	820,665	744,077	97,657	92,087	87,168
As at 31 December 2012	882,526	795,131	720,828	98,765	93,039	87,994

25. DEFERRED INCOME

As at 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Deferred Grants and Subsidies				
Balance at the beginning of the year	**210,292**	226,532	**210,292**	226,532
Add : Grants received / (refunded) during the year	**518**	3,607	**518**	3,607
Less : Amortisation for the year	**(19,852)**	(19,847)	**(19,852)**	(19,847)
Balance at the end of the year	**190,958**	210,292	**190,958**	210,292

The Company has received funding from the Tea Board and Unilever Ceylon Limited during the year for replanting and Rain Forest 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.

26. LIABILITY TO MAKE LEASE PAYMENT

As at 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Gross Liability				
As at 31st December	**804,920**	737,529	**804,920**	737,529
Finance cost allocated to future periods	**(615,304)**	(566,026)	**(615,304)**	(566,026)
Net Liability	**189,617**	171,503	**189,617**	171,503
Payable within one year				
Gross liability	**25,154**	22,727	**25,154**	22,727
Finance cost allocated to future periods	**(24,650)**	(22,295)	**(24,650)**	(22,295)
Net liability transferred to current liabilities	**504**	431	**504**	431
Payable within two to five years				
Gross liability	**100,615**	90,907	**100,615**	90,907
Finance cost allocated to future periods	**(97,855)**	(88,543)	**(97,855)**	(88,543)
Net liability	**2,760**	2,364	**2,760**	2,364
Payable after five years				
Gross liability	**679,152**	623,896	**679,152**	623,896
Finance cost allocated to future periods	**(492,799)**	(455,188)	**(492,799)**	(455,188)
Net liability	**186,353**	168,708	**186,353**	168,708
Net liability payable after one year	**189,113**	171,072	**189,113**	171,072

Liability to make Lease Payment as above was previously titled as "Net Liability to lessor". The Change was in terms of the Statement of Alternative Treatment (SoAT) issued by The Institute of Chartered Accountants of Sri Lanka on 21 August 2013. Accordingly, the group has reassessed the liability to make lease payments and the corresponding Right to Use of Land in terms of the above SoAT and elect to reassess the liability at each reporting period based on the changes in GDP deflator.

According to the reassessment, the base rental payable per year has increased from Rs.7,225,074/= to Rs.25,153,765/=.

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

27. TRADE AND OTHER PAYABLES

As at 31 December	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Trade creditors	**86,941**	68,692	**87,315**	68,692
Others	**130,525**	133,794	**130,525**	133,794
Accrued expenses	**159,616**	135,821	**161,848**	147,945
	377,081	338,307	**379,688**	350,431

28. AMOUNTS DUE TO RELATED COMPANIES

As at 31 December	Relationship	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'	GROUP 2013 Rs.000'	GROUP 2012 Rs.000'
Hayleys PLC.	Ultimate parent Company	**5,537**	4,523	**5,658**	4,523
Hayleys Industrial Solutions (Pvt) Ltd.	Group Company	**-**	-	**2,538**	2,981
Hayleys Power Limited	Group Company	**-**	-	**388**	-
Neluwa Cascade Hydro Power (Pvt) Ltd.	Group Company	**-**	-	**10**	-
Hayleys Plantation Services (Pvt) Limited.	Parent Enterprise	**3,554**	-	**3,554**	-
TTEL Hydro Power Co. (Pvt.) Ltd.	Subsidiary Company	**4,165**	7,879	**-**	-
TTEL Somerset Hydro Power (Pvt.) Ltd.	Subsidiary Company	**-**	-	**-**	-
Kelani Valley Plantations PLC	Group Company	**2,462**	4	**2,462**	4
Kiriweldola Hydro Power (Pvt) Ltd	Group Company	**-**	-	**-**	550
Hayleys Business Solutions International (Pvt) Ltd	Group Company	**75**	-	**75**	-
		15,793	12,405	**14,685**	8,057

29. DIVIDEND PER SHARE

	COMPANY 2013 Rs.000'	COMPANY 2012 Rs.000'
First & final proposed dividend Rs.3.00 per share (2012 - Rs. 2.50 per share)	**71,250**	59,375
Number of ordinary shares	**23,750**	23,750
Dividend per share (Rs.)	**3.00**	**2.50**

The Board of Directors has recommended a first and final dividend of Rs. 3.00 per share amounting to Rs. 71,250,003/= for the year ended 31 December 2013 (final dividends for 2012 - Rs. 2.50 per share amounting to Rs. 59,375,003).

This is to be approved at the Annual General Meeting to be held on 31 March 2014.

30. ASSETS PLEDGED

Following assets have been pledged as security for liabilities.

Bank	Nature of Assets	Nature of Liability	Carrying Amount Pledged 2013 Rs.000'	2012 Rs.000'
Hatton National Bank PLC	Primary floating mortgage for Rs. 109 Mn over lease hold rights of Radella, Palmerston and Handford Estates.	Term Loan, Short Term Loan & Over Draft	31,458	33,552
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	15,162	16,617
	Primary mortgage over lease hold rights to the value of Rs. 30 Mn of Clarendon Estate.	Term Loan	20,070	21,841
	Secondary mortgage over leasehold rights to the value of Rs. 20 Mn of Deniyaya Estate.			
	Primary mortgage over lease hold rights of Matakelle Estate for Rs. 100 Mn.	Term Loan	11,705	12,459
National Development Bank PLC	Primary mortgage over lease hold rights of Somerset, Great Western, Holyrood, and Dessford Estates.	Term Loan	72,330	76,951
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,	606,288	486,278
The HongKong & Shanghai Banking Co.Ltd	Concurrent mortgage over stocks and debtors for Rs. 65 Mn.	OD/ Short Term Loan	606,288	486,278
Bank Of Ceylon	Guarantee by HPSL for Rs. 50 Mn.	Over Draft		

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

31. CAPITAL COMMITMENTS

FOLLOWINGS ARE THE CAPITAL COMMITMENTS AS AT THE STATEMENT OF FINANCIAL POSITION DATE.

	COMPANY	
	2013 Rs. (Mn)	2012 Rs. (Mn)
Approved by the Board & Contracted for	-	-
Approved by the Board & not Contracted for	120	78
	120	78

32. COMMITMENTS AND CONTINGENCIES

Contingent liabilities that may result, depending on the timing of the taxability of certain fair value adjustments amount to approximately Rs. 1.3 Mn (2012- Rs. 2.2Mn).

33. EVENTS AFTER THE REPORTING PERIOD

There have been no material events occurring after the statement of financial position date that require adjustments or disclosure in the Financial Statements.

34. RELATED PARTY DISCLOSURES

Details of Significant Related Party Disclosures are as follows.

34.1 Transactions with the parent and ultimate parent company

NATURE OF THE COMPANY	RELATIONSHIP	NAME OF DIRECTOR	NATURE OF TRANSACTION	2013 RS.000'	2012 RS.000'
Hayleys PLC	Ultimate Parent	Mr. A.M. Pandithage Dr. K.I.M. Ranasoma Mr. W.D.N.H. Perera	Data Processing Services, Secretarial Services, Office Rent & Management Salaries	32,854	26,142
Hayleys Plantation Services (Pvt) Ltd.	Parent	Mr. A.M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Mr. D.S. Seneviratne Mr. M.M.M. De Silva Mr. W. G. R. Rajadurai Dr. K.I.M. Ranasoma Mr. N. R. Ranatunga	Managing Agent's Fee	26,728	27,253

34.2 Transactions with the subsidiaries

NATURE OF THE COMPANY	RELATIONSHIP	NAME OF DIRECTOR	NATURE OF TRANSACTION	2013 RS.000'	2012 RS.000'
TTEL Hydro Power Company (Pvt) Ltd.	Subsidiary	Mr. A.M. Pandithage	Preference Share Dividends	6,692	-
		Mr. Merrill J Fernando			
		Mr. Malik J Fernando			
		Mr. A. R. De Silva			
		Mr. W. G. R. Rajadurai			
		Dr. K. I. M. Ranasoma			
		Dr. A. Sivagananathan			
TTEL Somerset Hydro Power (Pvt) Ltd	Subsidiary	Mr.A M Pandithage	Preference Share Dividends	4,774	2,020
		Mr. Merrill J. Fernando	Gurantee Charges	644	-
		Mr. Malik J. Fernando			
		Mr. A. R. De Silva			
		Mr. W. G. R. Rajadurai			
		Dr. K. I. M. Ranasoma			
		Dr. A. Sivagananathan			

34.3 Transactions with other related companies

NATURE OF THE COMPANY	RELATIONSHIP	NAME OF DIRECTOR	NATURE OF TRANSACTION	2013 RS.000'	2012 RS.000'
Dipped Products PLC	Intermediary Ultimate Parent	Mr. A.M. Pandithage	Purchase of hand gloves	20	58
Hayleys Travels & Tours (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Providing of Air Ticketing Services	589	-
MIT Cargo (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Providing of Warehousing Services	-	17
Hayleys Agriculture Holdings Ltd.	Common Directors	Mr. A.M. Pandithage	Purchase of Equipments & Chemicals	8,274	5,798

NOTES TO THE FINANCIAL STATEMENTS *CONTD.*

34.3 Transactions with other related companies Contd.

NATURE OF THE COMPANY	RELATIONSHIP	NAME OF DIRECTOR	NATURE OF TRANSACTION	2013 RS.000'	2012 RS.000'
Hayleys Industrial Solutions (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Providing of Maintenance to Generator	286	-
Hayleys Agro Fertilizers (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Purchase of Fertilizer	121,781	91,738
Mabroc Teas (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage Mr. W. G. R. Rajadurai	Share of office maintenance cost	-	387
Alumex (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Purchase of Aluminium Items	-	52
Hayleys Agro Products (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Purchase of Chemicals	589	-
Kelani Valley Plantations PLC	Common Directors	Mr. A.M. Pandithage Mr. W. G. R. Rajadurai	Share of Regional Office and Head office maintenance cost		
		Dr. K.I.M. Ranasoma	- Payments	7,277	379
			- Receipts	1,734	543
			Green Leaf Supplies		
			- Payments	7,102	-
			- Receipts	5,816	-
Hayleys Business Solutions International (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Payroll processing cost and use of Hardware/ Project Study Charges	597	110
Hayleys Agro Technica Ltd	Common Directors	Mr. A.M. Pandithage	Purchase of Chemicals	2,138	1,912
Logiwiz Ltd	Common Directors	Mr. A.M. Pandithage	Providing of document Storing Service	462	450
Puritas (Pvt) Ltd	Common Directors	Mr. A.M. Pandithage	Purchases of Mask	538	55

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

There were no material transactions with the Key Management Personnel of the Company and its parent other than those disclosed in Notes 9 & 34.1 to the Financial Statements.

Details of Directors and their spouses share holdings are given in the Annual Report of the Board of Directors of the Affairs of the Company.

35 RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 9, 18, 28 & 34 to the financial statements.

10 YEAR SUMMARY

	2013 Rs.'000	2012 Rs.'000	** 2011 Rs.'000	*** 2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000	2004 Rs.'000
Group revenue	3,646,837	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
Profit before Taxation	236,786	231,283	(22,198)	169,200	(27,887)	111,958	113,017	100,272	112,289	142,894
Taxation	(37,215)	(4,585)	(10,532)	(4,691)	(2,514)	(3,952)	(14,700)	(19,906)	(6,895)	(12,179)
Profit after taxation	199,571	226,698	(32,730)	164,509	(30,401)	108,006	98,317	80,366	105,394	130,715
Minority interest	(26,038)	(10,748)	18,690	(17,071)	(8,118)	(1,273)	(1,288)	7	-	-
Profit attributable to equity holders	173,533	215,950	(51,420)	147,438	(22,283)	109,279	99,605	80,359	105,394	130,715
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Capital reserve	152,863	139,743	117,267	100,630	-	-	-	-	-	-
Revenue reserve	995,500	865,662	664,848	792,279	660,904	712,875	669,094	569,488	560,133	490,364
shareholders' fund	1,498,363	1,355,405	1,132,115	1,242,909	1,010,904	1,062,875	1,019,094	919,488	910,133	840,364
Minority interest	152,855	136,921	128,329	122,623	54,376	62,494	63,595	22,254	-	-
Borrowings (both short and long-term)	855,623	895,920	1,092,427	936,576	1,257,480	1,160,182	911,210	729,975	626,852	656,113
	2,506,841	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
Non -current assets	3,248,131	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
Current assets	798,662	620,040	532,418	482,681	717,923	538,701	550,554	332,646	253,272	305,101
Current liabilities net of borrowings	(394,373)	(358,488)	(297,388)	(317,746)	(411,043)	(320,697)	(307,733)	(238,308)	(189,753)	(216,892)
Provisions	(954,621)	(900,942)	(853,488)	(751,133)	(685,786)	(516,788)	(403,161)	(329,804)	(258,881)	(257,808)
Deferred income	(190,958)	(210,292)	(226,532)	(250,474)	(221,936)	(197,917)	(131,121)	(120,024)	(141,898)	(142,092)
Capital employed	2,506,841	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
Net Cash inflow/(outflow) from operating activities	301,099	336,133	108,711	321,845	315,964	298,251	190,692	228,839	211,616	161,640
Net Cash inflow/(outflow) from investing activities	(126,460)	(131,654)	(165,069)	(170,378)	(231,723)	(530,418)	(334,118)	(223,975)	(118,626)	(121,337)
Net Cash inflow/(outflow) from finance activities	(168,629)	(66,040)	(164,130)	(249,640)	176,655	149,279	198,440	(51,480)	8,377	(3,976)
Increase/(decrease) in cash & cash equivalents	6,010	138,439	(220,488)	(98,173)	260,896	(82,888)	55,014	(46,616)	101,367	36,327
Key Indicators										
EPS (basic) (Rs.)	7.31	9.09	(2.17)	6.21	(0.94)	4.60	4.19	3.38	4.44	5.50
Net assets per share (Rs.)	63.09	57.07	47.67	52.33	42.56	44.75	42.91	38.72	38.32	35.38
Market price per share (Rs.)	24.00	24.00	29.70	46.40	25.25	13.00	35.75	25.25	17.00	16.25
Price earning ratio (times)	3.28	2.64	(13.72)	7.47	(26.86)	2.80	8.50	7.50	3.80	3.00
Current ratio (times)	1.28	1.16	0.88	1.17	1.17	0.90	0.90	0.70	0.70	0.70
Return on equity%	12.16	17.36	(4.33)	13.08	(2.15)	10.50	10.30	8.80	12.00	16.70
Debt to equity%	51.8	60.0	86.7	65.80	124.39	109.20	89.40	79.40	68.90	78.10
Dividend per share (Rs.) - Company	3.0	2.50	-	2.50	-	1.25	2.50	2.50	1.50	0.75
Dividend payout ratio (times) - Company	0.41	0.27	-	0.40	-	0.27	0.60	0.74	0.34	0.14

** Restated - Income Statement, Statement of Financial Position , Statement of Cash Flow

*** Restated - Statement of Financial Position

INVESTOR INFORMATION

1. STOCK EXCHANGE

Interim Financial Statements of the 4th Quarter, for the year ended 31st December 2013, have been submitted to the Colombo Stock Exchange as required by the Listing Rules.

2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST DECEMBER 2013

Number of shareholders as at 31st December 2013 is 13,662 (2012-13,727)

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	13,436	2,177,629	9.1690	1	400	0.0016	13,437	2,178,029	9.1706
1,001 - 10,000	181	544,053	2.2907	2	4,000	0.0168	183	548,053	2.3075
10,001 - 100,000	32	879,637	3.7040	3	73,517	0.3095	35	953,154	4.0135
100,001 - 1,000,000	5	1,136,064	4.7834				5	1,136,064	4.7834
Over 1,000,000	2	18,934,700	79.7250				2	18,934,700	79.7250
	13,656	23,672,083	99.6721	6	77,917	0.3279	13,662	23,750,000	100.0000

Category

Individuals	13,590	3,394,109	14.2910	5	62,917	0.2649	13,595	3,457,026	14.5559
Institutions	66	20,277,974	85.3811	1	15,000	0.0630	67	20,292,974	85.4441
	13,656	23,672,083	99.6721	6	77,917	0.3279	13,662	23,750,000	100.0000

Of the issued ordinary share capital, 99.67% is held by residents of Sri Lanka.

3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27 % (2012-20.27%).

4. MARKET VALUE

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

	2013 Rs.	2012 Rs.	2011 Rs.
Highest	29.00 (6th February 2013 & 22nd April 2013)	35.00 (18th September 2012)	55.00 (7th Janauy 2011)
Lowest	16.30 (9th February 2013)	12.70 (6th June 2012)	20.40 (14th November 2011)
Year end	24.00	24.00	29.70

5. DIVIDEND PAYMENT

First and final dividend of Rs. 3.00 per share is recommended by the board to be paid on 9th April 2014 (2012-Rs.2.50).

INVESTOR INFORMATION *CONTD.*

6. SHARE TRADING

	2013 Rs.	2012 Rs.	2011 Rs.
No. of transactions	2,253	1,601	2,292
No. of shares traded	1,416,648	803,296	1,763,600
Value of shares traded (Rs.)	34,557,181	21,151,034	80,009,080

7. TWENTY MAJOR SHAREHOLDERS

	Name of the Shareholder	No.of Shares as at 31.12.2013	%	No.of Shares as at 31.12.2012	%
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) Ltd	181,900	0.77	181,900	0.77
5	Mr. M.S. Pinto	134,357	0.56	97,386	0.41
6	Sri Lanka Insurance Corporation Ltd-Life Fund	105,600	0.44	105,600	0.44
7	Cocoshell Activated Carbon Company Limited	101,007	0.42	93,600	0.39
8	J. B. Cocoshell (Pvt) Ltd	100,000	0.42	0	0.00
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	Mr. G. S. N. Peiris	50,279	0.21	0	0.00
12	Mr. K.C. Vignarajah	48,800	0.20	48,800	0.20
13	Mr. M. M. Fuad	46,937	0.20	0	0.00
14	Mr. M. Asokan	43,597	0.18	39,040	0.16
15	Mr. Radhakrishnan (Deceased)	40,000	0.17	40,000	0.17
16	Mrs. J. K. P. Singh	38,517	0.16	20,000	0.08
17	Ms. M.J. Nihara	29,000	0.12	29,000	0.12
18	Mr. L. A. P. K. Liyanwala	25,918	0.10	6,200	0.03
19	Mr. S. Prabagar	25,302	0.10	0	0.00
20	Mr. H. J. C. Perera	25,000	0.10	0	0.00

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.

Amortization
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 Liabilities
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 differed 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 & Amortization.

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.

GLOSSARY *CONTD.*

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-FINACIAL 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 a 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 Organization for Standardization. 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 planation 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 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 (standardization), 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 Labeling Organization International
A leading Standard Setting and Certification Organization for labeling fair-trade established in 1997 in Germany.

NOTICE OF MEETING

PQ 36

NOTICE IS HEREBY GIVEN that the Twenty Second Annual General Meeting of Talawakelle Tea Estates PLC, will be held at No. 400, Deans Road, Colombo 10, on 31st March, 2014 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 2013, with the Report of the Auditors thereon.

2) Declare a dividend as recommended by the Directors.

3) To re-elect Mr. N. T. Bogahalande, who has been appointed by the Board, since the last Annual General Meeting, a Director.

4) To re-elect Mr. D. S. Seneviratne, who has been appointed by the Board, since the last Annual General Meeting, a Director.

5) To re-elect Dr. K. I. M. Ranasoma, who retires by rotation at the Annual General Meeting, a Director.

6) To re-elect Mr. W. D. N. H. Perera, who retires by rotation at the Annual General Meeting, a Director.

7) To re-elect Ms. M. D. A. Perera, who retires by rotation at the Annual General Meeting, a Director.

8) To re-appoint Mr. Merrill J Fernando, who retires having attained the age of eighty three 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 three 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.

9) To authorise the Directors to determine contributions to charities.

10) 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.

11) 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 p.m. on 29th March 2014.

(2) It is proposed to post ordinary dividend warrants on 9th April 2014 and in accordance with the rules of the Colombo Stock Exchange the shares of the Company will be quoted ex-dividend with effect from 1st April 2014.

By Order of the Board

TALAWAKELLE TEA ESTATES PLC
Hayleys Group Services (Private) Limited
Secretaries

Colombo
3rd March, 2014

NOTES

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. W.G.R. Rajadurai-Managing Director
(Appointed 1st January 2013)
Mr Merrill J Fernando
Mr Malik J Fernando
(Alternate - Mr D C Fernando)
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
Mr. N T Bogahalande
(Appointed 13th May 2013)
Mr. D S Seneviratne
(Appointed 13th May 2013)

MANAGING AGENT
Hayleys Plantation Services
(Private) Limited
400, Deans Road, Colombo 10, Sri Lanka

REGISTERED OFFICE
400, Deans Road, Colombo 10, Sri Lanka

HEAD OFFICE
400, Deans Road, Colombo 10, Sri Lanka
Telephone : (94-11) - 2627754-5, 2697203
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e- mail : tpl.tea@ttel.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, Colombo10,
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
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