SURMOUNTING A WATERSHED YEAR

Talawakelle Tea Estates PLC
Annual Report 2016/17

Talawakelle
Tea Estates®

SURMOUNTING A WATERSHED YEAR

For many in the industry, the year marked a watershed in which challenge was the forerunner. In every aspect, businesses struggled to make ends meet and came up short. The challenges of the year, rather than proving to be insurmountable, gave us the opportunity to dig deep and find the motivation to overcome the odds. Like poignant markers in our saga, we invested in the important things; the key points to which we will always return in rain or shine. This, along with the concrete plans and investments that were made in securing our future, we made progress, advancing beyond our turning point.

CONTENT

ABOUT THIS REPORT

REPORT OUTLINE

G4-28 to 33

Content and Scope

The annual reporting cycle of Talawakelle Tea Estates PLC (TTE PLC) is 12 months from 1st April to 31st March.

Presenting an integrated annual report, once again, for the 4th consecutive year, we seek to highlight our sustainability in our value creation process. The report sets out and discusses both financial and non-financial facets of the operations including our strategy, capital management, performance and future outlook for the financial year ended 31st March 2017. We also draw reference to the preceding financial year, 2015/16, which supports us to track the trends and benchmark the performance of the year under review.

We have progressively moved ahead in our annual reporting process since the year 2011, when we published our first annual report under the guidance and in conformance with the standards prescribed by the Global Reporting Initiative (GRI) under 'G3'. Subsequently, we have attempted to refine our reporting process and keep up with the best and current practices and standards. We adopted GRI updated standards—'GRI-G3.1' and 'GRI-G4' and, later took on an integrated approach under Integrated Reporting (<IR>) Framework. This year, as was the case in the preceding year, our reporting is aligned to the following standards and practices:

- Integrate Reporting <IR> Framework;
- GRI-G4 - in accordance – comprehensive;
- Company's Act No. 07 of 2007;
- International Financial Reporting Standards and Sri Lanka Accounting Standards;
- Code of Best Practice on Corporate Governance, 2013, issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka; and
- Regulatory requirements under the Colombo Stock Exchange.

This report is not externally assured. The content index as per the GRI-G4 Guidelines is given on pages 257 to 266.

We seek to uphold our impartially in our reporting process on how we engage our key stakeholders in creating value across the business—including 16 of our tea estates in the high and low grown areas and the corporate office. We draw reference, wherever material, to our subsidiary operations in the hydro power sector. Our aim is report at a holistic level—encompassing economic, environment and social viewpoints. We seek to highlight the myriad of risks and opportunities we are exposed to in our operating environment, our strategic response, goals and key results. We bring in a comprehensive analysis of the six most important capitals for our value creation process—financial, relationship, social, natural, manufacturing and intellectual. This is coupled with our practices and measures that are in place for effective risk management and good governance. The report content is prioritised as per the materiality analysis as set out on pages 30 to 32.

METHODOLOGY

The content for the report has been developed using published information both by the Company and at a national level. We have also based our content on the detailed discussions we had with our management team at the corporate level and at the estates. We have extensively used the data and information in management information reports. The following table sets out the key sources we have used in our reporting process:

G4 Integrated

ABOUT THIS REPORT CONTD.

Information areas	Sources
Operational and financial	• Interim financial statements • Annual financial statements and notes 2015/16 and 2016/17, audited by M/s. Ernst & young, chartered accountants
Global economic trends, domestic macroeconomic environment and tea industry	• World Economic Outlook, International Monetary Fund • Annual Report 2016, Central Bank of Sri Lanka • Industry reviews by Brokers and Analysts (Industry Sources).
Environmental issues and biodiversity	• Actual operating data maintained by the estates through the Rainforest Alliance-Sustainable Farm and Ethical Tea Partnership certification programmes • Biodiversity surveys carried out by professional bodies
Workforce and labour relations	• Human resources data and information maintained by HR clusters at estates, regional and corporate level • Collective agreements
Resident community	• On-site data and information in terms of 'A Home for Every Plantation Worker' programme
Governance	• Code of Best Practice on Corporate Governance, 2013, 'Hayleys Way' the group ethical road map
Risk Management	• Industry reviews and company information on the operations • Economic and political initiatives associated with industry perspectives

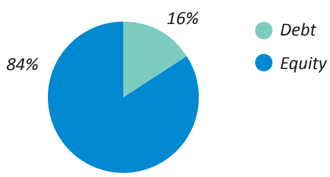
INQUIRIES

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

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

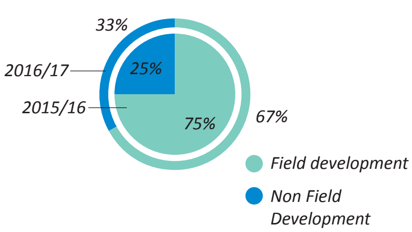
FINANCIAL HIGHLIGHTS

Group	2016/17	2015/16
Financial Performance (Rs. Million)		
Group revenue	3,334.5	3,434.6
Operating profit	322.0	248.8
Profit Before Taxation	266.4	186.5
Income Tax Expense	24.9	42.7
Profit after taxation	241.5	143.9
Taxes Paid to Inland Revenue	20.4	22.0
Financial Position (Rs. Million)		
Non - current assets	3,321.7	3,340.9
Total Assets	4,136.6	3,922.4
Debts	413.2	552.6
Shareholders' funds	2,073.7	1,680.4
Information Per Ordinary Share (Rs.)		
Basic Earnings	9.8	4.9
Dividends	1.0	-
Net Assets	87.3	70.8
Market Value	32.0	32.5
Key Performance Indicators		
GP Ratio (%)	13.1	9.2
Interest Cover (times)	4.99	3.77
Current ratio (times)	1.70	1.23
Return On Assets (%)	5.99	3.67
Price Earnings Ratio (times)	3.25	6.67
Dividend payout ratio (times)	0.1	-

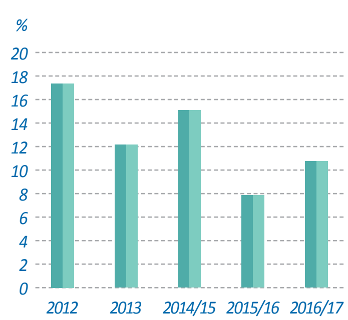


Debt to Equity 2016/17

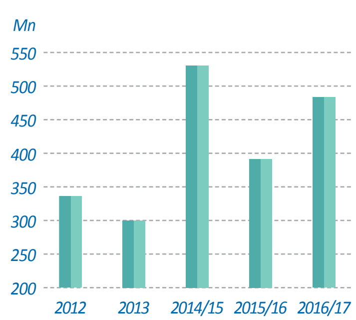
266.4
MILLION
Profit Before Tax



Capital expenditure



Return on Equity



Cash Flow From Operations

NON FINANCIAL HIGHLIGHTS

RANK NUMBER 1
OVERALL IN TEA PRICES AMONGST REGIONAL PLANTATION COMPANIES

10,454 KGS
SOLID WASTE RECYCLED INCREASED BY 62%

199 TOP PRICE RANKINGS
IN COLOMBO TEA AUCTIONS

74.44 HECTARES
TEA REPLANTING AND FIELD DEVELOPMENT

RS. 26.3 MN
COMMUNITY INFRASTRUCTURE DEVELOPMENT INCREASED BY 80%

8,522 KL
WITHDRAWAL OF WATER (ESTATES) REDUCED BY 14%

4,420 TCO2E
GHG EMISSIONS DECREASED BY 19%

44.77 HECTARES
FUEL WOOD PLANTED

5.36 MN KWH
ELECTRICITY CONSUMPTION REDUCED BY 21%

9%
AVERAGE EMPLOYEE TURNOVER DECREASED BY 73%

128,451 KGS
COMPOST PRODUCED FROM BIO DEGRADABLE WASTE INCREASED BY 99%

PASSIONATE VISIONARIES

EMPOWERED WORKPLACE

"We are fair in our labour relations and treat our people with impartiality and respect, and thereby, nurture their self-respect and morale. This underlines our empowered and inclusive workplace culture that we have built over the years."

CHAIRMAN'S MESSAGE

Rs. 3.3 Billion
Group turnover

Rs. 266.3 Million
Group Net Profit Before Tax

Ranked Number 01
We produced a quality tea for the twelfth consecutive year at the Colombo Tea Auctions for both high and low grown teas.

We set industry benchmarks once again in a significant year in the industry....

Dear Shareholder,

I am pleased to present the Annual Report and the Audited Financial Statements of Talawakelle Tea Estates PLC for the year ended 31st March 2017. I have the pleasure to announce in a year of much adversity and challenge, the company has posted a creditable performance.

OPERATING LANDSCAPE

In the year under review, the Sri Lankan economy had a very challenging year, thereby, moderating the growth prospects. The economy posted a lower GDP growth of 4.4 percent compared to 4.8 percent posted in the previous year. The agriculture sector and in particular, the tea sub-sector, was adversely affected by the extremities in weather, from excessive rainfall to drought conditions. The sector was hit by the withdrawal of the fertilizer subsidy and the banning of chemical weedicide. The tea sub-sector was further impacted with lower tea prices up until the mid-year and the wage increase in the third quarter, affecting the regional plantation companies (RPCs). A decline in tea export volumes and unsettled conditions in key export markets further compounded an already challenged year.

The tea sector remained a strong pillar of the national economy, making a significant contribution to the overall economic and social development in the country; despite posting a lower rate of growth. Tea production at 292.5 million kilograms, the lowest since 2009, was a significant 36.4 million kilograms lower to last year's production level. As for export volumes, there was a decrease of 18.2 million kilograms, the lowest since 2002.

However, export earnings increased by Rs. 2.7 billion to Rs. 184.78 billion due to higher FOB prices per kilogram.

Continuing the bearish trends, the Colombo Tea Auctions saw lower tea prices until the mid of 2016. Lower production volumes coupled with lower tea prices relative to cost of production took a major toll on the corporate tea sector revenues and margins; resulting in large financial losses across the RPCs as at end-September 2016. A stronger tea market in the second half, however, along with the non-granting of a wage increase demand of Rs 1000/ per day with effect from April 2015, helped the Regional Plantation Companies(RPC's) to mitigate some of the losses, thereby, avoiding a possible financial collapse of many of the industry players. In this context, the leadership and foresight shown by the RPCs, and the supportive role played by the government were timely and to be commended. Finalising a wage increase in mid-October than earlier was indeed a solace to the industry, supporting viability.

As for the export scenario, the easing of sanctions on Iran had a positive impact on low grown teas. Other key markets such as Russia, CIS countries and the Middle East continued to be price sensitive following the ongoing sanctions and financial instability. The market further lost its price attractiveness from the previous year and nosed-dived by end-September, before rebounding at the Colombo Tea Auctions in the second half; due to a global shortfall in tea production and in particular, Ceylon teas. However, in terms of global tea prices, the Colombo Tea Auctions were marginally above the other auction centers. The average price per kilogram was US$3.27 compared to US$ 2.96 posted in the previous year. The depreciation of the rupee against the US dollar had a favorable impact on rupee tea prices.

CORPORATE PERFORMANCE

The Company's turnover for the year under review declined by 1.9 percent to Rs. 3.2 billion with net profits after tax reaching Rs. 242.3 million compared to Rs. 107.6 million in the previous year. On a consolidated basis, the turnover of the Group stood at Rs. 3.3 billion, a decrease of 2.9 percent over the previous year. The Group's net profit after tax amounted to Rs. 241.5 million. Our two subsidiary companies in the hydro-power sector recorded a profit after tax of Rs. 15.7 million, a substantial dip compared to Rs. 57.3 million in the previous year. The dry weather conditions that prevailed deterred the hydro-power sector performance.

A robust tea market in the second half coupled with our strategy giving precedence to quality and consistency of the tea we produce, sustainable agriculture and manufacturing practices, financial discipline and ethical business practices buffered the Company performance to turn-around from a loss of Rs. 133.3 million in end-September 2016 to a net profit before tax of Rs. 260.1 million by end-March 2017. This positive net earnings and being ranked number one for tea prices amongst all RPCs amidst a difficult year, particularly, with many RPC's recording moderate profits/ losses in their tea segment, can only be described as creditable. Improved weather in the second half and a productivity linked wage structure also supported the year's results by mitigating a 17 percent wage cost increase granted in mid-October.

DIVIDENDS

An interim dividend of RS 1.00 per share was paid in March 2017.

RECOGNITION, RANKINGS AND AWARDS

The many accolades we have received and the recognition we have gained over the years both at the national and at the industry level stand as a testimony to our business acumen and our commitment to raise the bar and achieve operational excellence.

This reporting year, we were elated to sustain our market leadership for over twelve years, ranking at the top for highest prices fetched in both elevations amongst the RPCs on the Colombo Tea Auctions. The solid brand we have nurtured over the years for making finest quality teas underlines the respect and the confidence we have earned from our buyers. Indeed, we are the 'preferred supplier' of Ceylon Teas which sets the backdrop for our consistent and impressive performance above national elevation averages at the Colombo Tea Auctions. We were recognised as the 'Best Performing (Highest GSA) Regional Plantation Company' for 2016 in both high and low grown categories at the Annual Awards organised by Forbes and Walker Tea Brokers (Pvt) Ltd.

We were also honored to receive the 'Silver' for our overall business performance in the plantation and agriculture sector at the National Business Excellence Awards 2016, organised by the National Chamber of Commerce of Sri Lanka. Our commitment to uphold best environmental practices was celebrated with the 'Presidential' Award at the National Green Awards 2016, organised by the Ministry of Environment.

REPORTING BEST PRACTICES

Upholding the ideals of transparency and accountability, we continued in the year to refine and make headway in our reporting initiatives. We sought to strengthen the process, bringing out our cohesive approach to value creation—reflecting on our strategy, actions and plans from an economic, social and environmental standpoint. Our reporting efforts were recognised as themed 'Precision Exemplified' and we retained the 'Gold' in the plantation sector category for the third successive year at the 52nd Annual Report Awards 2016 of The Institute of Chartered Accountants of Sri Lanka.

CHANGES TO THE BOARD

We welcome Mr. S L Athukorala and Mr. M H Jamaldeen to the Board who were appointed consequent to the resignations of Mr. L N De S Wijeyeratne and Mr. W D N H Perera. We take this opportunity to thank them for their valuable contribution during their tenure as Board members.

CHAIRMAN'S MESSAGE CONTD.

STRATEGIC DIRECTION & OUTLOOK 2017

In the reporting year, we succeeded in achieving some significant milestones, despite the challenges faced by our business. Our professionalism, strategic focus and sense of optimism supported us to overcome the challenges in the year whilst capitalising on the opportunities that emerged. It is heartening to note that in the year under review we were able to surpass the highest company profit before tax to date of Rs. 232.7 million in 2012.

Yet, we are well aware and cautious of the adversities that we may have to reckon with in the year ahead. We have the flexibility and focus to minimise the short to medium term impacts arising from volatile commodity markets, instability in key export markets along with climate change. Our focus will be guided by our strategic imperatives—improving resource productivity; cost efficiency; product quality and diversity; and revenue diversification, in an overall context of sustainable agricultural and manufacturing practices. We are confident that we can deliver on our imperatives with our committed corporate and operational teams, underpinned by a performance oriented culture, with a robust performance monitoring and management system at it's core.

Whilst the current level of national tea prices is strong, we are mindful that these price levels are unlikely to hold on into the foreseeable future. The low crop levels and high cost of production in the low grown areas is also a concern. Hence, remunerative tea prices and managing cost of production in the high grown region will be critical for profitability in 2017; especially with higher wage costs being effective for the full year. Another concern is higher financing costs due to rising interest rates—the Average Weighted Prime Lending Rate (AWPLR) has risen by 205 basis points from January 2016 to December 2016. Whilst thanking the authorities for playing a constructive role in the recent wage negotiations, we also eagerly await a speedy removal of the weedicide ban which has negative implications on crop production and business viability. As in the previous years, we look forward to working closely with the Trade Unions to improve productivity and quality of life of our people. We are strongly of the view that a change to the existing wage model is required for a better future for all stakeholders in the industry. We have taken the initiative to propose a revenue share model to the Trade Unions and the authorities , which would lead to a mutually rewarding outcome to sustain this industry in the future.

We call on all stakeholders to come together, uphold a shared view and work towards the long-term sustainability of the industry. A competitive cost structure, a strong brand presence for 'Pure Ceylon Teas', strengthened and relevant research in new tea product derivatives and adequate funding for research and development are prerequisites if we are to remain globally competitive. Policy consistency with regard to land size, ownership and lease tenure, land acquisition and crop diversification including an enabling environment to develop forestry and fuel wood plantations, is also important as they have a significant impact on the future sustainability of the industry. Hence, it's timely to have a policy statement on RPC's future role in the plantation sector to infuse greater confidence.

At a policy level, we request a further enhancement of the replanting subsidy to improve national yields. In this context, we earnestly request the authorities to consider industry/chamber requests; not to amend the existing allowable tax expenditure on replanting in the proposed amendment to the Inland Revenue Act, as it would be counter-productive; and will disincentivise the industry to commit long-term funds for replanting. We also await for a speedy roll out of the Tea promotion campaign with funds in 'The Sri Lanka Tea Board Export Cess Fund' to promote 'Ceylon' teas. This would enable to regain and expand market share vis-à-vis global brands of other origin teas. An extension of the fertiliser subsidy to the RPC sector is another policy initiative that we believe would increase the national tea crop.

We look to 2017 with a sense of optimism due to the present state of play in the industry, particularly, with our key export markets expected to perform better in the improving global economic settings. However, the industry earning cycle is never predictable especially in an operating environment where a multitude of challenges exist; climate change and commodity price stability being the critical determinants. Nevertheless, there is great potential to grow and prosper in this backdrop and these opportunities should not be missed.

IN APPRECIATION

With the best in team spirit and dedication, we saw all employees work hard to manage a challenging year and deliver a strong performance. A warm thank you to the Management Team and our employees for their tireless work during the year. I also thank our buyers, tea brokers, financiers and all other stakeholders for their continued support. My sincere appreciation is with my fellow Directors on the Board for their wisdom and guidance.

Mohan Pandithage
Chairman
Talawakelle Tea Estates PLC

09th May 2017

MANAGING DIRECTOR'S REVIEW

Rs. 266.3 Million
Group Net Profit Before Tax

Surmounting the challenges of a defining year, 2016/17 Talawakelle Tea Estates PLC stood resolute and resilient to consolidate and deliver a sound performance.

Surmounting the challenges of a defining year, 2016/17, Talawakelle Tea Estates PLC stood resolute and resilient to consolidate and deliver a sound performance. Concentrating on a well-deliberated strategy, underlined by ethical and responsible corporate practices, we were able to weather the headwinds that battered the plantation industry and retained our positioning as a foremost regional plantation company (RPC). My review this year seeks to set forth the industry dynamics and our focused actions to be consistent and responsive in our value creation; alongside our salient plans to secure the sustainability of our operations in the years to come.

INDUSTRY IN CRISIS

Reckoning with a plethora of issues, the plantation industry had to face a yet another difficult year. The economic and political afflictions in the global arena, particularly, within our key export markets, and the uncertainty within the commodity markets, continued to stifle the industry progress. On the domestic front, the imbalances that prevailed within the macro economy, socio-political tension, labour unrest along with the extremities in weather from a prolonged dry spell to floods, intensified the industry woes—bringing down the quality of the leaf, production and productivity together with increasing cost of production. Yet, we must commend the collective effort of the industry, paving the way to transition into a productivity based wage mechanism—a much needed and a timely paradigm shift, averting the industry from going into a deeper quandary.

WELL-DELIBERATED STRATEGY

Amidst myriad of challenges in a dismal operating backdrop, the onus was on us to stay focused, pragmatic and responsive in our strategy and action. It was critical that we took on a multi-pronged approach to minimise the down-side risks and strike a balance

MANAGING DIRECTOR'S REVIEW CONTD.

between our short-term priorities and long-term goals.

Hands-on in our management approach, we were thorough in our efforts to leverage on our expertise and achieve greater operational efficiency—controlling costs, minimising leakages and increasing worker productivity. The new wage mechanism further buttressed our efforts. We invested on sustainable agricultural practices to bolster our yields; develop factory infrastructure; and strengthen our systems and processes to modernise and streamline our daily operations. We stood by our commitment to develop our team and nurture a performance work culture whilst closely engaging and ensuring the wellbeing of our estate workers and resident communities. We also continued with our key measures to conserve the biodiversity of our estates and lessen our carbon impact.

Our operational strategy underscored by our commitment to work ethics, in effect, enabled us to uphold our value proposition to produce finest quality teas, keep our competitive edge and secure better pricing in a down-turn industry backdrop.

RESILIENT CORPORATE PERFORMANCE

As mirrored across the industry, our crop performance was adversely hit by extreme weather patterns that prevailed in the year under review. The chemical weedicide policy directive from the government, the removal of fertiliser subsidy along with labour strife on wage issues also played its part in dampening our productivity and crop volumes. Our crop production in the year reached 4.92 million kilograms, plummeting by 16.2 percent below the levels recorded in the preceding year. Both elevations, low and high grown crops recorded a significant decline of 15.6 percent and 19.5 percent respectively as against the previous year. Our bought leaf production in the year also fell by 26.4 percent over the previous year.

Amid short supply of orthodox tea on the Colombo Tea Auction, the prices were relatively more remunerative in the latter part of 2016 compared to the corresponding period of the preceding year. Our consistent focus and our brand strength for quality teas enabled us to focus on these favourable market conditions and fetch premium pricing for our teas. This cushioned our top-line and we were able to reach Rs. 3.2 billion in revenue, curtailing the drop to 1.9 percent as against the previous year.

Despite our focused efforts to keep our costs at bay, we saw our cost of production escalating by a notable 16.6 percent over the previous year. The industry-wide wage increase of 17 percent which kicked in by the third quarter of the year along with energy bills eroded our cost competitiveness and restricted our top-line gains. Notwithstanding an increase in average weighted prime lending rates (AWPLR) by 205 basis points over the year in line with a tighter monetary policy, our conscientious efforts in treasury management, saw a decline in finance costs in the year. Yet, reflecting well on our strategic management, we were able to sustain a strong bottom-line—profits before tax for the year stood at Rs.260.1 million, a creditable increase of 76.3 percent considering the industry dynamics. Our return on equity for the year stood at 11.90 percent.

Our financial position as at the year-end 31st March 2017 was healthy and sound. We saw our net asset position at Rs. 2,035.6 million, an increase of 24.6 percent over the position in the preceding year-end. The asset position inclusive of the shareholders' funds was adequate to cover our liability obligations as at the year-end.

At the consolidated level, inclusive of our subsidiary operations in hydro power, our revenue touched Rs. 3.3 billion whilst profits before tax was Rs. 266.3 million. Our subsidiaries which were affected by the severe drought conditions in the latter part of the year and a downward revision in tariff rates as per the Ceylon Electricity Board agreement contributed 6.5 percent to our consolidated profits compared to 39.8 percent in the preceding year.

FOCUSED ON QUALITY

Sustaining our corporate standing, we remained true to our commitment to produce finest quality teas in line with best and sustainable practices and standards. We were fully focused on reinforcing our quality management process across our value chain, encompassing all 16 of our estates and 15 factories. Our quality and standards in food safety were well attuned and endorsed by the ISO 22000:2005 Food Safety Management System certification which covered almost 90 percent of our operations. We also continued to conform to the ethical and responsible business practices aligned to UTZ, Ethical Tea Partnership and the Rainforest Alliance.

Our relentless focus on quality underlined our competitive edge on the Colombo Tea Auction and paved way to obtain best prices for our teas, exceeding the national elevational averages. For the twelfth successive year, we sustained our price ranking at the top most slot for low grown elevation teas amongst the RPCs. The high grown teas also maintained its number one ranking for the twelfth successive year. Our flagship estate, Mattakelle, was the second highest in the Western high grown catalogue in tea prices whilst five of our high grown estate marks were ranked amongst the top ten price earners. In the low grown elevation, our Kiruwanaganga estate clinched the top most rank and three of our low grown estate marks were within the first five amongst the RPCs.

INVESTING FOR THE LONG-TERM

Recognising the dire need to spur higher and better quality yields in a waning industry, we remained committed and consistent in our investments to enhance our land productivity and ensure greater sustainability in the long term. We were systematic in our approach and followed best practices in field operations including replanting, soil management, water management, responsible fertiliser application and pest control. This year, we invested a sum of Rs. 88.6 million on field development, less by 15.4 percent as against the preceding year. Similarly, we continued to invest in revamping and upgrading our factory infrastructure, machinery and equipment and meeting quality and safety standards in line with our certification provisions. In the year under review, our non- field capital expenditure saw an increase of 24.6 percent over the previous year, taking the total to Rs.133.2 million.

Our hydro power plants under our subsidiaries in Radella, Somerset and Palmerston were well maintained with due investments. These plants were operating at 69.8 percent of the budgeted capacity levels during the reporting year, generating 5.99 million Kw of electricity. Operations were hindered from the second half of the year due to drought conditions that prevailed in the year.

RELYING ON PERFORMANCE MANAGEMENT

Closely following up on our corporate targets, we looked at reinforcing our performance management system across our operations including our estates, factories and the corporate office in Colombo. We brought in technology upgrades in the year under review and sought to leverage on real-time data analytics and KPI dash-boards for hands-on performance management. This supported us to pave a dynamic work-place, where we stayed focused on achieving our strategic goals and ensured that we gave precedence to fair labour practices based on performance and productivity.

This year, almost 100 percent of our operations came under performance management mechanism. We assessed and rewarded the performance of all executives and extended productivity incentives amounting to Rs. 71.3 million to the estate workers. We also prioritised and invested Rs. 2.2 million on training our workforce to minimise the skills gap and nurture a well-rounded team. It is noteworthy that despite a decline in tea crops by 16.2 percent we maintained our worker productivity at a satisfactory level.

ENGAGING THE ESTATE WORKER

With labour issues taking up centre-stage in the crisis-hit plantations, it was imperative that we stayed focused and maintained positive labour relations. This assumed greater significance and intensity this year under review, where we saw the industry stakeholders taking their first steps to embrace a rational wage model.

Closely engaging our estate workforce and the trade unions at a collective level, we focused on building awareness on the issues impacting the very sustainability of our industry and the merits of accepting the new wage model on a productivity based formula. We strived to inculcate a positive attitude and create a sense of loyalty, so that we could muster their goodwill and motivate them to reach for better productivity, leading to higher yields and viability.

Our initiatives in effect supported us to cap our worker absenteeism at 22.9 percent. This is despite the labour strike that disrupted operations for almost ten days in the early part of the year.

CARING FOR THE WORKER AND COMMUNITY

Even as we grapple with the hardships prevalent in our industry, we remained steadfast in our commitment to sustain the quality of life of the estate workers and the communities resident within our estates, reaching over 41,000. We continued to invest in our dedicated social responsibility programme, 'Home for Each Plantation Worker', covering housing, sanitation, health and nutrition, safety, capacity building, youth development and other welfare measures. The total worker welfare and community expenditure in the year touched Rs.106.6 Million.

FUTURE OF THE INDUSTRY

The reporting year was a 'challenging year —one of the worst in the plantation history. The industry is clearly in doldrums and the outlook for the year ahead is still bleak; although there is much hope for recovery and bottoming-out from the protracted slump. We believe that it is time for the industry to stand united to find solutions to the pressing issues impeding on the industry way forward. It is our duty as stakeholders to leave behind partisan aspirations and take on a coherent perspective and collaborate towards the sustainability of the industry.

Moving forward from the productivity based wage model, the time now is opportune to open a dialogue and work towards a revenue-share model—essential to be successful in the next level. We also need to find sustainable solutions to the pressing chemical weedicide issue and the withdrawal of the fertiliser subsidy. The onus is on the stakeholders, especially on the RPCs, to lobby with the Government of Sri Lanka and other relevant stakeholders in this regard.

MANAGING DIRECTOR'S REVIEW CONTD.

We at Talawakelle Tea Estates is fully conscious of our role and take our responsibility to be a front-runner organisation to lead, gear and nurture our industry into the long-term. We have the essential success factors, integrated thinking and fortitude to respond to industry complexities, embrace change, steer cautiously through down-side risks and take on new opportunities in the emerging market scenario.

PLANS AHEAD

Further, consolidating our operations, we will continue to work towards greater productivity and stay focused on our quality and standards to sustain our competitiveness. We will remain disciplined in financial management, seeking to keep our production costs and overheads lean to spur better margins. However, we will not compromise on the fundamentals that will define our long-term viability—tea replanting, modernisation and due maintenance of machinery and equipment in fields and factories; infrastructure development; current technology; and research and development to bring in new varieties of speciality teas with greater value addition. We will further engage our workforce, support our communities and protect the environment from pollution and green-house gas emissions. We will also strengthen our risk management and governance and bring greater internal controls to ensure that we are full prepared to face the industry dynamics.

We will look to further build and promote our brand and market our teas including speciality and life-style tea products targeting the high-end market segment.. The revamped website of the company to be launched during the next financial year. We also look forward to join the industry to promote the destination brand 'Ceylon' in the world arena.

As a mono crop organisation, it is highly warranted to embrace crop diversification as a key strategy in the medium-term. We are positively looking at further diversification to fuelwood and cinnamon along with fruits and flower cultivation targeting both the export and local markets.

From a long-term standpoint, we recognise and seek to build on opportunities emerging within the tourism and leisure sector. We are presently looking at the feasibility and securing a partnership to set up and manage a themed leisure property on the lines of 'tea tourism' in one of our scenic estates in the high grown elevation. This ties up well with our core business model. Plans are also underway to provide plantation management consulting services both locally and abroad.

IN CONCLUDING

Indeed, this was an year of cross-roads. It was imperative that we stand together, make and implement perceptive business decisions to navigate through the demanding business landscape and achieve our corporate targets. Our stakeholder support this year was immense and we are truly grateful to all.

My sincere appreciation to our Chairman and the Board of Directors for their deep insight, leadership and guidance in keeping our organisation in good stead in these turbulent times. This year, we saw greater dedication, firm commitment and unstinted effort from the corporate management and operational teams across our estates to carry forward and deliver on our targets against all odds. I commend their hard work and I am confident that they will continue to be equally determined and dedicated in embracing the challenges in our journey ahead.

A warm thank you is extended to our valued shareholders, buyers, brokers, suppliers and all other stakeholders for standing beside us, confident and trusting in our expertise, our strength to see through hardship and take on the way forward.

Roshan Rajadurai
Managing Director
Talawakelle Tea Estates PLC

9th May 2017

ABOUT US

ABOUT US

Talawakelle Tea Estates PLC produces high quality teas from our 16 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 Estates PLC reaches you with our finest Ceylon teas with a defining characteristic.

VISION, MISSION AND BUSINESS PHILOSOPHY

VISION

To be the most admired plantation company in Sri Lanka.

MISSION

Manage the plantations to enhance Quality of life of all employees.

Produce and market quality teas that delight our customers. Drive sustainable growth. Enhance share holder value.

BUSINESS PHILOSOPHY

We Believe in...
Manufacturing Quality Tea that fetch Premium Prices
Increasing Shareholder Value
The Spirit of Entrepreneurship
Making Profit without loss of Honour
Motivating and Training our people to reach their full potential
Rewarding Performance
Being a Learning Organisation and continuously improving
Building mutually beneficial long term relationships with our Customers and Suppliers
Positively contributing to the conservation of the environment

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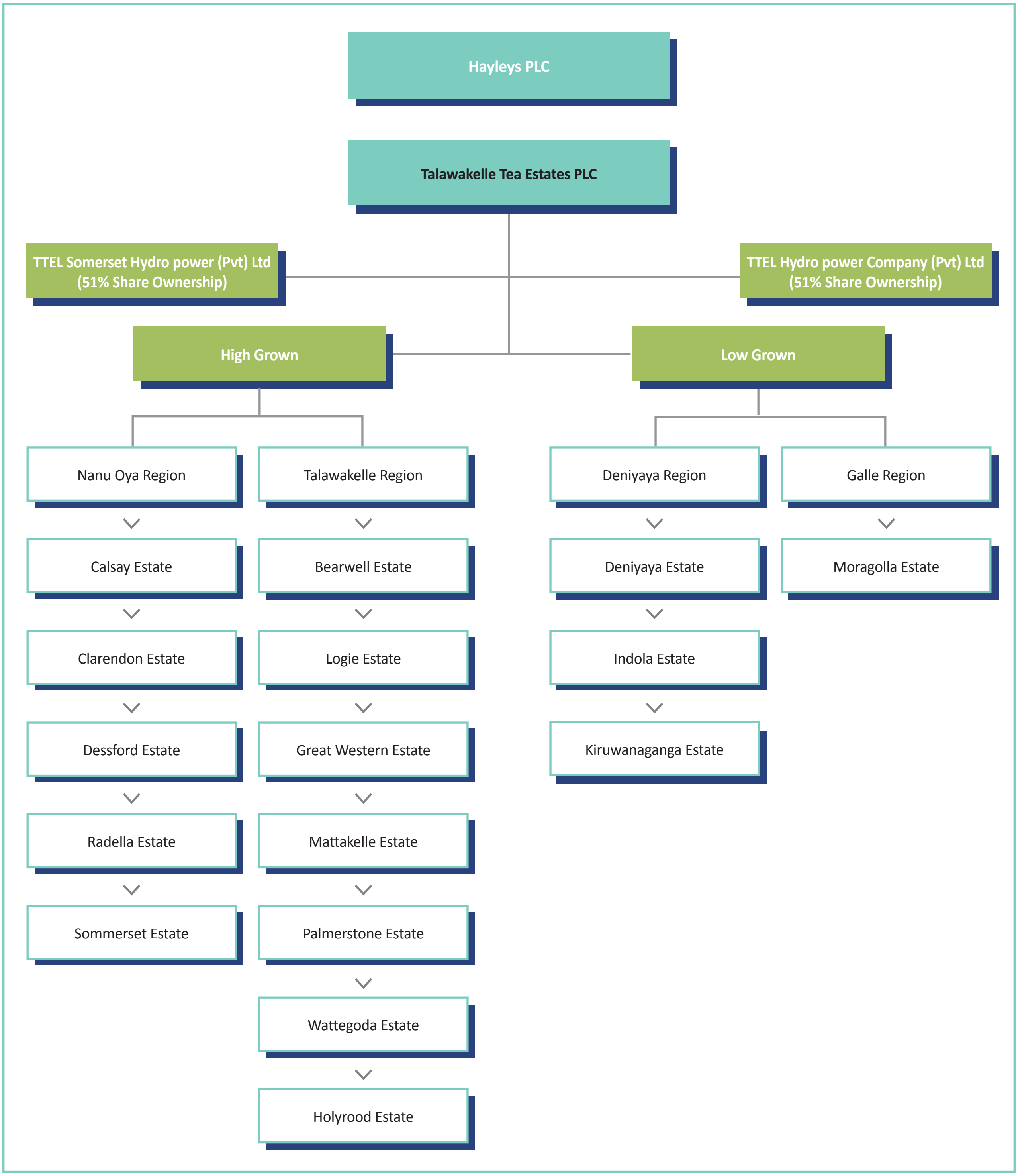
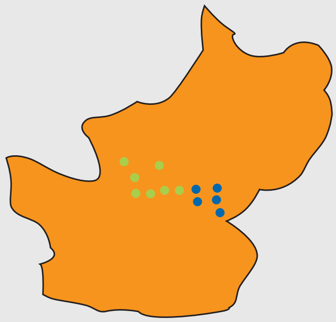
ABOUT US CONTD.

ORGANISATION STRUCTURE

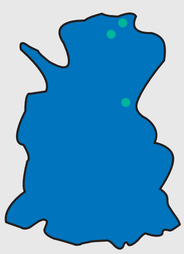


MAP OF ESTATES

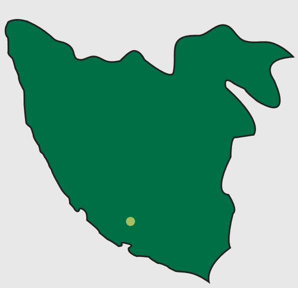


Nanu Oya (5)
Calsay Estate
Clarendon Estate
Dessford Estate
Radella Estate
Somerset Estate

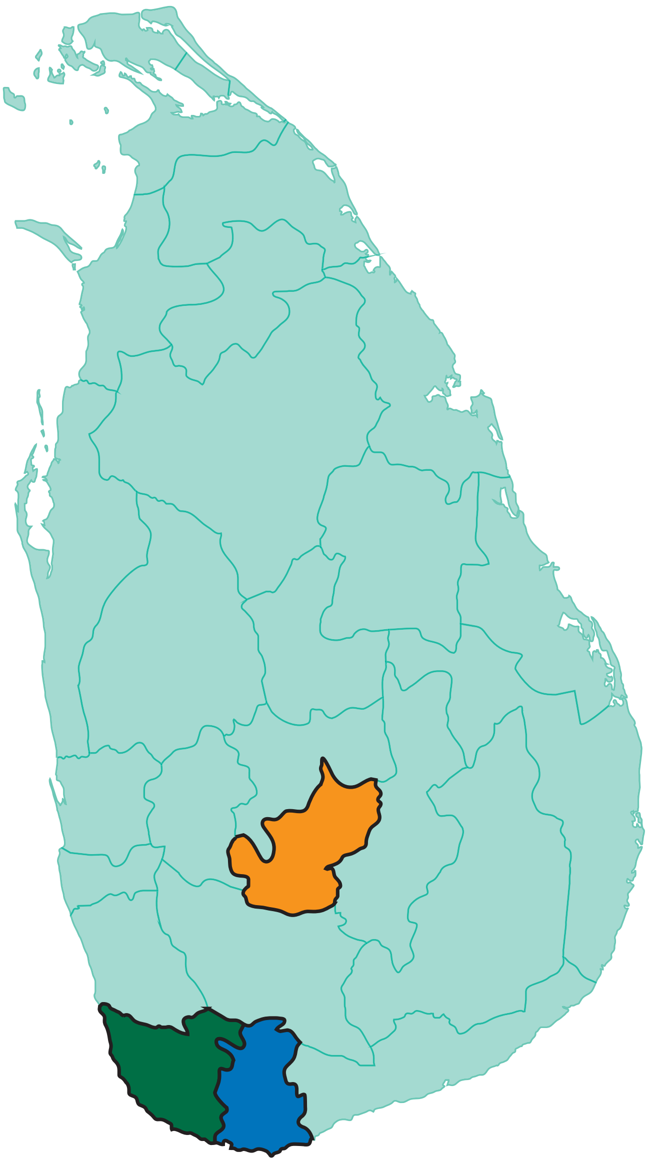
Talawakelle (7)
Bearwell Estate
Logie Estate
Great western Estate
Mattakelle Estate
Palmerston Estate
Wattegoda Estate
Holyrood Estate



Deniyaya (3)
Deniyaya Estate
Indola Estate
Kiruwanaganga Estate



Galle (1)
Moragalla Estate



12 HIGH GROWN
04 LOW GROWN

OUR ESTATES AND FACTORIES

Estates	Total Extent	Area in Tea		Area in Rubber		Others	Total Cultivated	Building/ Bungalow Gardens/ Roads ect.	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	17.30	307.22			20.41	344.93	78.48	SB Alawattegama/ DWA Jayathilake	448	458,968	1,494	1,280	Ortho/RV	720
Calsay	282.25	10.95	191.55			34.89	237.39	44.86	UB Udawatte	305	196,791	1,027	1,463	Ortho	430
Clarendon	191.42	11.81	152.04			6.10	169.95	21.47	YD Kumarasiri	228	161,723	1,064	1,555	Ortho/RV	600
Dessford	431.99	17.50	299.38			4.33	321.21	110.78	NP Abeysinghe	606	379,442	1,267	1,382	Ortho/RV	720
Great Western	628.48	17.94	401.89			5.71	425.54	202.94	GK Wijesekara	728	540,943	1,346	1,448	Ortho/RV	720
Holyrood	465.96	19.00	315.20			76.15	410.35	55.61	DMGB Dassanayake	499	358,992	1,139	1,341	Ortho/RV	720
Logie	329.88	7.09	210.59			41.55	259.23	70.65	SGN Nalin Kumara	316	291,981	1,386	1,220	Ortho/RV	500
Mattakelle	361.96	18.08	240.08			27.66	285.82	76.14	PGG Jayathilake	659	429,403	1,789	1,372	Ortho/RV	720
Palmerston	203.11	0.75	148.86			23.75	173.36	29.75	ACM Bandaranayake	242	213,192	1,432	-		
Radella	458.76	22.98	247.44			106.78	377.20	81.56	AGRMS Ranaweera	594	364,206	1,472	1,402	Ortho/GR.T	720
Somerset	455.64	32.44	304.96			29.58	366.98	88.66	ESBA Egodawela	699	432,741	1,419	1,102	Ortho/RV	720
Wattegoda	529.89	27.75	277.05			108.85	413.65	116.24	DMAS Dissanayake	538	397,187	1,434	1,219	Ortho/RV	720
Sub Total	4,762.75	203.59	3,096.26	-	-	485.76	3,785.61	977.14		5,862	4,225,569	1,365			7,290
Galle															
Moragalla	384.78	24.99	78.53	52.06	82.78	57.99	296.35	88.43	HPW Vithanage	245	219,638	1,219	38	Ortho	600
Pitiyagoda	-								HPW Vithanage	12				Ortho	400
Sub Total	384.78	24.99	78.53	52.06	82.78	57.99	296.35	88.43		257	219,638	1,219			1,000
Deniyaya/Urubokka															
Deniyaya	578.15	42.44	189.11	13.35		34.20	279.10	299.05	KGMN Gamage	303	531,955	1,074	310	Ortho	600
Handford									KGMN Gamage	-	-	-	400	Ortho	600
Indola	282.16	10.81	76.21	37.17	60.97	24.43	209.59	72.57	WD Jayasinghe	162	70,347	923	-		
Kiruwanaganga	482.71	22.55	334.41	4.00		19.08	380.04	102.67	DMHU Mahadivulwewa	413	569,329	990	310	Ortho	1050
Sub Total	1,343.02	75.80	599.73	54.52	60.97	77.71	868.73	474.29		878	1,171,631	1,160			2,250
Grand Total	6,490.55	304.38	3,774.52	106.58	143.75	621.46	4,950.69	1,539.86		6,997	5,616,838	1,305			10,540

Subsidiary Review

TTEL SOMERSET HYDRO POWER (PVT) LTD

- **Principal Activity:** Generation of Hydro Power

Somerset Hydro Power Project
- 1.1MW Capacity - Nanu Oya
- **Share Ownership:** 51%
- **Date of Incorporation:** 25th August 2008

60.0 MILLION
Stated Capital

- **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. Arul Sivagananathan

- **Key Performance Indicators - 2016/17**

38.86 MILLION
Revenue

14.07 MILLION
Profit After Tax

166.89 MILLION
Total Assets

8.1%
Return on Equity

TTEL HYDRO POWER COMPANY (PVT) LTD

- **Principal Activity:** Generation of Hydro Power

Radella Hydro Power Project
- 0.2MW Capacity - Nanu Oya
- **Share Ownership:** 51%
- **Date of Incorporation:** 11th August 2008

Palmerstone Hydro Power Project
- 0.8MW Capacity - Talawakelle

69.0 MILLION
Stated Capital

- **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. Arul Sivagananathan

- **Key Performance Indicators - 2016/17**

33.27 MILLION
Revenue

1.66 MILLION
Profit After Tax

232.21 MILLION
Total Assets

0.9%
Return on Equity

INNOVATIVE AND

Wattegodde Estate - Golden Twist

Wattegodde Estate - Kekulu

Radella Estate - Green Tablet

Great Western Estate - Golden Dragon

Dessford Estate - Abbotsford Special

Dessford Estate - Silver Bell

Bearwell Estate - Silver Blossom

SPECIALTY GRADES

Great Western Estate - Curl Tips

Great Western Estate - Tea Coin

Radella Estate - Green Curl

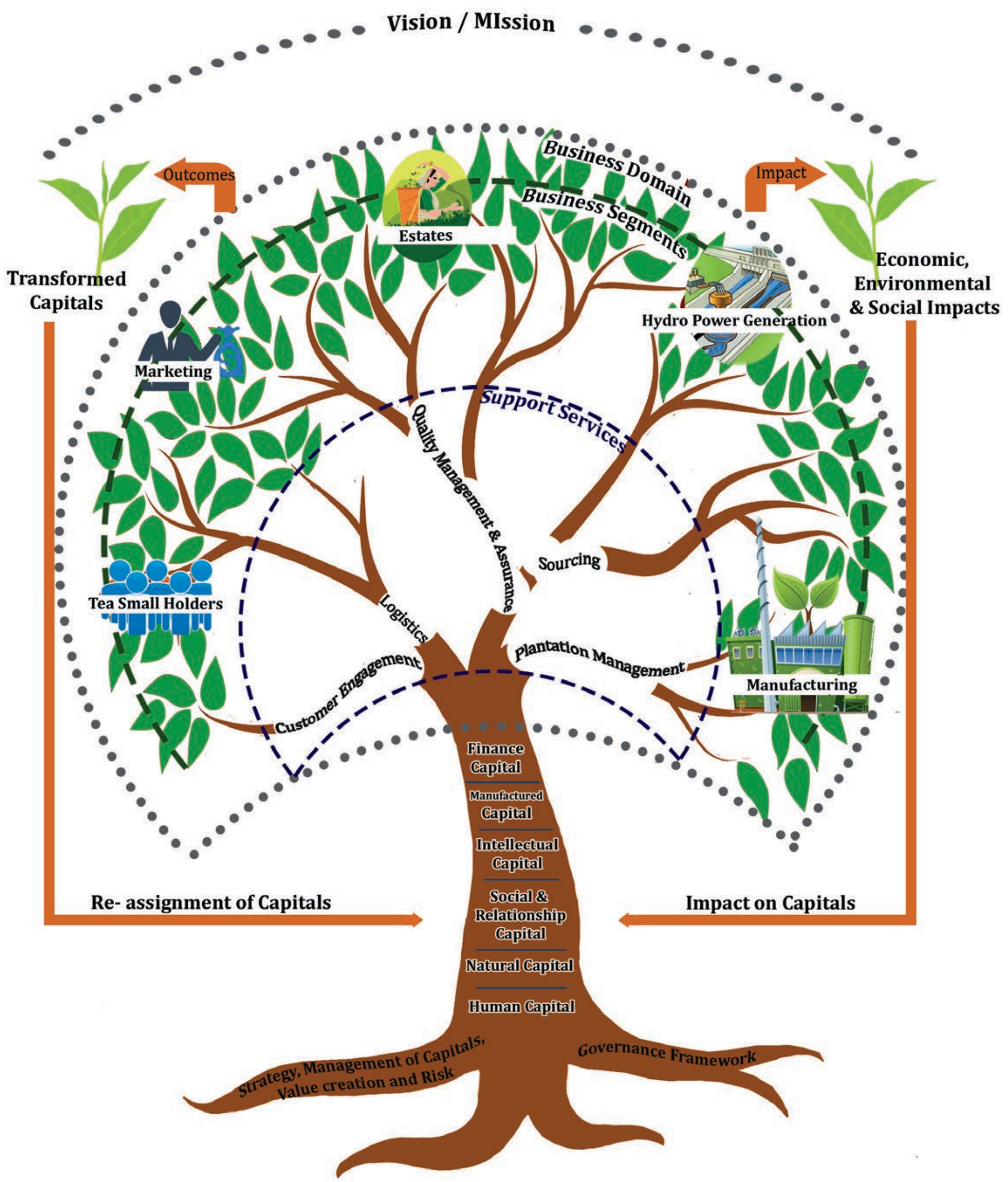
Wattegodde Estate - Monkey Frost

Deniyaya Estate - Bud Tea

Mattakelle Estate - Red Premium

VALUE CREATION

BUSINESS MODEL



HOW THE BUSINESS MODEL WORKS

Defined by logic and portrayed by a 'tea tree', our business model highlights the way we create value, reaching out to our stakeholder expectations. With deeply rooted fundamentals of good governance and strategic management, well-sheltered by our vision and mission, we bring in our key capitals—the trunk of the tree—as inputs in our value creation process. The inputs are transformed through our business processes and activities into outputs and outcomes with the assistance of the branches of the tree, our support services. The leaves stand as our transformed capitals along with economic, social and environmental impacts. The transformed capitals are subsequently reallocated to nurture the value creation process whilst the impacts are mitigated or managed to ensure sustainability in the long-term.

VALUE CHAIN

Tea Nursery	Field Operation	Collection	Factory	Packaging Centers	Trading
Establishing improved tea cultivars	Planting & maintaining of tea fields Harvesting of green leafs	Collecting harvested crop and Bought Leaf from Smallholders	Processing orthodox black, green and specialty teas	Packing made teas, product labeling and transporting	Trading made teas at the Colombo Tea Auctions and direct selling
• Research and Development • Collaborate with Tea Research Institute	• Soil Management • Pruning • Application of fertiliser, weedicides and pesticides • Infilling and Re-planting • Monitoring temperature and rainfall	• Green leaf transport • Weighing • Quality checks • Small holder engagement	• New product development and value addition • Quality & Safety management • Factory amenities management • Maintenance of machinery and equipment Energy management	• Final quality checks as per global food safety standards and certifications • Compliance to Ceylon Tea Traders Association By-laws • Timely and safely delivery	• Tasting & Valuation • Customer engagement • PR initiatives with buyers • Branding and marketing communications

Tea Factory

Nursery

Pluckers

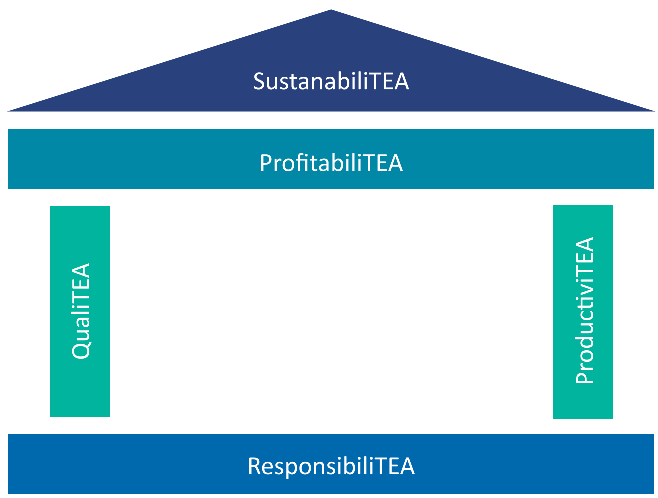
HOW WE CREATE VALUE

As a foremost regional plantation company, we stand committed in our duty to ensure responsible and inclusive value creation. Aligned to our corporate vision to be 'the most admired plantation in the country', we strive to achieve business excellence and deliver long-term value across our estates and factories, reaching out to all our stakeholders.

We uphold an integrated approach to value creation. As a plantation based organisation having greater engagement with people and nature, it is more significant and far-reaching to adopt a balance between economic, environment and social aspects of value creation. This is the essence of our business model. We bring the six forms of capital—financial, manufactured, intellectual, human, social and relationship and natural—in to our processes to create value; not merely confined to meet shareholder obligations, but, also to meet the aspirations of our other stakeholders be it in the form of responsible products, fair labour practices, wellbeing of our resident communities and caring for our environment.

With 16 tea estates spreading out on 6,490.55 hectares of land coupled with fully-equipped and modern processing facilities in 15 factories, we produce and process teas in the high grown elevations in Talawakelle and Nanu Oya and in the low grown elevations in Deniyaya and Galle. We specialise mainly in black orthodox tea targeting the export market in the Middle East, Russia and CIS countries. We also produce green and value-added specialty teas on a limited scale.

The capital needed for value creation comes from equity raised from both our majority shareholder and parent, Hayleys PLC, and the public on the Colombo Stock Exchange. We also rely on internal cash flows. Our operations are carried out by a diverse workforce of 7,469 including estate workers, factory and head office staff. Apart from our core estates, we have a significant bought-leaf operation in the low grown region, engaging over 1,365 tea smallholders, accounting for 12.3percent of our total tea production. The three hydro-power plants operated within the purview of our subsidiaries further complement the value we generate. The resident communities, reaching over 41,000, together with the neighbouring communities are intrinsic to our estate operations, whilst our proactive engagement gives them their livelihood and nurtures their quality of life. Our responsible initiatives support to protect our biodiversity and reduce green-house gas emissions. From an inclusive perspective, we create and share value with our stakeholders—a full circle of enrichment and progress, with multiplier benefits, permeating across the entire society.



Six Capitals in Value Creation

Financial Capital
We raise and strategically allocate capital in the form of equity and internal cash flows across our business units to achieve optimum value results.

Manufactured Capital
We invest in state-of-the-art machinery and equipment to ensure that we are streamlined, efficient and meet quality and standards in producing high-quality teas.

Intellectual Capital
Our expertise and business intelligence in managing plantations, investments in innovative solutions and our corporate standing underline our competitive advantage in value creation.

Human Capital
We are proactive and progressive in our labour relations, following best practices to nurture a productive and an empowered workforce.

Natural Capital
We stand committed to be responsible in our efforts to minimise our operational impact on the environment and achieve carbon neutrality within our value chain.

Social and Relationship Capital
With a deep commitment to society, we strive to be responsible in our product delivery, care for the wellbeing of our resident communities and be an exemplary corporate citizen.

INTEGRATED SUSTAINABILITY OBJECTIVES, GOALS AND ACHIEVEMENTS

ASPECT	OBJECTIVE	UNIT	GOAL 2016/2017		ACHIEVEMENT		
				2016/17	2015/2016	2014/2015	2013
FINANCIAL CAPITAL	1. Revenue	Rs-Mn	3,600	3,262	3,323	4,643	3,528
	2.Gross Profit	Rs-Mn	354	403	247	437	337
	3. Return on Equity (ROE)	%	4	11.9	6.7	13.9	10.8
	4. Debts to Equity	%	25	15.95	30.2	36.4	48.9
MANUFACTURED CAPITAL	1. New Machinery acquisitions	Rs. Mn	13.3	13.5	7.66	46.51	22.74
	2. Production	Kgs. Mn	6.9	5.65	6.8	8.8	7.3
	3. Made tea out turn	%	22.20	22.33	22.21	22.31	22.05
INTELLECTUAL CAPITAL	1. Recognitions & Awards	Number of main awards	20	16	15	15	16
	2. Certifications						
	ISO 22000 –FSMS	Number of estates	14	12	13	13	13
	Rainforest Alliance	Number of estates	14	14	14	13	13
	Etical Tea Partnership	Number of estates	14	14	14	13	13
	UTZ	Number of estates	14	01	01	01	01
	3. Reputation and brand value	RPC GSA Ranking	01	02	01	02	02
HUMAN CAPITAL	1. Total Worker Productivity	kgs/Worker	2.75	2.64	2.7	2.7	2.6
	2. Worker Attendance	%	80	75	65	68	70
	3. Investment on Employee Training	Rs. Mn	1.5	2.2	1.3	1.6	1.5
	4. Worker Turnover	%	10	9	6	22	9
SOCIAL & RELATIONSHIP CAPITAL	1. New Housing	Units	10	24	32	11	10
	2. New Sanitary Facilities	Units	100	388	242	30	22
	3. Investment on Social Infrastructure Development	Rs. Mn	25	38.7	54.8	30.5	24
COMMUNITY DEVELOPMENT	4. investment on Social Activities and community development	Rs. Mn	18	17.4	17.3	15.4	13.1
CUSTOMER, SUPPLIER & INVESTOR RELATIONSHIP	1. Customer Complaints	Nos	0	7	22	10	13
	2. Customer Satisfaction Index	%	100	73	70	71	65
	3. Total Local supplier percentage	%	100	100	99.7	96	94
	4. Tea Small holder supplies	Kgs	996,686	690,960	938,751	1,585,725	1,252,095
	5. Price Earning Ratio	times	3.00	3.25	6.52	3.49	3.28
NATURAL CAPITAL Field development & performance	1. Yield per Hectare	Kgs/hec/annum	1,703	1,305	1,547	1,887	1,570
	2. Replanting-Tea	hec/annum	30.89	19.43	29.41	46.25	27.47
	3. Planting of Fuelwood & Timber Species	hec/annum	77.52	44.77	52.72	54	11.04
	4. Investment on Field Development	Rs. Mn	140	87.1	105	79.2	71.5
Environmental stewardship	1. Generation of Hydro-power	kWh-mn	10	5.9	8.2	6.9	9.0
	2. GHG Emissions-Carbon Footprint	tCO_2e	5,000	4,420	5,471	5,495	5,696
	3. GHG Emissions Intensity	tCO_2e/tonn of Made Tea	0.70	0.74	0.73	0.74	0.74
	4. Investment on Environmental Initiatives	Rs. Mn	45	40.4	43.2	26.4	49.5

STAKEHOLDER ENGAGEMENT

Over the years, we have been committed and focused in our efforts to engage our key stakeholders, seeking to be practical and meaningful in the way we meet their expectations and address their concerns.

OUR STAKEHOLDERS

G4-24

External Stakeholders

- Public shareholders
- Suppliers & service providers
- Financial institutions
- Buyers/ customers/ brokers
- Neighbouring communities
- Government, industry and regulatory bodies
- Planters Association/societies/PHDT
- Certification bodies
- Non-government organisations
- Media

Internal Stakeholders

- Parent Company
- Employees/Trade Unions
- Resident Communities

STAKEHOLDER MAPPING

G4-25

Our report content is developed focused on our key stakeholders along the lines of the 'materiality principle' as will be discussed under the ensuing section. We rely on a common stakeholder mapping tool to identify and prioritise our stakeholders on a two-tier basis-the level of influence our stakeholders have on the organisation and the level of interest they have on the sustainability of our operations. The findings form the basis of our reporting initiatives, enabling us to be focused and relevant in our content development. We give priority to key stakeholders identified as 'high influence - high interest'. Accordingly, we recognise five key stakeholder groups-parent company, shareholders, employees/trade unions, resident communities and buyers/ customers/ brokers, for close engagement and management. This is followed by other significant stakeholder segments including suppliers, government, regulatory bodies, industry associations, non-government organisations and the media to be engaged in their areas of interest and as and when required.

STAKEHOLDER ENGAGEMENT & PROCESS

G4-26 & 27

Over the years, we have been committed and focused in our efforts to engage our key stakeholders, seeking to be practical and meaningful in the way we meet their expectations and address their concerns. In our decision-making process, we are careful in weighing the and considering material issues of our stakeholders and we seek to extend comprehensive solutions and build solid and long-term relationships.

Reporting Process

Stakeholder Mapping

Prioritise key stakeholders

Evaluate and review engagement output

Identifying key concerns and issues

Carry out materiality analysis

Identify material business and sustainable priorities

Report on material issues

Stakeholder Mapping	Stakeholders	Level of Engagement
High influence - High Interest	Parent Company Shareholders Employees/Trade Unions Resident Communities Buyers/ Customers/ Brokers	Closely engage and Manage
High influence - Low Interest	Suppliers and Service Providers	Keep Satisfied and Meet their Needs
High Interest - Low Influence	Government Industry Regulatory Bodies Financial Institutions Planters Association/ Societies/PHDT Certification bodies Media	Keep Informed
Low Influence - Low Interest	Neighbouring Communities Non-government organisations	Monitor and Address needs, when Required

MEMBERSHIPS

G4-16

Our Memberships in Associations 2016/17

Ceylon Chamber of Commerce	Planters' Association of Ceylon	Employers' Federation of Ceylon
Tea Research Institution	Plantation Human Development Trust	Biodiversity Sri Lanka

STAKEHOLDER ENGAGEMENT COND.

Stakeholder	Key Issues and Concerns	Process of Engagement	Frequency of Engagement
Parent Company/ Shareholders	• Profit and growth • Sound returns • Climate change and crop production • Sustainability aspects • Responsible corporate management	• Annual general meeting • Interim financial statements • Published Accounts & Annual report • Board meetings • Corporate disclosures • Press releases • Open-door-policy	• Weekly • Monthly • Quarterly • Annually
Employees/Trade Unions	• Remuneration • Profit and growth • 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 dialogue and interactions with the management • 'Home for every plantation worker'-sustainable social development programme • Health & safety committees • HR cluster meetings and initiatives • Certification programmes • Annual report	• Regularly
Buyers, Brokers, Customers	• Product quality and food safety • Compliance with local and international standards and regulations • Green and ethical products • Conforming to the by-laws of Ceylon Tea Traders Association • Price • Climate change and crop production	• Regular meetings and interactions • International trade fairs and road shows • Annual report • Trade Association meetings	• Weekly • Quarterly • Monthly • Annually
Resident Communities	• Housing and estate infrastructure • Water and sanitation facilities • Health and nutrition • Capacity building and education • Employment opportunities	• Community meetings • Estate audits • Estate events and festivals • Training and awareness building programmes • Sports and recreational activities • Certification programmes	• Weekly • Monthly

Stakeholder	Key Issues and Concerns	Process of Engagement	Frequency of Engagement
Suppliers	Price & Profitability Credit period Sustainability of the company Availability of raw material Climate change and crop production	Visits to ensure standards of raw material and compliance levels Regular dialogue and interactions Annual reports	Weekly Monthly
Financial Institutions	Meeting repayment schedule Climate change and crop production Responsible corporate management Reliability & Reputation	Regular meetings dialogue and interactions Published accounts Annual report	Daily Quarterly Annually
Certification bodies	Sustainability aspects Responsible corporate management Compliance with certification standards Reliability & Reputation	Estate and factory audits Training Meetings	By Annually Annual
Government/ Regulatory Bodies	Profitability and growth Sustainability aspects Regulatory and legal compliance Responsible corporate management	Industry-level meetings Published accounts Annual report Golden shareholder meetings Annual general meeting	Monthly Quarterly Annual
Media	Overall performance Sustainability aspects Regulatory and legal compliance Responsible corporate management	Press releases	As and when required

The prioritised list of the materiality aspects was validated by the senior management and set out on a materiality matrix

MATERIALITY ASSESSMENT, ASPECTS & BOUNDARIES

GRI G4-17 to 21 & 23

Following the reporting guidelines, GRI-G4, our report content is developed and defined on the principle of 'materiality' from a triple-bottom-line perspective—encompassing economic, environment and social facets of our operations. As prescribed, we have given careful consideration to 'sustainability context', 'stakeholder inclusiveness' and 'completeness' in developing our content. Materiality is determined on our core operations covering tea estates, factories and the corporate office in Colombo. The analysis also covers our subsidiaries in hydro power and our strategic ties with our parent, Hayleys PLC, wherever deemed relevant and applicable.

PROCESS FOLLOWED

Determining Materiality

- Establish the sustainability context
- Analyse and prioritise sustainability aspects
- Senior management to validate the sustainability aspects
- Define the materiality matrix and report content

As the first step, our team including executives and managers at the corporate office—with expertise and experience in strategic operations, finance, social and environmental aspects of the organisation—identified a long list of sustainability aspects of our operations. At the next level, the team prioritised the sustainability aspects, considering their relevance from both internal and external stakeholder perspectives. This involved a qualitative analysis on four key parameters—strategic, operational and financial; social and industry; environment; and statutory and regulatory framework. In this regard, the team engaged their colleagues, estate workers and trade unions. The findings from internal estate audits and certification audits also supported the team in their deliberations. Desk research was made use of to ascertain plantations sector issues, trends and performance. The proactive role taken by our senior management at the policy advocacy level within the plantation industry also brought in greater insight to this process.

The prioritised list of the materiality aspects was validated by the senior management and set out on a materiality matrix; highlighting the aspects that fall under the highest level of significance in terms of the impact on the organisation and on the external stakeholder. Report content focuses on aspects on high to medium in significance. Extensive coverage is given to aspects that are identified as high in significance, whilst moderately covering aspects that are categorised as medium in significance. Aspects which are considered low in significance are not covered in the report, although a brief discussion may prevail for completeness.

Sustainability Context

Economic
- Extensive value creation in 16 tea estates in both high and low grown areas
- Bought-leaf operations
- Workforce of over 7,000
- Resident communities of over 41,000 within estates

Environment
- Impacts of value creation on the environment as a plantation sector organisation
- Sector viability is reliant on and impacted by the environment, particularly, climate change

Social - Decent Work & Labour Practices
- A labour intensive operation
- Upholding best practices and maintaining good employee relations
- Workforce development and their wellbeing closely linked to productivity and the viability of operations

Social - Human Rights
- Upholding best practices in managing an extensive workforce and resident communities
- Advocating diversity within the workforce and non-discriminatory work ethics

Social - Society
- Commitment to uplift the living standards of resident communities
- Responsible corporate citizen building trust, confidence and good-will with communities

Social - Product Responsibility
- Commitment and long-standing repute and standing for quality teas
- Being responsible and ethical in marketing and promotions

Materiality Matrix

Level of Significance - External Stakeholder Standpoint	Low	Medium	High
High		Transport Product and service labeling	Economic performance Energy Environment - compliance Environment – overall investment Biodiversity Emissions Effluents and waste Freedom of association & collective bargaining Child labour Forced or compulsory labour Society - compliance Customer health & safety
Medium	Human rights - assessments Supplier human rights assessments Supplier assessments for impacts on society Grievance mechanism for impacts on society Anti- competitive behaviour	Indirect economic impact Procurement Materials Supplier environment assessment Environmental impacts from products and services Environmental grievance mechanism Diversity & equality Equal remuneration for men & women Supplier assessment for labour practices Human rights - investment Public policy Marketing communication	Market presence Employment Labour management relations Occupational health & safety Training & education Labour practices grievance mechanism Non-discrimination Local communities Water
Low	Security practices Indigenous rights Anti-corruption Customer privacy		

Colour Code:
- Economic
- Environment
- Social

Level of Significance - Internal Stakeholder Standpoint

Note: 'Environmental impacts from products and services' aspect is categorised under medium-medium materiality criteria as compared to high-high categorisation in 2015/16.

MATERIALITY ASSESSMENT, ASPECTS & BOUNDARIES CONTD.

Reporting Focus
Basis - Materiality Matrix High to Medium Significance

Economic
- Economic performance
- Indirect economic impact
- Sourcing
- Market presence
- Research & Development

Environment
- Energy
- Environment - compliance
- Environment – overall investment
- Biodiversity
- Emissions
- Effluents and waste
- Water
- Materials
- Supplier environment assessment
- Environmental impacts from products and services
- Environmental grievance mechanism
- Transport
- Product and service labeling

Social - Decent Work & Labour Practices
- Employment
- Labour Management Relations
- Occupational Health &Safety
- Diversity & equality
- Equal Remuneration For Men & Women
- Training & Education
- Supplier Assessment For Labour Practices
- Labour Practices Grievance Mechanism

Social - Human Rights
- Investment
- Non-Discrimination
- Freedom of Association & Collective Bargaining
- Child Labour
- Forced Or Compulsory Labour

Social - Society
- Local Communities
- Public Policy
- Compliance

Social - Product Responsibility
- Customer Health & Safety
- Marketing Communication

STREAMLINED FOR EXCELLENCE

PREMIUM QUALITY TEAS

"Our value proposition focuses on producing 'trusted premium quality teas'. We have the know-how along with the necessary processes in both field and factory operations, skilled workforce and focused strategy to produce black and green teas in the low grown and high grown elevations, upholding the highest quality and standards."

OUR AWARDS FOR THE YEAR 2016/17

Awards	Winner	Awarded By
National HR Excellence Awards-2016 In recognition of its exceptional contribution towards driving organizational performance through sound Human Resource Management practices (Gold Award)	Hayleys Plantations Sector	Institute of Personnel Management of Sri Lanka (IPM)
Excellence in Integrated Reporting Awards-2016 "Certificate of Merit"	TTEPLC	Institute of Certified Management Accountants of Sri Lanka (CMA)
Asia Pacific HRM Congress Awards-2016 Leading HR Practices in Quality Work-life	Hayleys Plantations Sector	Asia Pacific HRM Congress
National Occupational Safety & Health Excellence Awards – 2016 Agriculture Sector (Winner)	Kiruwanaganga Estate	National Institute of Occupational Safety & Health
National Green Award 2016 Food & Beverage Category (Silver Award)	Radella Estate	Central Environmental Authority
National Green Award 2016 Food & Beverage Category (Merit Award)	Deniyaya Estate	Central Environmental Authority
"Ralston Tissera Memorial Award - Excellence in Tea Manufacture" Highest Gross Sale Average in 'Western High Grown' Category (7th Consecutive Year) -2015	Mattakelle Estate	The Planters Association of Ceylon
National Social Dialogue & Workplace Cooperation Award 2016 SD Excellence Award 2016 (Silver Award under Plantation Sector)	Mattakelle Estate	Social Dialogue & Workplace Co-operation Unit of the Industrial Relations Division at the Labour Department of the Ministry of Labour Relations
National Business Excellence Awards 2016 - Agriculture & Plantations Sector - Silver	TTEPLC	National Chamber of Commerce
CA 52nd Annual Report Awards 2016 Plantation Companies - Gold Award	TTEPLC	Institute of Chartered Accountants of Sri Lanka
Best Presented Annual Report Awards and SAARC Anniversary Awards Corporate Governance Disclosures 2015 - Agricultural Sector – Merit Award	TTEPLC	South Asian Federation of Accountants
Chairman's Awards 2016 Plantation Sector-Joint Winner (Abbotsford Special Tea)	Dessford Estate	Hayleys PLC
Chairman's Awards 2016 Plantation Sector- Joint Winner (Sundera Parisarayak, Suvethi Hetak)	Kiruwanaganga Estate	Hayleys PLC
Chairman's Awards 2016 Plantation Sector-Merit Award (Tea Coin)	Great Western Estate	Hayleys PLC
Global HR Excellence Awards-2017 Leading HR Practices in Quality Work-life	Hayleys Plantations Sector	World HRD Congress
Ceylon Specialty Tea Awards Ceylon Specialty Estate Tea of the year 2017 (Innovative Grade)- Silver Award	Dessford Estate	Sri Lanka Tea Board
F & W Tea Awards- The Most Number of Top Prices in the Western High Category Forbes & Walker Catalogue	Bearwell Estate	Forbes & Walker

Awards	Winner	Awarded By
F & W Tea Awards- Improving in Rank within the Top 10 Western High Category 7th Position in 2015 to 6th Position in 2016	Bearwell Estate	Forbes & Walker
F & W Tea Awards- Improving in Rank to be within the Top 10 Marks in the Western High from 12th Position in 2015 to 7th Position in Year 2016	Dessford Estate	Forbes & Walker
F & W Tea Awards- Third Highest Sale Average in the High Grown Category (Orthodox Black Tea) Forbes & Walker Catalogue	Great Western Estate	Forbes & Walker
F & W Tea Awards- Improving in Rank within the Top 10 Marks in the Western (Black Tea) from 8th Position in 2015 to 5th Position in 2016	Great Western Estate	Forbes & Walker
F & W Tea Awards- Third Highest Sale Average in the RPC Low Grown Category Recording an Average of Rs.513.17	Deniyaya Estate	Forbes & Walker
F & W Tea Awards- Second Highest Sale Average in the Low Grown Category Forbes & Walker Catalogue	Kiruwanaganga Estate	Forbes & Walker
F & W Tea Awards- Highest Sale Average in the RPC Low Grown Category Average of Rs.547.37	Kiruwanaganga Estate	Forbes & Walker
F & W Tea Awards- Improvement in Ranking from 167th Position in the Year 2015 to 125th Position	Moragalla Estate	Forbes & Walker
F & W Special Awards Western High Category with Four Marks Ranked within the Top Ten Mark	Talawakelle Tea Estates PLC	Forbes & Walker
F & W Awards (Best Performing Regional Plantation Company) Highest GSA - High Grown Category	Talawakelle Tea Estates PLC	Forbes & Walker
F & W Awards (Best Performing Regional Plantation Company) Highest GSA - Low Grown Category	Talawakelle Tea Estates PLC	Forbes & Walker
F & W Awards (Best Performing Regional Plantation Company) Highest GSA - Overall Category	Talawakelle Tea Estates PLC	Forbes & Walker
JK Tea Awards Highest average amongst all Regional Plantation Companies	Talawakelle Tea Estates PLC	John Keells
JK Tea Awards Highest average in the Western High grown category	Mattakelle Estate	John Keells
JK Tea Awards 2nd highest average in the Western High grown category	Wattegodde Estate	John Keells
JK Tea Awards 3rd highest average in the Western High grown category	Logie Estate	John Keells
JK Tea Awards Achievement of 2 All-time record prices for the BOPFS grade.	Kiruwanaganga Estate	John Keells
Inter-Plantations Company Rugby Sevens - Winner	TTEPLC	Dickoya/Maskeliya Cricket Club (DMCC)

OUR AWARDS FOR THE YEAR 2016/17 CONTD.

Gold Award presented for the 3rd consecutive year, at the CA 52nd Annual Report Awards-2015, ICASL, at Colombo on 3rd December 2016

Best Presented Annual Report Awards & SAARC Anniversary Awards - CGD 2015 "Second Runner-up Agricultural Sector"

TTEL Team, at the National Business Excellence Awards 2016 - "Silver Award" Agricultural Plantations Sector.

Chairman's Awards - Plantation Sector (Joint Winner) Kiruwanaganga Estate

Chairman's Awards - Plantation Sector (Joint Winners) Dessford Estate

Chairman's Awards - Plantation Sector (Merit Award) Great Western Estate

National HR Excellence Awards- 2016 "Gold Award" In recognition of its exceptional contribution towards driving organisational performance through sound Human Resource Management practices

National Occupational Safety & Health Excellence Awards – 2016 Agriculture Sector "Winner" Kiruwanaganga Estate

National Green Awards 2016 'Silver Award'- Radella Estate

National Green Awards 2016 'Merit Award'- Deniyaya Estate

National Social Dialogue & Workplace Cooperation Award 2016- 'Silver Award' – Mattakelle Estate

Ralston Tissera Memorial Award Mattakelle Estate

OUR AWARDS FOR THE YEAR 2016/17 CONTD.

Asia Pacific HRM Congress Awards- 2016 - Hayleys Plantation Sector awarded for Leading HR Practices in Quality Work-Life

Global HR Excellence Awards- 2017 Hayleys Plantation Sector awarded for Leading HR Practices in Quality Work-Life by World HRD Congress

John Keells Awards - Highest average amongst all Regional Plantation Companies -Talawakelle Tea Estates PLC

John Keells Awards - Mattakelle Estate

John Keells Awards - Wattegodde Estate

John Keells Awards - Logie Estate

Forbes & Walker Awards - Bearwell Estate

Forbes & Walker Awards - Dessford Estate

Forbes & Walker Awards - Best Performing Regional Plantation Company - Highest GSA - Overall Category -Talawakelle Tea Estates PLC

Forbes & Walker Awards - Great Western Estate

Forbes & Walker Awards - Deniyaya Estate

Forbes & Walker Awards - Best Performing Regional Plantation Company Highest GSA - Low Grown Category -Talawakelle Tea Estates PLC

Forbes & Walker Awards - Moragalla Estate

Forbes & Walker Awards - Kiruwanaganga Estate

Forbes & Walker Awards - Best Performing Regional Plantation Company Highest GSA - High Grown Category - Talawakelle Tea Estates PLC

Forbes & Walker Awards - Radella Estate

TTEL Rugger Team 'Winner'

BOARD OF DIRECTORS

MR. A M PANDITHAGE
*Chairman**

MR. W G ROSHAN
*RAJADURAI - Managing Director**

MR. MERRILL J FERNANDO**

MR. MALIK J FERNANDO**

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

DR. K I M RANASOMA**

MS. MINETTE D A PERERA**

DR. N T BOGAHALANDE***

MR. D S SENEVIRATNE*
Chief Executive Officer

MR. D C FERNANDO**

MR. S L ATHUKORALA***

MR. M H JAMALDEEN***

MR. A M PANDITHAGE
Chairman*

Chairman and Chief Executive of Hayleys PLC. Appointed to the Board of Talawakelle Tea Estates PLC in July 2009.

Fellow of the Chartered Institute of Logistics & Transport (UK). Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Maritime Advisory Council of the Ministry of Ports & Shipping. Member of the Advisory Council of the Ceylon Association of Ships' Agents. Member of the National Steering Committee on Skills Sector Development of the Department of National Planning.

MR. W G ROSHAN RAJADURAI
Managing Director*

Appointed to the Board in 2013.

Managing Director of Talawakelle Tea Estates PLC and Kelani Valley Plantations PLC and a member of the Hayleys Group Management Committee. Director of Maborc Teas (Pvt) Ltd and Hayleys Global Beverages (Pvt) Ltd. Appointed as Managing Director of Horana Plantations PLC and as a Director of Vallibel Plantations Management Limited effective March 2017.

Prior to rejoining, served as Director/CEO of Kahawatta Plantations PLC and held Senior Plantation Management positions in Kelani Valley Plantations PLC from 1993 to 2001.

He has a Diploma in Marketing (UK), National Diploma in Plantation Management (NIPM), BSc. in Plantation Management and an MBA from the Post Graduate Institute of Agriculture, Peradeniya. He is a Fellow Member of the National Institute of Plantation Management and Institute of Management, Sri Lanka.

He was the Chairman of the Planters' Association of Sri Lanka, Member of the Tea Board, Member of the Rubber Research Board and also currently a member of the Tea Research Institute Board, Tea Small Holder Development Authority Board and a member of the Tea Council of Sri Lanka. He was appointed to the Tea Advisory Boards on Manufacturing and Cultivation and Production of the Sri Lanka Quality Charter for Tea. He is the Chairman of the Consultative Committee on Estate and Advisory Services, Experiment and Extension Forum of the Tea Research Institute and is a Member of the Consultative Committee on Research of the TRI. He is also a member of the Standing Committee on Agriculture, Veterinary and Animal Sciences of the University Grant Commission as well as a Member of the Arbitration and Mediation Steering Committee of the Chamber of Commerce.

MR. MERRILL J FERNANDO **

Appointed to the Board in 1998.

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

He was the pioneer in adding value to tea at origin, branding and marketing Ceylon tea quite successfully. Value addition at origin created significant services industries in printing, packaging, graphics and introducing packaging technology to Sri Lanka.

Mr. Fernando incorporated the MJF Charitable Foundation, to fulfill his pledge to make his business a matter of human service. His Foundation and Dilmah Conservation use a significant share of the earning from the sale of Dilmah tea and other companies in the Dilmah Group, towards creating better conditions for the underprivileged and the wider community, whilst implementing positive and sustainable environmental interventions.

MR. MALIK J FERNANDO **

Appointed to the Board in 1998.

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

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

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

Appointed to the Board in 2008.

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

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

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

DR. K I M RANASOMA **

Appointed to the Board in 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

BOARD OF DIRECTORS COND.

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.

He 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.

MS. MINETTE D A PERERA **

Appointed to the Board in 2012.

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

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

DR. N T BOGAHALANDE ***

Appointed to the Board in 2013.

Dr Bogahalande counts over 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 and received his PhD from Management and Science University, Malaysia and published articles in international refereed journals and conference proceedings. In 2010, he was conferred with the most prestigious 'Pride of HR Profession' award by the World HRD Congress.

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

MR. D S SENEVIRATNE *

Chief Executive Officer

Appointed to the Board in 2013.

Director/Chief Executive Officer of Talawakelle Tea Estates PLC and a Director of Hayleys Plantation Services (Pvt) Ltd. Counts 19 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.

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

MR. D C FERNANDO * *

(Alternate to Mr Malik J Fernando)

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

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

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

MR. S L ATHUKORALA * * *

Appointed to the Board on 18th August 2016.

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

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

MR. M H JAMALDEEN * * *

Appointed to the Board on 15th March 2017.

A Finance Professional with over 15 years of experience. Fellow of the Association of Certified Chartered Accountants, UK. Holds a degree in Engineering and Business from the University of Warwick, UK.

A seasoned commercial property investor and advisor. Founder Managing Director of Steradian Capital Investments (Pvt) Ltd; responsible for Financing, Corporate Structures, Acquisitions and Development. Executive Director of numerous real estate companies focusing on commercial property investment and development. Also serves as a Director of Peoples Bank, Hayleys PLC and Haycarb PLC.

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

CORPORATE OFFICE

Mr. L H Munasinghe
Director Plantations /Deputy Chief Executive Officer (Resigned on 11.03.2017)

Mr. G D T Dharmaratne
General Manager - Sustainability & Quality Management Development (Resigned on 30.11.2016)

Mr. M T D Rodrigo
Deputy General Manager - Estates

Mr. D M Wickramaratne
Senior Manager - Marketing

Mrs. V A Perera
Senior Manager - Finance

Mr. M E Suraweera
Manager - Information Technology

Mr. H R L S Bandara
Manager - Finance

Miss. S.K.Dharmasekara
Assistant Manager - Human Resource

ESTATE MANAGEMENT

Mr. S B Alawattegama
General Manager - Plantations

Mr. N P Abeysinghe
Regional General Manager - Dessford Estate

Mr. P G G Jayathilake
Senior Deputy General Manager - Mattakelle Estate

Mr. G K Wijesekera
Deputy General Manager - Great Western Estate

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

Mr. H P W Vithanage
Group Manager - Moragalla Estate/ Pitiyagoda Factory

Mr. D M G B Dassanayake
Senior Manager - Holyrood Estate

Mr. E S B A Egodawela
Senior Manager - Somerset Estate

Mr. D M A S Dissanayake
Senior Manager - Wattegoda Estate

Mr. W D Jayasinghe
Manager - Indola Estate

Mr. U B Udawatte
Manager - Calsay Estate

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

Mr. S G N N Kumara
Manager - Logie Estate

Mr. K G M N Gamage
Manager - Deniyaya Estate

Mr. Y D Kumarasiri
Manager - Clarendon Estate

Mr. D W A Jayathilake
Manager - Bearwell Estate

RESILIENT TEAMWORK

FOCUSED TRAINING

"We rely on training and development to build a proficient workforce, staff and executives not only focusing on technical skills and knowledge, but, developing a well-rounded team with positive attitudes and collaborative spirit. This underscores our quest to motivate our employees to achieve excellence in operations, from a long-term standpoint."

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

OVERVIEW

Continuing to witness uneven and inconsistent growth patterns, the global economy in the year 2016, once again, fell short of meeting the anticipated performance. The geopolitical challenges across nations did not bring any solace to the global economic scenario. From a domestic perspective, our island nation grappled with socio-political tension, climate change and the imbalances in the macroeconomic environment—setting the pace for GDP growth to record below the preceding year.

The tea industry continued to witness a challenging operating backdrop—reckoning with adverse weather patterns impacting crop production, trade union activities and higher cost of production. On the pricing side, the Colombo Tea Auction remained sluggish in the first part of the year. However, prices started to pick-up towards the third quarter, cushioning and supporting the industry to register a steadier performance.

Notwithstanding the vicissitudes of our business backdrop, we remained well-grounded and focused in implementing our strategy and action plans. We continued to drive for productivity improvements, follow through with our sustainable practices both in the field and non-field operations and upheld our market positioning at the helm for best quality teas. We were steadfast in our efforts to keep our cost lean and controlled; empower our people; ensure the wellbeing of our resident communities; and take forward our initiatives to conserve and protect our environment. In this context, we were able to steer our organisation ahead, against all odds, and achieve commendable operational results and sustain our profitability and returns. We maintained a stable financial position and positive cash flows.

RISKS, OPPORTUNITIES AND STRATEGY

As a planation based organisation and more so, in today's fast paced business context, we are exposed and susceptible to a myriad of risks and uncertainties—be it the market dynamics, trade union issues, regulatory framework to climate change. Yet, amidst these risks, we are also presented with business opportunities for us to take, grow and move forward. We are cautious, responsive and give due consideration to mitigate the risks which could impede our progress and compromise our sustainability; whilst seeking to be proactive in our efforts to bolt on the opportunities present for growth and sustainability.

Discussed below are principal risks and opportunities that stand as our backdrop in our strategy building process.

Principal Risks

Risk	Description
Global Economic and Geopolitical Uncertainty	Depressed economic trends and political upheaval in key export markets soften the demand and in turn, exert pressure on pricing and earning capacity and margins.
Domestic Macroeconomic Imbalances	Tighter stance taken on monetary policy will exert pressure on finance expenses whilst exchange rate policy will determine the strength and stability of earnings from tea exports.
Changing Demographics	Urbanisation and the resultant changes in attitudes and lifestyle may incite workers, particularly the younger workers, to move into the city and look for alternative work with better prospects, in turn, creating labour shortages and impacting the very sustainability of the plantation operations.
Global Competition and Substitutes	Low cost producers may have a competitive edge and attract buyers, especially in depressed market conditions whilst substitutes may have a greater appeal based on latest lifestyle trends and consumer patterns.
Trade Union Activity	Industry wide trade union activity and pressure for ad-hoc and unproductive wage increases will lower productivity, impact quality and reflect adversely on the cost of production and competitiveness.
Labour Productivity	Lethargy, negative attitudes and perceptions together with socio-economic and political influences will affect labour productivity with grave implications on production volumes, quality, costs and competitiveness.
Monocrop Operations	The dependence on a single crop will over expose the business to pests and disease in field operations and earnings will be more susceptible to price fluctuations - exerting pressure on the capacity and the sustainability of the business model.
Climate Change	Extremities in temperature and rainfall will directly affect the harvest, bring down crop production and impact the quality of the leaf. Climate change may also affect the availability and quality of water, dampening field operations and leading to increased costs.
Land Productivity	Soil degradation, ageing tea fields and the long gestation period to grow and reap a harvest from new tea plants will result in lower productivity and levels of crop production.
Government Policy on Chemical Weedicides and Fertiliser	Ad-hoc measures taken to control the use of chemical weedicides, fertiliser and cut-back on subsidies will lead to build up of weeds, pests and diseases overtime, hindering sustainable field operations and result in higher cost of production.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Principal Opportunities

Brand Strength	Corporate standing and repute for quality teas in line with internationally accepted certification standards and green and ethical business practices will pave way for stronger market positioning and attract remunerative prices.
Ethical Products	Greater acceptance and higher global demand and prices for green, ethical and food safety management certified quality teas will lead to new markets and ensure remunerative prices.
Expertise	Expertise in plantation management will open up opportunities to move into crop diversification and lead to new ventures in consultancy and management services.
Value-added Teas	Changing lifestyles and trending attitudes and perceptions will lead to new market opportunities for value-added teas.
Labour Productivity	Greater awareness amongst the workforce on the industry issues and the growing willingness to change into a productivity based wage model will increase the level of labour productivity, cut-down higher cost of production and thereby, support the sustainability of the industry.
Paradigm Shift	Growing consensus amongst the key stakeholders on the need to move into a new paradigm based on revenue-share will enable the industry and the company to be more viable and ensure future sustainability.

Plucking

Soil Conservation

Forking

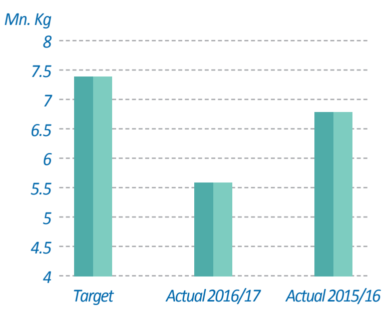
Salient Business Strategy

Strategic Imperatives	Short Term Strategy	Long Term Strategy
Quality Teas	Produce quality teas in line with sustainable, ethical and food safety business practices and in conformance to international certification bodies	Invest in sustainable field practices like replanting and further invest in automated solutions and improvements to factory processes
Labour Productivity	Mechanise harvesting, intensify management control at estate level, closely monitor productivity and incentivise on performance.	Maintain a consistent dialogue to keep the workforce aware and educate on the need to increase productivity and improve and support them to embrace productivity based wage model and transition to a revenue share business model
Land Productivity	Continue with timely soil management practices including weeding and fertiliser applications to prevent soil degradation.	Continue with replanting and rationalise the land use by planting fuel wood in uneconomical land.
Value Addition	Focus on value added teas and secure synergies with sister organisation, Mabroc Teas (Pvt) Ltd to market the new products.	Further invest in research and development to increase the value-added product range and draw up long-term marketing plans with Mabroc Teas (Pvt) Ltd.
New Revenue Streams	Study the feasibilities and secure new market opportunities for crop diversification and provide plantation management consultancy services.	Progressively invest in non-core crop operations including palm oil and cinnamon and venture into hospitality and leisure business themed on tea tourism. Bring timber and fuel wood planted into commercial use.
Cost Controls and Management	Control production costs through productivity based wage model, adoption of energy efficient technologies and maintain a lean overhead cost structure.	Ongoing
Climate Change and Environmental Management	Resort to environmental friendly business practices, focus on reducing greenhouse gas emissions and protect biodiversity and water sources	Take forward the tree planting programme and work towards carbon neutrality
Workforce Development	Create an inclusive workplace and invest on training and development and ensure workforce wellbeing	Build an empowered workforce enhancing their quality of life and change mindset to be a stake holder rather than a worker only.
Community Development	Consolidate ‘Home for Every Plantation Worker’ project for resident communities	Maintain a consistent dialogue and engagement to build long-term and reciprocal ties with resident and neighbouring communities
Governance and Risk Management	Ensure effective risk management, internal controls and uphold current best practices in governance.	Ongoing

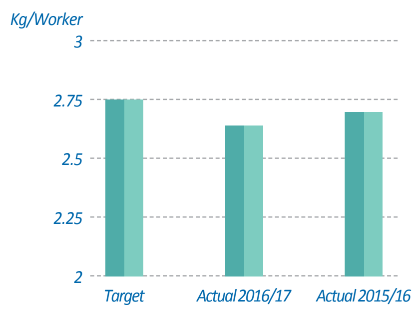
MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Overall Operations
Key Indicators, Targets vs. Actuals

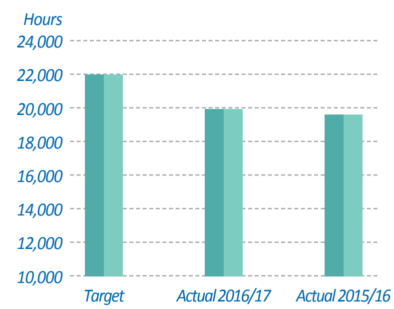
Key Indicators	*Unit of Measurement*	*Target*	*% of Target*	*Actuals 2016/17*	*Actuals 2015/16*
RPC tea price ranking	Ranking number	First	First	First	First
High grown yield	Kilogram/hectare	1,751	78%	1365	1609
Low grown yield	Kilogram/hectare	1,487	70%	1033	1267
Tea production	Million/kilogram	7.4	76%	5.6	6.8
Worker productivity	Kilogram/worker	2.75	96%	2.64	2.7
Tea replanting	Hectare	30	65%	19.43	29.00
Capital expenditure	Rs. million	172	77%	133	141
Employees trained	Number	15,000	110%	16,520	11,594
Training hours	Number	22,000	90%	19,984	19,654
Training investment	Rs. million	1.5	146%	2.2	1.3
Training programmes on health and safety	Number	150	128%	192	144
Employees trained on health and safety	Number	6,000	159%	9,580	4,967
Training hours on health and safety	Number	10,000	100%	10,039	7,616
Expenditure on social development	Rs. million	30	129%	38.79	72.1
Expenditure on environment management	Rs. million	45	90%	40.4	43.2



Tea Production



Worker Productivity



Training hours

ECONOMIC REVIEW

ECONOMIC GROWTH

Growth in 2016 remained modest at 4.4 percent, lower than 4.8 percent growth in GDP in 2015. Several factors contributed to the weaker economic activity, including a contraction in the agricultural sector, representing a negative growth of 4.2 percent as a result of a debilitating drought that adversely affected the entire economy.

Output across the agricultural spectrum was adversely affected with tea recording a significant contraction of 11 percent and rubber by 10.7 percent. In addition to the detrimental impacts of the weather, policy changes resulting in less weedicide and fertiliser are also likely to have contributed to this decline.

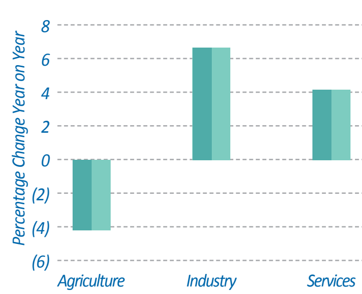
The industrial sector experienced relatively robust growth of 6.7 percent during the year, driven by a significant recovery in the construction sector of 14.9 percent growth which contributed to 23.4 percent of the increase in aggregate GDP during the year. Mining and quarrying, a sector related to construction, grew at 14.4 percent during the year. However, other manufacturing industries experienced limited growth at 1.7 percent compared to 4.9 percent growth in 2015.

The services sector grew at 4.2 percent in 2016, lower than the 5.7 percent growth recorded in the previous year. Finance and real estate grew at 8.4 percent, contributing 23.4 percent to the aggregate increase in GDP in 2016. Information and communication sector grew at 8.0 percent whilst wholesale and retail trade grew moderately at 2.5 percent.

Consumption was weak during the year as the impacts of higher taxes and higher interest rates fed into diminished economic activity. Investment as a percentage of GDP however, increased modestly. Private consumption grew at 4.3 percent compared to a 10 percent growth in 2015, whilst investment grew at 19.6 percent, following a low base of negative 7.0 percent in 2015.

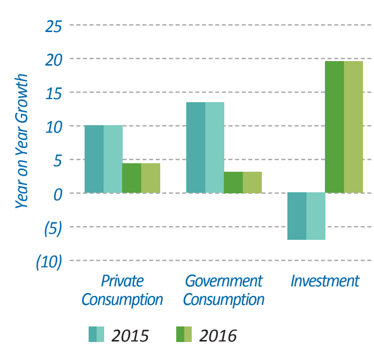
KEY ECONOMIC DEVELOPMENTS

The year 2016 began with significant macroeconomic volatility and instability. Following reversals in the government's fiscal plans, there was a loss of confidence by the global market in Sri Lanka's macroeconomic fundamentals, resulting in rising yields on Sri Lanka's external sovereign debt and risks to the refinancing capability of debt repayments in the latter part of the year. However, in June 2016, the government entered into an Extended Fund Facility with the International Monetary Fund (IMF), entailing a robust fiscal reform programme. This, along with the tightening monetary policy, higher taxes and improved government revenue collection in the second half of 2016, helped to restore global market confidence in the economy and the government was able to access



Sectoral GDP Growth

Source: Annual Report 2016, Central Bank of Sri Lanka



Consumption and Investment

Source: Annual Report 2016, Central Bank of Sri Lanka

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

global capital markets with a 10-year sovereign bond of US dollars 1.5 billion at 6.825 percent.

Whilst the tighter monetary and fiscal policy led to improved macroeconomic stability, it did contribute to the weakening of economic activity, as is evident with the decline in consumption and slower economic growth in key sectors. Nonetheless, this policy tightening and associated short term economic pain have been seen as necessary to restore macroeconomic stability to lay the foundation for longer term sustainable economic growth.

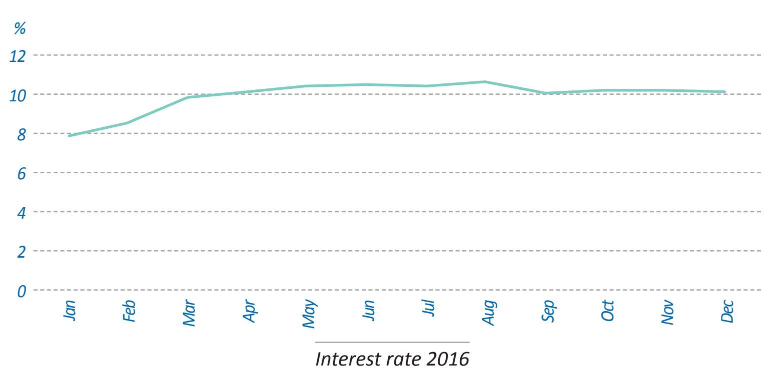
INTEREST RATES

As the private sector credit growth increased from 2015 through 2016, interest rates began to increase as liquidity declined. Within the first four months of the year, rates had gone up by more than 200 basis points.

SOURCE: CENTRAL BANK OF SRI LANKA DATA

The Central Bank also acted on the high credit growth with an increase in the Statutory Reserve Requirement (SRR) in January, followed by two rate hikes of 50 basis points each in February and July. Whilst market rates had already increased by the time the Central Bank acted, the monetary policy tightening reinforced the direction of interest rates.

Credit growth remained above the Central Bank's targeted levels through most of 2016. Lending growth to the private sector, which was already high at 25.1 percent in 2015, peaked at 28.5 percent in July 2016 before moderating to 21.9 percent in December 2016. Credit growth was nonetheless higher than Central Bank expectations and therefore, a further rate increase occurred in March 2017. However, with the tightening lending restrictions for motor vehicle (reduced loan to value ratios for cars and three wheelers, in particular), and higher market interest rates, lending to the private sector began to ease in the latter part of 2016 and into 2017 as well.



Source: Department of Census & Statistics

INFLATION

One of the main factors behind the Central Bank's decision to raise interest rates in March 2017 was the fact that inflation was higher than the Central Bank's tolerance levels in the early part of 2017. Whilst inflation remained within single digits during 2016, prices increased in the first half of the year, peaking at 5.8 percent in June 2016. Inflation moderated in the second half of the year, but, was on an upward trend as higher taxes fed into a one-off increase in the price level. By March 2017, inflation reached 7.3 percent, as supply side impacts of the drought on food prices coupled with impacts and a low base effect, resulted in sharply higher price levels.

EXTERNAL SECTOR

Exports declined for the second successive year as weak commodity prices hurt Sri Lanka's agricultural exports and earnings from petroleum bunkering sales. Apparel exports remained flat with just 1.3 percent growth in the year. Overall exports declined by 2.2 percent year-on-year in 2016. The growth in imports in 2016 of 2.5 percent was driven mainly by the growth of investment related imports and non-fuel intermediate imports as the growth in construction drew in imported materials. Consumption related imports declined by 8.4 percent, primarily due to a 41.5 percent decline in expenditure on motor vehicle imports.

Growth in earnings from tourism of 18 percent to reach US dollars 3.5 billion helped earnings from the export of services to increase by 11.6 percent to US dollars 7.1 billion. Remittances grew by 3.7 percent to US dollars 7.2 billion. The current account deficit remained stable at 2.4 percent of GDP compared to 2.3 percent of GDP in 2015. However, the capital account suffered in 2016 as there were substantial sales of rupee denominated government securities by foreign investors. Foreign direct investments continued to disappoint, with total reaching to US dollars 1,076 million, slightly lower than US dollars 1,160 million in 2015. The overall balance of payments deficit was US dollars 500 million, an improvement compared to the US dollars 1,489 million deficit in 2015. The reserve position weakened to US dollars 6 billion – equivalent to 3.7 months of imports of goods.

The changes in the external account resulted in the Sri Lankan rupee weakening by a modest 3.8 percent as against the US dollar. The Central Bank supported the rupee in the first half of the year as it defended the currency amidst foreign sales of rupee denominated government securities. However, in the second half of the year, with a change in policy the rupee was allowed to move closely in line with market forces. In spite of the depreciation of the rupee in nominal terms, the real effective exchange rate appreciated by 2.7 percent, resulting in an erosion of overall export earning competitiveness.

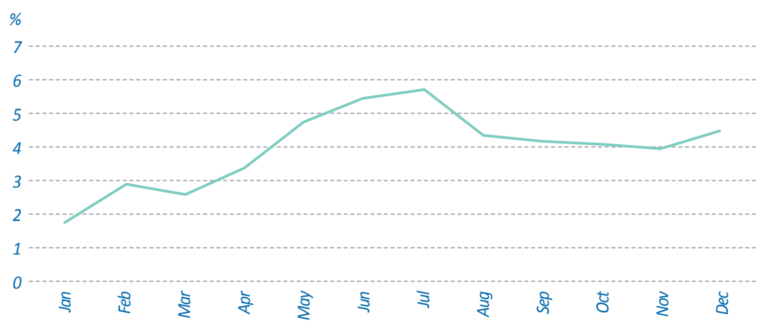
GLOBAL ECONOMY

In spite of signs of economic activity picking up in the second half of the year, 2016 remained a year of modest growth in the global economy. The US economy grew by 1.6 percent, below the 2015 growth of 2.6 percent and the Euro area grew by 1.7 percent in compared to the growth of 2.0 percent in the previous year. China grew at 6.7 percent and India at 6.8 percent during the year. Key markets for Ceylon Tea, the Middle East and Russia saw growth adversely affected by still subdued oil prices as the Russian economy contracted with negative growth of 1.0 percent and the Middle East grew at a modest 3.8 percent. Whilst there has been some uptick in oil prices in response to the Organization of the Petroleum Exporting Countries (OPEC) supply restrictions, the prognosis for oil prices remains shallow as supply excesses continue to dominate market dynamics, curtailing a significant improvement in prices.

Nonetheless, there is a brighter outlook for the global economy in 2017, as the momentum from the 2nd half of 2016 carries through into the following year as well. The IMF's expectation for US growth in 2017 is 2.3 percent, supported by renewed investment, manufacturing growth, and a positive turn in the inventory cycle. Global trade has also seen some recovery with the improvement in activity in key global economies. Commodities are likely to experience a moderate uptick in prices in 2017, which would be supportive of the growth in commodity reliant economies.

OUTLOOK

2017 is likely to be another year of moderate economic growth for Sri Lanka. The increased taxes will continue to have a dampening impact on the consumption levels in the economy. The monetary tightening that took place in 2016 and early 2017 will lead to lower credit growth and a decline in money supply growth. Interest rates will eventually plateau in the mid-2017 and is likely to decline marginally towards the latter part of the year as credit demand declines and liquidity increases. With tight economic conditions, consumption based imports are likely to remain slack, and imports will again be driven by investment oriented imports and intermediate imports. Exports may receive a modest boost with the renewal of GSP + in 2017, however, it is unlikely to result in a material increase in aggregate export growth. The capital account outflows that took place in 2016 are unlikely to repeat in 2017, and therefore, the overall balance of payment is likely to remain similar to 2016, with limited depreciation of the Sri Lankan rupee against major currencies. As in the case of 2016, rupee is likely to depreciate around 2 - 4 percent against the US dollar in 2017.



Inflation 2016

TEA INDUSTRY

GLOBAL TEA OUTLOOK

Black Tea Production

The global tea industry in the year 2016 witnessed a notable increase in production levels compared to the preceding year. Most of the tea producing countries recorded sound results. As per the available statistics, the largest producer, India, including the North and the South, reported an increase of 30.4 million kilograms in production. Malawi and Bangladesh recorded significant increases in their production levels whilst Kenya recorded a commendable increase of 73.8 million kilograms. However, in contrast, Sri Lanka registered a decline of 36.4 million kilograms, as against the production of 328.9 million kilograms achieved in the previous year.

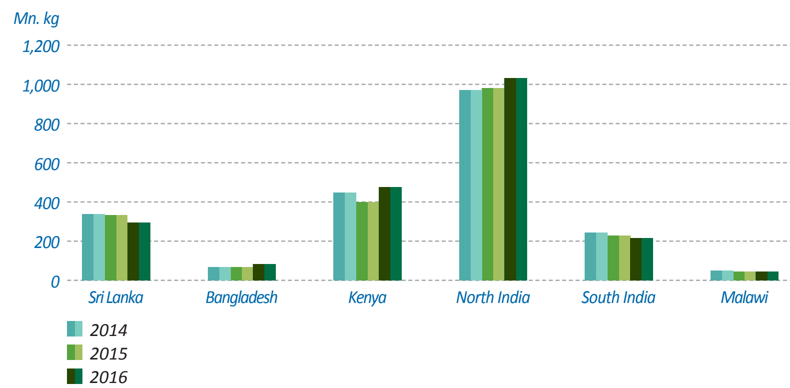
GLOBAL AUCTION PERFORMANCE

Most of the global tea auctions saw a downturn in prices during the first quarter of the year 2016, and then, continued buoyant until the first half of the year. Most auction centers saw increasing price trends towards the latter part of the year.

Following the preceding year trends, the Colombo Tea Auction sustained its ranking at the top, ahead of the competitors; the Colombo auction prices witnessed upward trends from the month of May until the year-end, reaching US$ 3.94 compared to US$ 2.90 achieved in 2015. The Kolkata and Guwahati auctions in India registered high prices in the mid-year, but, trended downwards in the last quarter of the year. The African auction centers remained below US$ 3.00 throughout the year. The Limbe, Jakarta, Cochin auctions too remained below US$ 2.00.

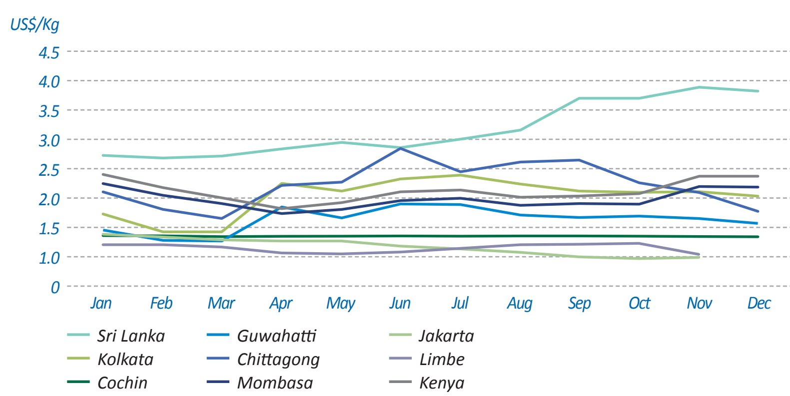
Global Black Tea Producers (2014 – 2016)

Producers	***2014***	***2015***	***2016***
	Million Kilograms		
Sri Lanka	338.0	328.9	292.5
Bangladesh	63.8	66.5	82.7
Kenya	445.1	399.2	473.0
North India	965.2	981.1	1,026.9
South India	242.1	227.6	212.2
Malawi	45.9	39.4	43.1



Global Tea Producers

Source: Forbes & Walker (International Tea Committee Ltd 2016)



World Tea Auction Prices - 2016

Source: Forbes & Walker (International Tea Committee Ltd 2016)

NATIONAL TEA INDUSTRY

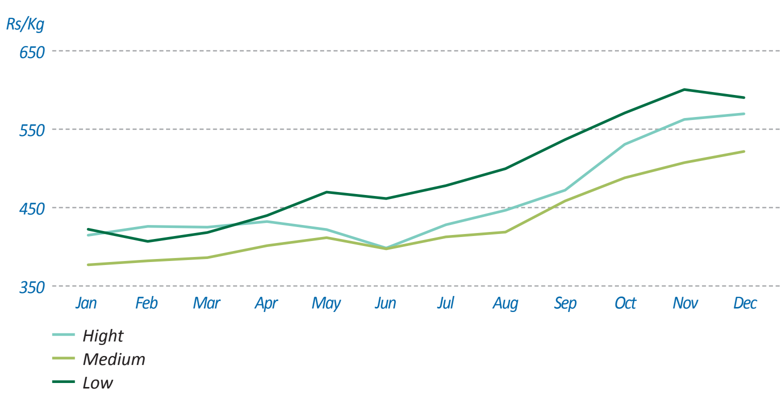
The Sri Lankan tea industry in 2016 was affected by adverse weather conditions that prevailed in the year, from droughts to heavy rainfall. The national tea production was at its lowest—registering a decline of 36.4 million kilograms reaching 292.5 million kilograms over 328.9 million kilograms registered in the year 2015. This represented a 11 percent decline. Both elevations, high and low grown recorded a 16 percent and 10 percent decrease in production levels respectively.

With economic and geopolitical uncertainties within our key export markets including Russia and Ukraine and the Middle East, the country's overall exports of Ceylon tea declined by 6.0 percent. Exports also declined given the lower levels of production of Ceylon Tea. The drought and overcast weather conditions continued to affect the mid-year Uva season. The first quarter production declined by 11 percent compared to the corresponding period in 2015. The production levels also decreased in the second and third quarters by 10 percent and 19 percent respectively. Although the production was lower, the auction averages were higher compared to the last year's averages.

The total exports in 2016 of 288.7 million kilograms posted a decrease of 18.2 million kilograms, representing 5.9 percent when compared to 306.9 million kilograms in 2015. In value terms, tea exports increased by Rs. 2.7 billion to Rs. 184.7 billion in 2016 compared to Rs. 182.0 billion in 2015.

Tea Production - Elevation and Type

	2014	*2015*	*2016*
		Million Kilograms	
High Grown	78.2	76.3	63.8
Medium Grown	46.9	47.5	42.8
Low Grown	209.7	202.2	183.5
Green Tea	3.2	2.9	2.4
Total Production	338.0	328.9	292.5



Monthly Elevation Tea Prices 2016

Source: Forbes & Walker (International Tea Committee Ltd 2016)

COLOMBO TEA AUCTION PRICES

The Colombo Tea Auction prices in 2016 registered a significant improvement in all elevations by the end of the year compared to the year 2015. The total high grown average of Rs. 448.89 was higher by Rs. 60/- over Rs. 388.38 in 2015. Its noteworthy that the high grown monthly elevation averages were higher compared to the last year's monthly averages.

In the first quarter, the medium grown elevation prices were lower when compared to the corresponding period in 2015. This trend shifted, reflecting an improvement by the second quarter onwards. The total medium elevation average of Rs. 419.59 was recorded against Rs. 362.57 in 2015.

The low grown elevation, too, had a downturn in the first quarter, but, improved significantly by the end of the year. The total low grown elevation average improved to Rs. 486.95 as against Rs. 416.32 in 2015. This increase was primarily demand driven.

On the whole, the Colombo Tea Auction price averages stood at Rs. 468.61, gaining Rs. 66/- when compared to Rs. 402.31 in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

National Tea Production - Quarterly

	2014	2015	2016
	Kilograms		
1st Quarter	73,551,601	79,088,833	70,418,592
2nd Quarter	98,959,622	93,526,942	83,835,676
3rd Quarter	83,235,314	80,081,879	64,722,085
4th Quarter	82,285,044	76,262,918	73,597,233
Cumulative	338,031,581	328,960,572	292,573,586

Source: Sri Lanka Tea Board and Forbes & Walker Report

TEA EXPORTS

Product Performance

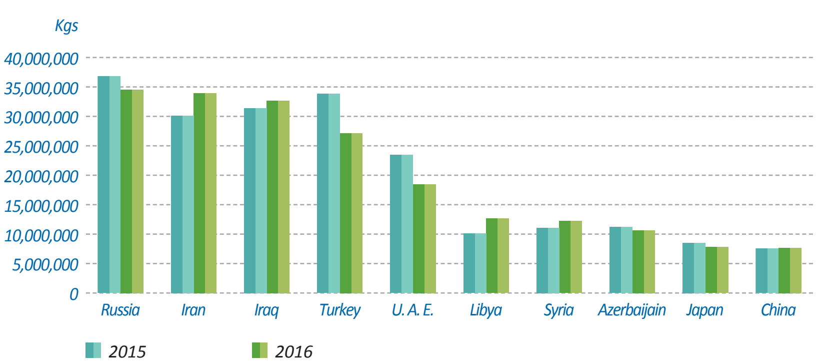
Due to the shortfall in exports this year, bulk tea recorded a decrease of 7.6 million kilograms, taking the export volumes to 125.1 million kilograms. Packed teas also recorded a decline to 134.3 million kilograms as compared to 145.4 million kilograms in 2015, representing a drop of 11.1 million kilograms. Tea in bags posted a marginal increase over the previous year. Instant tea and green tea too, posted a marginal drop over the corresponding year.

Tea Product Performance

Product Category (Quantities)

	2014	2015	2016
	(Million Kilograms)		
Tea in Bulk	127.1	132.7	125.1
Tea in Packets	164.1	145.4	134.3
Tea in Bags	28.6	22.1	23.0
Instant Tea	2.2	2.1	2.0
Green Tea	5.2	4.4	4.2
Total	327.3	306.9	288.7

Source: Sri Lanka Tea Board and Forbes & Walker Report



Tea Exports - Top Ten Countries

Source: Forbes & Walker (International Tea Committee Ltd 2016)

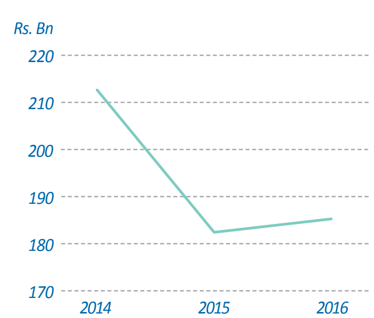
National Production and GSA

	Tea Production (Mn. Kg)	GSA High Grown (Rs./Kg)	GSA Low Grown (Rs./Kg)
2000	305.8	128.46	144.79
2001	295.1	135.56	154.50
2002	310.0	141.73	160.55
2003	303.2	138.31	160.86
2004	308.1	171.78	189.86
2005	317.2	172.24	199.01
2006	310.8	204.58	204.50
2007	304.6	252.46	298.66
2008	318.4	273.83	336.38
2009	289.7	319.73	387.07
2010	331.4	338.33	392.48
2011	327.5	329.95	381.27
2012	326.2	375.53	407.14
2013	340.0	402.98	469.91
2014	338.0	420.36	488.06
2015	328.9	388.38	416.32
2016	292.5	448.89	486.95

Source: Sri Lanka Tea Board and Forbes & Walker Report

Tea Exports Earnings

Despite the decline in tea exports, tea exports earnings on the other hand, recorded an increase of Rs. 2.7 billion reaching to Rs.184.7 billion in 2016 compared to Rs. 182.0 billion in 2015. The crop shortfall created the demand from the Middle Eastern export destinations, in turn, strengthening the export earnings.



Tea Exports Earnings

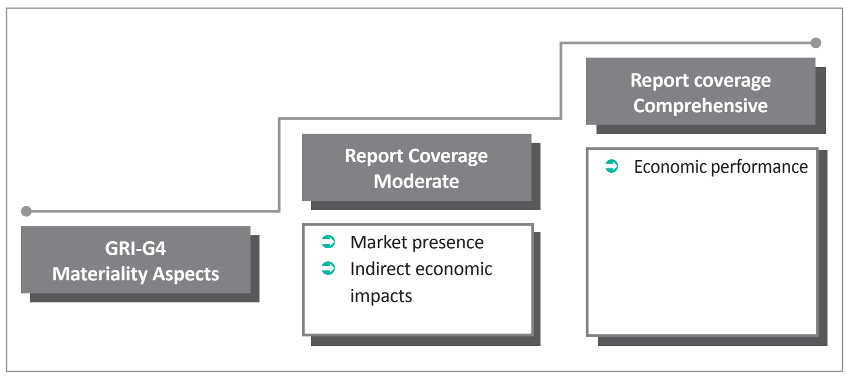
Source: Sri Lanka Tea Board and Forbes & Walker Report

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC VALUE CREATION

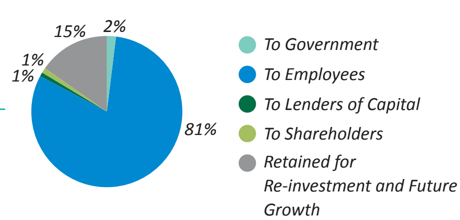
OVERVIEW

As a front-line organisation within the tea industry, the value we create is significant and substantial. We have over the years built and held our ground as a responsible corporate citizen and strived hard to retain our positioning at the helm for quality teas. We have the necessary expertise and support from our parent, Hayleys PLC, to be steady and sustainable in our operations. This has given us a solid platform to meet our stakeholder expectations and win their support and confidence. This section will deal with the way we create value with trickle-down benefits cascading across the economy, complementing the nation's drive to reach out to its development aspirations.

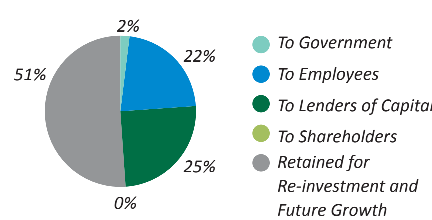


Resident Communities

41,000 People
10,351 Families

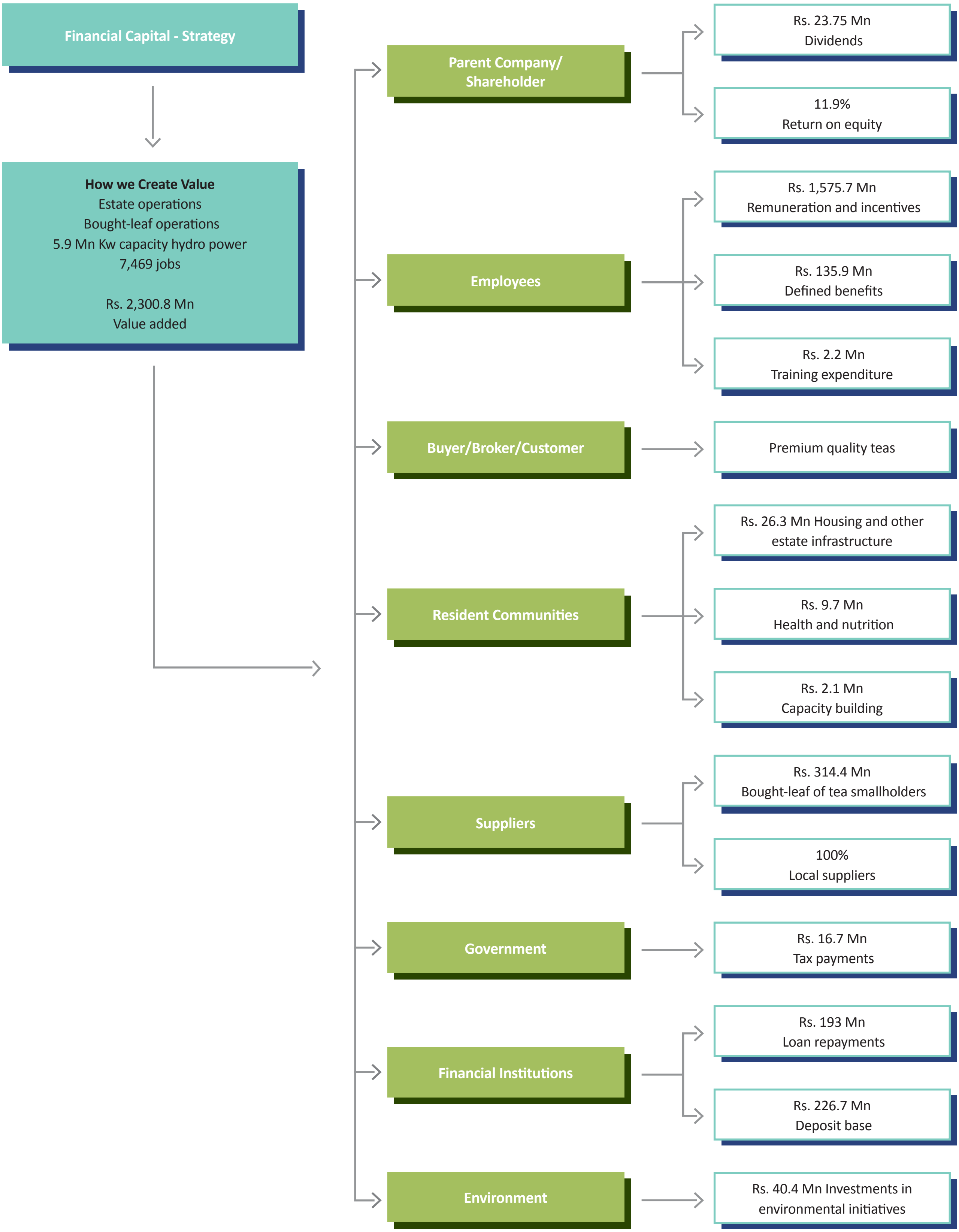


Tea



Mini Hydro Power

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.



ECONOMIC VALUE GENERATION

GRI - G4 - EC1

With 16 tea estates in both high and low grown elevations and supported by a workforce of over 7,469, we have the capacity to generate significant economic value. In the reporting year, our estates produced.4.92 million kilograms of tea whilst bought-leaf operations generated 0.69 million kilograms; taking the total production to 5.61 million kilograms. Our production levels accounted for over 0.02 percent of the national tea production. Our teas, renowned for quality, fetched remunerative prices at the Colombo Auctions, surpassing the elevation averages.

The total economic value we generated in the year touched Rs.2,300.8 million. Despite the difficult market conditions that prevailed in the year, the value we generated corresponded to a 8.5percent decrease as against the preceding year. Sharing our value, we distributed over 84.8 percent amongst our key stakeholders. Our shareholders took up 1.0percent whilst our employees took up 79.6percent. We retained 15.3 percent within the business, corresponding to Rs.351.6 million, to support our growth aspirations.

The consolidated value added statement for the year 2016/17 including our hydro power operations is set out below:
Consolidated Value Added Statement

STATEMENT OF VALUE ADDED

Rs.000'	***2016/17***	***2015/16***	***2014/15***	***2013***	***2012***
Total Revenue	3,334,494	3,434,579	4,761,101	3,646,837	3,318,149
Purchase of goods and services	(1,065,016)	(990,565)	(1,601,525)	(1,242,122)	(1,156,618)
	2,269,478	2,444,014	3,159,576	2,404,715	2,161,531
Other Income	31,403	70,645	56,744	41,419	43,177
Total Value Added	2,300,881	2,514,659	3,216,320	2,446,134	2,204,708
Distributed as follows					
To Government (Income Tax and Other Taxes)	50,700	38,531	47,838	36,747	42,543
To employees (Salaries and other staff costs)	1,831,359	2,113,024	2,646,172	1,970,221	1,725,556
To lenders of Capital (Interest on Loan Outstanding and Minority Interest)	43,470	66,342	101,074	106,603	122,214
To Shareholders (Dividends)	23,750	-	71,250	71,250	59,375
Retained for re-investment and future growth	351,602	296,762	349,986	261,313	255,020
Total value distributed	2,300,881	2,514,659	3,216,320	2,446,134	2,204,708

VALUE SHARED

SHAREHOLDER RETURNS

Refer: Financial Capital, Page 74 and Relationship Capital – Investor, Page 105

Continuing to meet shareholder obligations, we were able to register bottom-line profits of Rs.242.3 million, even amidst the challenges we faced within our plantation industry. Our hydro power subsidiaries did not perform as expected, with results lower than the previous year, by nearly 31.2percent. Return on equity in the year was at 11.9 percent, noteworthy in the context of the depressed operating backdrop. Earnings per share reached Rs.10.20 whilst the dividends for the year totaled to Rs. 23.75million including the interim and the proposed year-end dividend.

EMPLOYMENT AND COMPENSATION

Refer: Human Capital, Pages 119-134

As a plantation sector based organisation, our contribution to employment generation is extensive. In the reporting year, we had 7,469 permanent employees in our workforce including 448 new recruits. Almost 99% of the workforce, representing the manual and staff grades, are residents within the estates and neighbouring communities. We even have 73 members of the executive cadre living within or in the environs of the estates in which they work.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Workforce – Region Wise – 2016/17

	High Grown		Low Grown		Head Office	
Employee Category/Region	*Talawakelle*	*Nanu Oya*	*Deniyaya*	*Galle*	*Colombo*	*Total*
Executive	19	15	9	3	27	73
Staff	178	117	74	16	14	399
Manual	3,430	2,432	878	257	-	6997
Total	3,627	2,564	961	276	41	7469

We follow the industry norms in compensating our employees. The wage rate and any revisions are determined with the engagement of trade unions. We are conscientious and timely in extending due payments to our employees. Determining entry level wages fall under the collective process and there is no bias on gender. We are also timely and truthful in meeting our defined benefit and contribution obligations in line with Sri Lanka's labour laws. In the reporting year, we provided Rs. 162.1 million as contributions to the Employee Provident Fund and Employee Trust Fund. The gratuity provision stood at Rs. 799.6 million.

Defined Benefit & Contribution Obligations

For the Y.E	*Basis of Contribution*	*2016/17*	*2015/16*
		Rs. Mn	*Rs. Mn*
Defined Contribution Plan Obligations			
Employees' Provident Fund	12%*	129.7	140.5
Employees' Trust Fund	3%	32.4	35.1
Defined Benefit Plan Obligations			
Gratuity Provision		135.9	121.0
Gratuity Payments		98.2	92.3

Note: 8% is contributed by the employees

RESIDENT COMMUNITIES

GRI - G4 - EC7 & EC8

Refer: Social Capital, Pages 110-118

We have over 41,000 people and 10,351 families residing within our estates. Almost 87.4% of the communities are living in the high grown estates in the Central Province. We also have a significant resident community based in the South in 5 of our estates. Apart from employment opportunities, we provide them with their basic amenities and look into their wellbeing. Our dedicated social responsibility programme, 'Home for Every Plantation Worker' is comprehensive and gives a solid platform to build and enable our communities to better their standard of living and their quality of life. In the reporting year, we invested a sum Rs. 38.7 million for the initiatives under this programme. This investment covered Rs.26.3 million on infrastructure development, accounting for a significant share of 68%.

SUPPLIER PAYMENTS

GRI - G4 – EC9

Refer: Relationship Capital – Suppliers, pages 101-104

As highlighted in the 'Supplier' section of this report, we have a significant supplier base. We maintain extensive relationships with bought-leaf suppliers within the tea smallholder sector of the economy in the low grown elevation. We give them solid support and guide them on sustainable agriculture practices. In the reporting year, we incurred a sum of Rs. 314.4 million on bought-leaf supplies which took up 65.1percent of the total supplier payments.

TAX PAYMENTS

GRI - G4 – EC4

As a responsible corporate citizen, we are timely and committed in meeting our tax obligations. In the reporting year, we settled a sum of Rs.16.7 million to the Department of Inland Revenue as corporate taxes. Our Value Added and Nation Building taxes amounted to Rs. 5.07 million. Our Payee tax contribution stood at Rs. 6.3 million.

Apart from the above tax payments, company paid Rs. 58.19 million as Government lease rentals and the corresponding interest.

FINANCIAL INSTITUTIONS

As a leading corporate, we maintain sound relationships with our bankers and financial institutions. We are prompt in meeting our debt payment obligations. In the reporting year, we paid a sum of Rs. 193 million to financial institutions as loan repayments including capital and interest. We also maintained a substantial deposit base of Rs. 226.7million within the financial sector.

Climate Change – Financial Implications

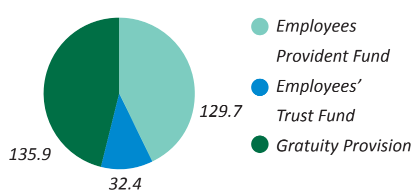
GRI - G4 - EC2

Refer: Natural Capital, Page 135 and Operations Review, Page 62-73

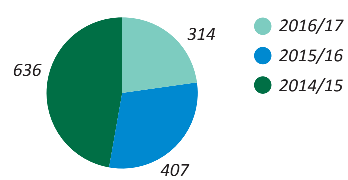
As a plantation sector organisation, climate change is inextricably linked with our operations, with significant impacts on crop production and quality of our teas. The financial implications of climate change are grave and substantial, both in terms of commercial viability in the short-term and sustainability of operations in the long-term. As elaborated in the Natural Capital and Operations Review sections of this report, we are proactive in our environmental responsibility initiatives and we invest strategically to mitigate the adverse impacts of climate change on our business operations. In the year, we invested a sum Rs. 40.4 million for environmental management initiatives.

GRI - G4 – EC4

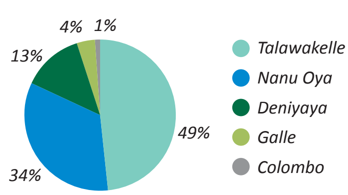
Financial assistance received from the Government is disclosed in note number 26 of the Financial Statements.



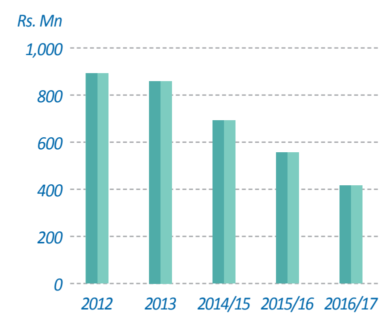
Defined Benefit & Contribution Obligations 2016/17 (Rs. Mn)



Suppliers Payment (Rs. Mn)



Work Force -Region wise 2016/17



Short & Long term borrowings

OPERATIONAL REVIEW G4-9

Strategic Imperatives

- Nursery management
- Harvesting
- Replanting teas
- Adapting to climate change
- Research and development
- Diversify land use

Strategic Goals

- Optimise on quality and yields
- Boost productivity and ensure a quality harvest
- Ensure adaptability to climate change
- Resistance to pest and disease
- Develop value-added specialty and innovative tea products
- self sufficient in fuel wood

Salient Approach

- Establish central nurseries for e 4000 series cultivar.
- Collaborate with the Tea Research Institute and Agriculture/plantation faculties of the University of Sri Lanka.
- Introduce mechanical harvesting techniques
- Follow best practices in harvesting
- Hands-on monitoring of harvesting operations
- Follow sustainable practices in field development
- Ensure conformity to guidelines set out by certification bodies
- change from the existing wage model to a revenue sharing model.

Key Performance Indicators 2016/17

19.43 Hectares
Tea Replanted

24.97 Hectares
Tea Replanted Lands Came into Revenue

44.77 Hectares
Fuel Wood Replanted

Rs. 87.1 Mn
Expenditure Field Development

5.6 Mn Kg
Tea Production

88%
Estate Leaf % of Total Production

12%
Bought Leaf % of Total Production

13 Numbers
Profitable Estates

MANAGEMENT APPROACH

With the tea industry contending with a myriad of challenges, the need to uphold best practices in agriculture and field development is more intense and critical for our future viability. We are committed in our efforts and backed by due investments to ensure that we are timely, smart and sustainable in our field operations across all 16 of our estates in both elevations. We ensure that we follow the guidelines set out by our acclaimed certification programmes viz. Rainforest Alliance (RA) – Sustainable Agriculture, ISO 22000 Food Safety Management System, Ethical Tea Partnership and UTZ Sustainable Tea. We also collaborate and follow the agriculture guidelines set by the Tea Research Institute.

We have in place a well-structured monitoring process inclusive of documentation and close supervision on our field operations. This supports us to identify and address any gaps in our practices and adopt corrective and timely measures for best results.

High Grown

Tea Nurseries

- Bearwell
- Radella
- Great Western
- Wattegodda
- Calsay
- Holyrood
- Mattekelle

Low Grown

Tea Nurseries

- Deniyaya
- Kiruwanaganga
- Indola
- Moragalla

Key Productivity Measures

Plucking
- Ergonomic plucking baskets to reduce musculoskeletal disorders in pluckers
- Mechanise harvesting through the use of shears
- Reduce time involved in non-plucking activities

Weighing
- Electronic green leaf weighing scales for accurate and transparent measurement
- Mobile weighing places in estates
- The system of ‘first come first weighed’ to minimise waiting time

Monitoring Field Operations
- Field performance
- Plucker performance
- Workforce utilisation
- ICT facilities for estate level managers for effective monitoring

The essence of our field strategy revolves around harvesting which is a critical success factor for leaf quality. This in effect underscores our value proposition. We follow current best practices to meet harvesting standards including timely and best-fit plucking intervals—essentially supporting higher yields and quality. Manpower planning is critical to obtain best harvesting results. Therefore, we continue to give top priority and we are ‘hands-on’ to boost worker attendance, motivate them and closely monitor plucker-performance to reach a higher level of productivity. Our human resource development staff at the estate-level plays a crucial role in this regard, ensuring greater engagement with the workforce.

We also look at our options to mechanise the harvesting process. In most of our estates, we have introduced shear harvesting, which at present takes up 20% to 25% of operations across the estates.

SOIL MANAGEMENT

Refer: Natural Capital, Pages 153-154

Following through with best soil management practices, our approach is guided by the ‘4R Nutrient Stewardship’ initiative advocated by International Plant Nutrition Institute. We monitor the soil p. H level annually and take necessary rectification measures if the levels are not in conformance to accepted norms. Aligned to our field operations, a strict soil management programme is followed through which includes pruning, liming, forking, mossy and forking tipping, draining shade and green manure planting and weeding. We also resort to foliar spraying to induce growth and replace nutrients in the fields whilst conserving the top soil by improving organic matter, water run with lateral drains and leader drains and protecting the banks. Our initiatives are also in line with the prescribed guidelines of Rainforest Sustainable Agriculture. Our nitrogen ratios are in line with the prescribed norms under the Tea Research Institute.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Replanting Programme

	New Clearings Planted		Came into Revenue		Coming into Revenue
	2016/17	2015/16	2016/17	2015/16	2017/18
	Hectares				
Tea	19.43	29.00	24.97	24.22	39.08
Fuel Wood	44.77	52.72	-	-	

Focused in our efforts to increase the vetiver planting cover and thereby, optimise the agricultural potential of our lands, we continued to invest in our replanting programme. Under this programme, we planted a total of 19.43 hectares of tea in the year only in high grown. Accounting for 33 percent decrease as compared to the preceding year., since privatisation in 1992, the total extent replanted stood at 1029.43 hectares.

We maintained 74.94 hectares as capital clearings and adopted best practices to sustain them and ensure future yields. The total extent brought into revenue in the reporting year was 24.97 hectares. The extent expected to be brought into revenue in the ensuing year, 2017/18 is 39.08 hectares. The VP plating cover increased from 51 percent in the year 2000 to 67 percent in 2016/17.

Seeking to reach self-sufficiency in fuelwood as greener source of energy, we also continued to plant fuel wood, reaching an extent of 44.77 hectares in the reporting year, a 15 percent decrease as compared to 52.72 hectares planted in the previous year.

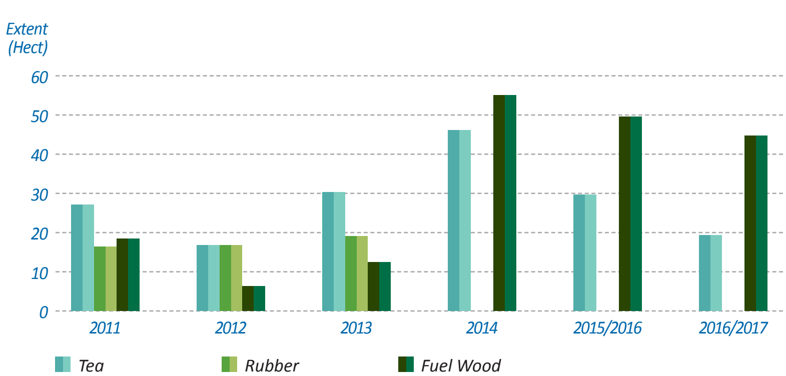
Our field development expenditure stood at Rs. 87.1 million, representing an decrease of 17 percent over 2015/16. Our estates in the year did not replant rubber.

ADAPTING TO CLIMATE CHANGE

As a plantation based entity, our field operations are intertwined and highly susceptible to climate change. It has a significant bearing on the very sustainability of our business. Therefore, we have to proactive in taking due measures to offset or mitigate the impact of climate change on our tea cropping patterns, production levels and the quality of the leaf.

In this regard, we closely monitor the temperature and rainfall in different agro-climatic regions and assess the impacts on the crop performance. We have in place mean ambient thermometric temperature meters in both elevations, Deniyaya and Galle in the low grown and Lindula, Talawakelle and Nanu Oya in the high grown. We also invest well in adaptation measures to buffer against climate change—adopting drought, pest and diseases tolerant cultivars, ensuring soil moisture and conservation, resorting to compost and organic manure, planting shady trees and irrigation during dry months. Our '4R' Nutrient Stewardship programme also supports to minimise greenhouse gas emissions resulting from nitrogen fertiliser applications.

Replanting Programme Refer: Natural Capital, Page:



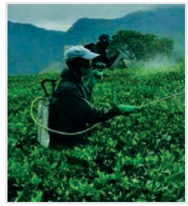
Field Development Replanting

Note: 2014/15 – 15 months

Research and Development

We continued to invest in tea research through our dedicated unit established in 2014 at the Dessford estate. Our focus is on new product development—value-added specialty and innovative teas, particularly to break-through to new market segments. We have positive buyer feedback on some of the specialty and innovative teas and six of our estates—Dessford, Deniyaya, Great Western, Wattegodde, Bearwell and Somerset—are already reaping commercial returns on these products. During the year under review, we commenced the production of a specialty tea for the high-end Chinese market at the Deniyaya estate. We also continue with our research on bio fertiliser, alternative energy sources and new technology to improve our field and factory processes.

Tea Harvesting



Spraying

Spraying

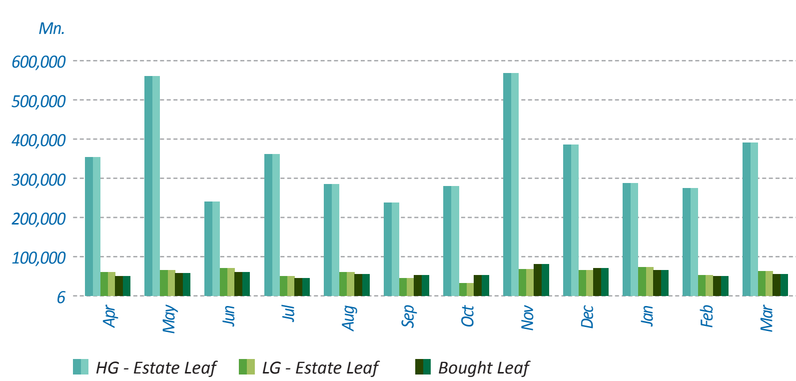
> ***"Crop production at the estate level and bought leaf operations plummeted by 18 percent to 5.6 million kilograms."***

Extreme weather patterns ranging from heavy rains to prolonged spells of dry weather that prevailed in the year 2016/17, did not reflect well on cropping patterns and the quality of the leaf, both at the estate level and bought leaf operations. Reflecting the industry-wide trends, the overall production levels stood at 5.6 million kilograms, dipping by 18 percent as against 6.8 million kilograms registered in 2015/16. It was critical that we continued to be disciplined in our management approach across all estates with 'hands-on' and strategic measures to drive productivity improvements, costs controls and sustainable agriculture and manufacturing practices. This supported to uphold estate profitability amidst depressive crop production patterns.

OPERATIONAL PERFORMANCE

Tea Production

2016/17	2015/2016
5.6 Mn Kg Total Tea Production 2016/17	**6.8 Mn Kg Total Tea Production 2015/2016**
88% Estate Leaf	**86% Estate Leaf**
12% Bought Leaf	**14% Bought Leaf**



Tea Production - 2016/17

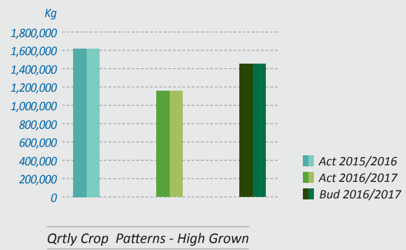
MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

ESTATE LEAF PRODUCTION

Quarterly Crop Production – Estate Level – 2016/17

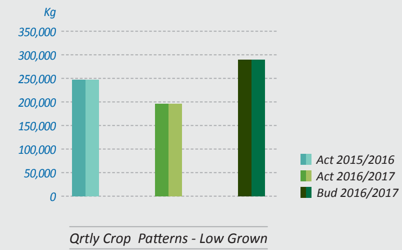
Quarter 1

High Grown



- Given the impact of drought conditions in the 4th quarter of 2015/16, crop performance remained depressed, below the budgeted and the level achieved in the 1st quarter of the previous year.

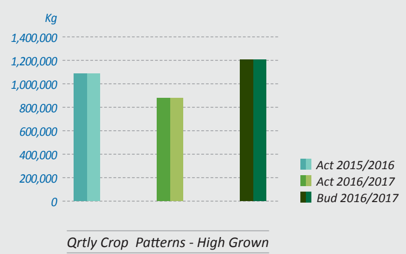
Low Grown



- Slow recovery from the drought conditions in the 4th quarter 2015/16 continued to impact crop performance and volumes were below the budgeted and the 1st quarter of the previous year.

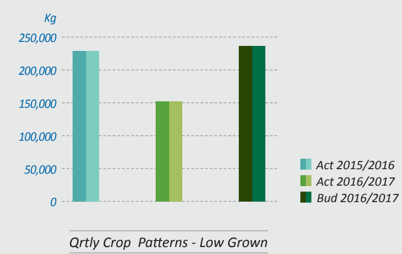
Quarter 2

High Grown



- Overcast conditions and low temperatures together with slower recovery of pruned fields, crop volumes further plummeted, significantly below the budgeted and the corresponding quarter of 2015/16.

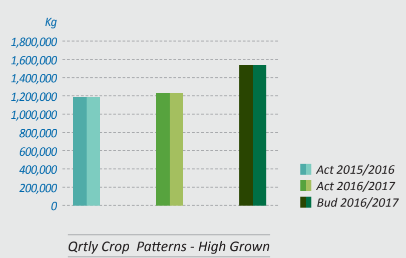
Low Grown



- Following the 1st quarter trends along with delayed pruning impacted crop volumes to perform way below the targeted and the corresponding quarter of 2015/16.

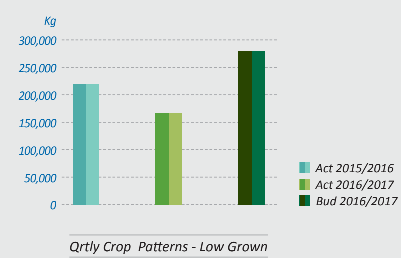
Quarter 3

High Grown



- Although crop volumes recovered marginally above the corresponding quarter in 2015/16, results were below expectations due to erratic weather.

Low Grown

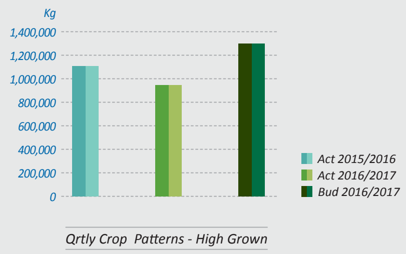


- With delayed pruning given unfavourable weather patterns, crop performance did not pick-up as anticipated and remained below the levels achieved in the 3rd quarter of 2015/16.

Quarterly Crop Production – Estate Level – 2016/17

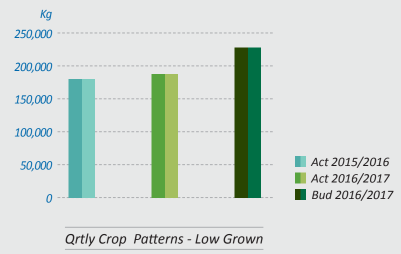
Quarter 4

High Grown



- With dry weather continuing, the 4th quarter results continued to be depressed, with crop volumes below the budgeted levels and actuals.

Low Grown



- Crop volumes remained depressed, improving only marginally compared to the levels achieved in the 4th quarter of 2015/16.

OPERATIONAL PERFORMANCE

Tea Production

2016/17	2015/16
4.9 Mn Kg Estate Leaf Production 2016/17	**5.87 Mn Kg Estate Leaf Production 2015/16**
4.20 Mn Kg High Grown	**5.00 Mn Kg** High Grown
0.70 Mn Kg Low Grown	**0.87 Mn Kg** Low Grown

Erratic and adverse weather patterns continued to mar crop production results in both elevations at the estate level in the year under review. Quarterly crop volumes registered a significant contraction, falling way short of meeting our budgetary targets and broadly below the levels achieved in the corresponding quarters of the previous year. The estate crop volumes reached 4.9 million kilograms in total, representing a 16 percent drop as against the level achieved in the previous year of 5.87 million kilograms. This took up almost 88 percent share of the total tea production.

Regional Summary

	2016/2017		*2015/2016*	
Regions	***Production (Mn Kg)***	***Contribution %***	***Production (Mn Kg)***	***Contribution %***
Talawakelle	2.69	64	3.00	61
Nanu Oya	1.53	36	2.00	39
Total High Grown	4.22	100	5.00	100
Deniyaya	0.60	86	0.75	85
Galle	0.10	14	0.12	15
Total Low Grown	0.70	100	0.87	100

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

HIGH GROWN ESTATE LEAF PRODUCTION

Covering an extent of 3,096.26 hectares, high grown tea estates took up 75 percent share of the estate level production and 87 percent share of the total tea production. Unfavourable weather conditions prevailing across all quarters dampened the high grown tea harvest; production volumes touched 5.6 million kilograms, significantly below 6.8 million reached in 2015/16. Talawakelle cluster, taking up around 62 percent of the high grown production, performed below potential. Crop volumes in this cluster was 12 percent below the level achieved in the previous year; Nanu Oya cluster also saw a 22 percent dip in crop volumes.

Tea yields in the reporting year dwindled by 15 percent over the previous year to 1,365 kilograms per hectare as compared to 1,609 kilograms per hectare reached in 2015/16.

LOW GROWN ESTATE LEAF PRODUCTION

Covering an extent of 678.26 hectares, low grown tea estates accounted for 14 percent of the estate leaf production whilst taking up 13 percent of the total tea production. Adverse weather that prevailed in the year continued to stifle the low grown tea results. Production levels did not reach the budgetary targets nor match up to the levels registered in the preceding year. The performance in all four quarters were depressed. The crop volumes touched 0.70 million kilograms, down by 20 percent over the levels registered in 2015/16. The Deniyaya Region, which accounts for 86 percent of the low grown leaf production as well as Galle recorded a short-fall compared to the preceding year.

The low grown yields stood at 1,033 kilograms per hectare, representing a significant drop of 19 percent from 1,267 kilograms per hectare in 2015/16.

BOUGHT LEAF PRODUCTION

Following the trends of the preceding year, bought leaf operations performed well below expectations and potential. Notwithstanding our initiatives to engage and guide bought-leaf suppliers, they continued to grapple with poor tracing conditions and fell short of meeting the required quality standards.

The bought leaf volumes continued to slide and the levels were depressed throughout the four quarters—below the budgeted levels and compared to the previous year. The total bought leaf production in the year fell by 26 percent over the previous year, to reach 0.93- million kilograms. This took up 12 percent share of the total tea production.

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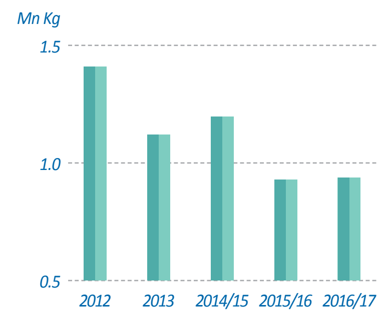
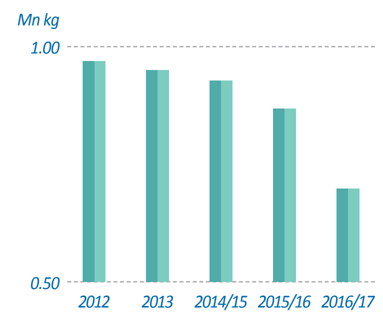
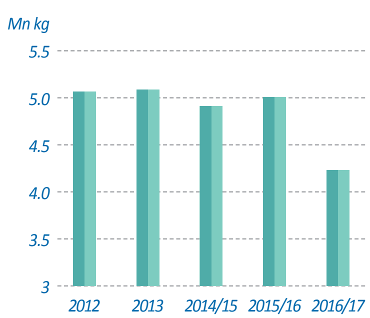


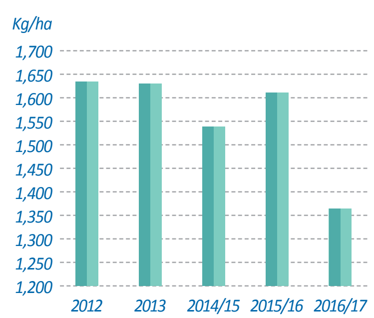
Bought Leaf Production



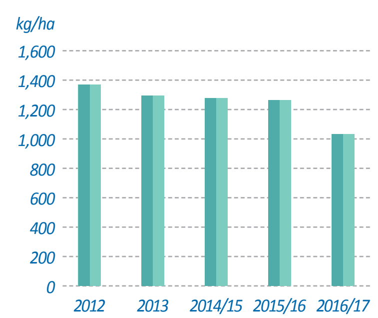
Estate Leaf - Low Grown Production



Estate Leaf - High Grown Production



High Grown Yield



Low Grown Yield

TEA PRICES

"Leveraging on our value proposition for quality teas, we succeeded to capitalise on the bullish market trends that prevailed on the Colombo Tea Auction in the last two quarters of the year."

Following market trends that prevailed in the preceding year, the Colombo Tea Auction was lackadaisical, in the first two quarters of the reporting year, 2016/17. The world commodity markets were sluggish whilst the geopolitical challenges in the key export markets continued to be intense. As the year progressed, the industry witnessed relatively favourable market conditions. The short-fall in production volumes supported the Auction prices to move away from bearish trends and we saw prices edge upwards by the third quarter of the reporting year.

Taking advantage of the market pick-up, we sought to leverage on our reputation for premium quality teas to fetch remunerative prices. This year, once again, we continued to enjoy the top rankings on the market—record prices were registered by our key estate marks and further reinforced our positioning at the helm amongst the regional plantation companies.

With regard to high grown teas, we did not realise the anticipated prices in the first two quarters of 2016/17. However, our price averages were ahead of the elevation averages. In the third and fourth quarters, we succeeded to take advantage of the favourable market conditions and secure better pricing, averaging at Rs. 656.15 per kilogram in the fourth quater; ahead of both the previous year average of Rs. 481.64 per kilogram and the elevation average by Rs. 641.68 per kilogram

The low grown tea prices also performed below potential in the first quarter of the year. By the second quarter, prices trended upwards. The third and fourth quarters saw best prices with the average touching Rs. 671.16 per kilogram in the fourth quarter compared to Rs. 434.65 per kilogram in the corresponding quarter in the preceding year. All four quarters were well above the elevation price averages.

Price Rankings Colombo Tea Auction 2016/17

Mattakelle, Radella, Logie, Great Western, Holyrood, Dessford Wattegodde & Bearwell Amongst the first fifteen rankings in the western high grown

Talawakelle Tea Estates Ranked number one high grown category, RPCs

Talawakelle Tea Estates Ranked number one overall category, RPCs

Talawakelle Tea Estates Ranked number one low grown category ,RPCs

Kiruwanaganga Ranked number one low grown category for 5th consecutive year

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Q1 High Grown Increase Rs. 29.96 per Kg than 2015/2016

Q2 High Grown Increase Rs. 1.81 per Kg than 2015/2016

Q3 High Grown Increase Rs. 110.49 per Kg than 2015/2016

Q4 High Grown Increase Rs. 174.51 per Kg than 2015/2016

Q1 Low Grown Increase Rs. 42.64 per Kg than 2015/2016

Q2 Low Grown Increase Rs. 145.50 per Kg than 2015/2016

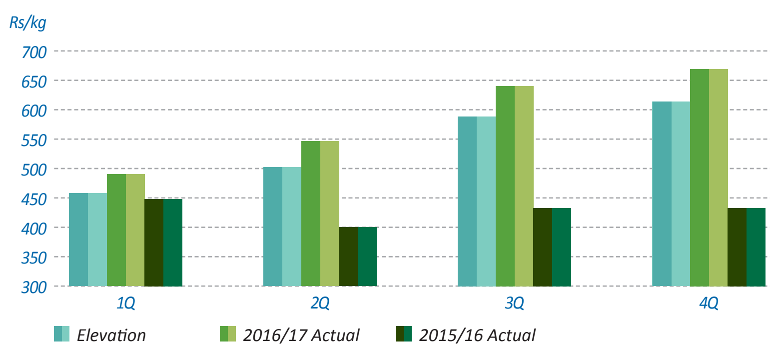
Q3 Low Grown Increase Rs. 208.59 per Kg than 2015/2016

Q4 Low Grown Increase Rs. 236.51 per Kg than 2015/2016

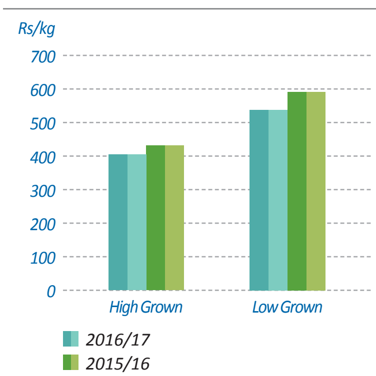
GSA - 2012 – 2017 (Rs/Kg)

	2016/2017	2015/2016	2014/2015 (15 months)	2015 (Jan-Mar)	2014	2013	2012
High Grown	534.65	453.90	488.63	464.76	478.53	456.36	413.38
Low Grown	591.03	429.42	526.96	469.14	531.22	496.56	420.49

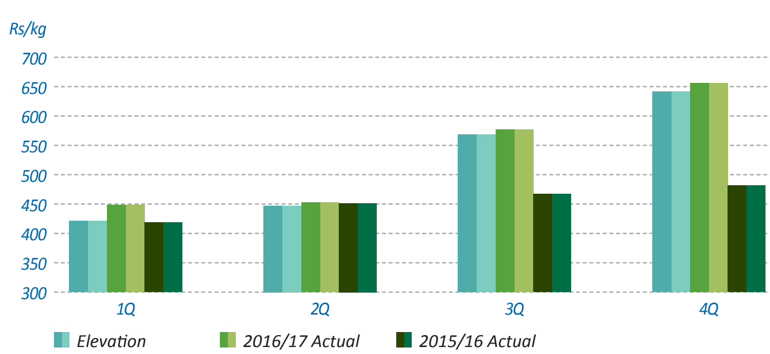
"Lower production levels along with productivity improvements and greater level of efficiency cushioned our costs in a wage increase year. The increase in cost of production was limited to 17 percent."



Low Grown Price Trends 2016/2017



GSA 2016/17 - 2015/16



High Grown Price Trends 2016/2017

With improving market dynamics at the Colombo Tea Auction, our GSA in the high grown category gradually picked-up during 2016/17. We recorded an increase in GSA in the third and fourth quarters as compared to the corresponding quarters in 2015/16. For the year under review, GSA for the high grown category stood at Rs. 534.65 per kilogram, up by 18 percent compared to Rs. 453.90 per kilogram posted in the preceding year.

In terms of low grown teas, GSA registered an improvement from the third quarter 2016/17 onwards. The GSA for the year stood at Rs 591.03 per kilogram, up by 38 percent as against Rs. 429.42 per kilogram registered in the year 2015/16.

Our estates across the board continued to focus on maintaining an efficient and a lean cost structure with strict controls on unnecessary expenses and curtailing leakages. Yet, with the wage bill typically taking up a significant portion of over 70 percent of our total cost of production, the impact of the industry-wide wage increase of 17 percent was intensely felt. The concerted effort by industry stakeholders, however, succeed to introduce a productivity base wage increase formula which, in effect, supported us to keep our wage bill from hitting excessive and unsustainable levels. This was particularly significant in our quest to manage the present-day challenges stifling our industry way forward. our overall cost of production Rs. 524.39 per kilogram—up by 17percent as against the previous year. The high grown estates accounted for an increase of 15 percent as against the costs incurred in the previous year. Low grown estates together with bought leaf operations also saw a notable increase of 23 percent over the previous year.

ESTATE PROFITABILITY

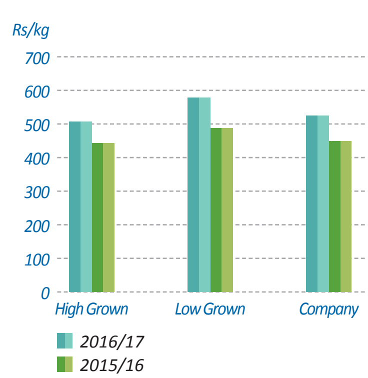
Our estate profitability remained in-tact despite the challenging business backdrop. The year saw the lowest-ever production volumes across the elevations and this did not reflect well on the estate top-line. Yet, the upward trends in prices that prevailed on the Colombo Tea Auction in the latter part of the year, buffered our top-line and in turn, eased the impact from rising costs of production. The cumulative estates profits achieved for the year stood at Rs. 265.5million. This corresponded to a 152 percent increase over 2015/16.

High grown estates accounted for 122 percent of the estate profits with Rs. 153.9 million. Talawakelle cluster with Rs. 170.5 million profits contributed over 128 percent to elevation profits. Nanu Oya turned-around from a loss-making situation to profits of Rs. 55.7 million. Our profits were strongest in the third and fourth quarters of the year.

The low grown estates continued to achieve less than potential profitability results. Yet, profits in this elevation saw a marginal improvement of 169 percent to Rs. 52.6 million as against the preceding year. This accounted for 20 percent share of the total estate profits. Deniyaya took up a share of 99 percent of the elevation profits.

Out of the total 16 estates, 13 succeeded to improve the profitability levels against the preceding year. Only 3. estates were making losses., Bearwell estate in the high grown, posted the highest profits—continuing to be at the top of the estate profitability list—followed by .Great Western and Mattakelle with second and third rankings respectively. Profits were also reported by Kiruwanaganga and Deniyaya in the low grown elevation with notable contributions to total estate level profits.

"Notwithstanding the challenging operating backdrop, our well-deliberated strategy and our focused actions paved way for 13 of our estates out of the 16, to sustain and improve profitability levels."



Cost of Production

Estates Making Profits

	Total Estates	2016/17	2015/16 (12 Months)	2014/15 (15 Months)	2013	2012
High Grown	12	10	09	08	08	08
Low Grown	04	03	-	01	04	03

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

RUBBER

Rubber turnover during the year was Rs. 19.6 Million compared to Rs. 10.8 Million in 2015/2016. Total production in the year increased to 78,688 Kilograms, a 47% increase from 53,476 Kilograms in the previous year. Rubber prices averaged at Rs. 249.67 per kilogram in 2016/2017 as against Rs. 202.13 per kilogram in 2015/2016. The total extent was 143.75 hectares

HYDRO POWER SECTOR

Operating under two subsidiaries, our hydropower plants in Radella, Palmerstone and Somerset did not meet the targeted performance. The prolonged period of dry weather did not complement hydropower generation. The plants utilised only 34.7 percent of capacity of 2.1 Mw on a combined basis and generated 5,993,907 kWh of electricity. The electricity supplied to the national grid in the year, recorded a significant drop of 26.9percent compared to the previous year's supply of 8,207,558 kWh. The total revenue in the year 2016/17 stood at Rs. 72.1 million, representing an almost 35.3 percent drop over the preceding year. Hydropower contributed 2.2 percent to the consolidated revenue.

Regional Snapshot – High Grown – 2016/17

	Talawakelle Region	***Nanu Oya Region***
Estates:	Mattakelle, Bearwell, Holyrood Great Western, Wattegodde, Palmerston and Logie	Dessford, Somerset, Clarendon, Calsay and Radella
Total Extent	1900.89 hectares	1195.37 hectares
Total Factory Capacity	4.1 million kilograms	3.2 million kilograms
Factory Type	Orthodox black tea	Orthodox black tea and green tea
Certification		
➲ Rainforest Alliance Sustainable Farm Certification	All estates	All estates
➲ Ethical Tea Partnership	All estates	All estates
➲ ISO 22000 Food Safety Management Systems	Wattegodde, Great Western, Mattakelle, Bearwell, Holyrood	Somerset and Dessford
➲ UTZ Sustainable Tea Certification	Wattegodde	Radella
Achievements	➲ Mattakelle, Logie, Great Western, Holyrood, Wattegodde and Bearwell amongst the first fifteen rankings in the western high grown	➲ Radella, Dessford amongst the first fifteen rankings in the western high grown

Key Indicators		**Talawakelle**			**Nanu Oya**	
	2016/17	2015/16	Variance %	2016/17	2015/16	Variance %
Economic						
Tea Production (Mn Kg)	2.6	3.1	(16.1)	1.5	1.9	(21.1)
Contribution to High Grown (%)	64%	62%	3.2	36%	39%	(7.7)
Profit Per Hectare (Rs. '000)	89.7	70.1	27.9	(13.8)	(6.4)	(115.6)
Capital Expenditure (Rs. Mn)	54.6	36.7	48.8	43.7	33.3	31.2
Social						
Registered Workers	3,430	4,080	(15.9)	2,432	1,961	24.0
Resident Community (People)	22,649	22,990	(1.5)	13,334	13,844	(3.7)
Health & Safety - Training Programmes	72	53	35.8	56	38	47.4
Environment						
Tea - New Clearing Planted (Hectares)	9.43	16.2	(41.8)	3.00	15.5	(80.6)
Fuel Wood Planted (Hectares)	30.80	27	14.1	13.97	14	(0.2)

Low Grown – Regional Snapshot – 2016/17		
	Deniyaya Region	***Galle Region***
Estates:	Deniyaya, Kiruwanaganga, Handford and Indola	Moragolla
Total Extent:	Tea 599.73 Hectares Rubber: 60.97 Hectares	Tea: 78.53 Hectares Rubber: 82.78 Hectares
Total Factory Capacity	1.9 million kilograms	0.6 million kilogram
Factory Type	Orthodox black tea	Orthodox black tea
Certification:		
Rainforest Alliance Sustainable Farm Certification	Kiruwanaganga & Deniyaya	-
Ethical Tea Partnership	Kiruwanaganga & Deniyaya	-
ISO 22000 Food Safety Management Systems	Deniyaya & Kiruwanaganga	
Achievements	Kiruwanaganga Ranked number one low grown category for 5th consecutive year	

Key Indicators		**Deniyaya**			**Galle**	
	2016/17	***2015/16***	***Variance %***	***2016/17***	***2015/16***	***Variance %***
Economic						
Tea Production (Mn Kg)	0.60	0.74	(18.9)	0.10	0.13	(23.1)
Contribution to Low Grown (%)	86%	85%	1	14%	15%	(1)
Profit Per Hectare (Rs. '000)	103.1	(114.4)	190.3	(45.2)	(255.9)	82.3
Capital Expenditure (Rs. Mn)	27.1	26.6	1.9	7.4	9.6	(22.9)
Social						
Registered Workers	878	984	(10.8)	257	278	(7.6)
Resident Community (People)	4910	3877	26.6	276	360	(23.3)
Health & Safety -Training Programmes	52	45	15.6	12	8	50
Environment						
Tea - New Clearing Planted (Hectares)	7.0	0.91	669.2	-	-	-
Fuel Wood Planted (Hectares)	-	-	-	-	-	-

FINANCIAL CAPITAL

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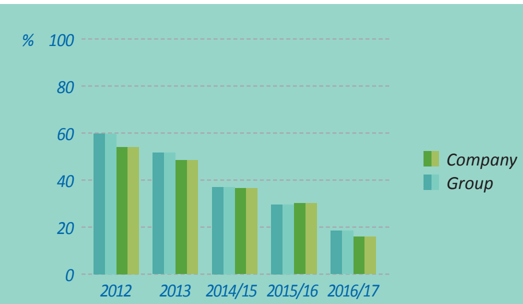


Debt to Equity Ratio

OVERVIEW

In a dynamic operating backdrop, sound financial capital management is vital and highly warranted to ensure business viability and reach out to sustainability in the long-term. This is more pronounced in an industry where stakeholders are grappling to cope with the complexities and the challenges so prevalent in today's context. This section highlights how we steer through our operating landscape, manage our financial resources efficiently from a broader perspective—creating value in the present, planning and executing our expansions and paving the path to deliver our corporate goals set for the long-term. The section also highlights the financial performance for the year ended 2016/17.

The company established a new milestone by surpassing its highest NPBT of RS. 232.7 million in 2012 to record a NPBT of RS. 260.1 in the year under review; in the back drop of a very unfavorable operating landscape in the first half of the year.

Strategic Imperatives

- Top line growth, profitability and returns
- Treasury, cash flow and financial position
- Compliance with legislature, rules and regulations

Strategic Goals

- Ensure the availability of funds to sustain operations
- Ensure sustainable earnings, profitability and remunerative returns on equity
- Ensure positive cash flows to maintain adequate liquidity and solvency
- Maintain a healthy financial position

Salient Approach

- Utilise financial resources efficiently to create and share value responsibly
- Follow prescribed best practices and standards in accounting, auditing and management
- Comply with rules and regulations set by relevant statutory and regulatory bodies
- Adopt focused risk management techniques and internal controls to ensure responsible financial management

Key Performance Indicators 2016/17

63% Gross Profit Growth	**7.4%** Net Profit Margin	**11.9%** Return on Equity
6.45% Return on Assets	**5.18 times** Interest Cover	**15.95%** Debt: Equity

Our financial capital base comprises shareholders' equity investments, internal cash flows generated within the business and debt raised from local banks and finance companies.

We give top priority to financial management within our value creation process. Our focus is to optimise the utilisation of our financial resources and maximise the value we create across the business. This necessitates us to looks at financial capital management from a broader perspective including:

- giving direction and accountability to strategic planning;
- formulating and implementing action plans across the operations to drive top-line growth and ensure profitability and returns;
- and monitoring, evaluating and reporting the output, impacts and outcomes for management review and decision making for sustainable progress.

MANAGEMENT APPROACH

Financial Statements - Compliance

- Sri Lanka Accounting Standards - The Institute of Chartered Accountants of Sri Lanka
- Companies Act No 07 of 2007
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995
- Listing Rules - Colombo Stock Exchange
- Code of Best Practice on Corporate Governance - The Institute of Chartered Accountants of Sri Lanka and The Securities and Exchange Commission of Sri Lanka

Our approach to financial capital management is well-structured and perceptive. We are disciplined and principled in the way we deliver on our corporate targets and goals, ensuring that we follow prescribed best practices and standards in accounting, auditing and management whilst complying with the rules and regulations set out by the relevant statutory and regulatory bodies. The management is well versed and proactive in their decision-making and in actions to be in line with current financial management practices. This together with focused risk management and internal controls underpin our organisation's resilience to manage the challenges within the operating scenario.

Following through with our valued adage 'doing business within our means' we are mindful to drive our top-line sustainably, bearing in mind the long-term consequences for growing for mere commercial gains. We recognise and are focused in our efforts to bring in and nurture responsible practices across our operations; be it in managing our field and factory operations; empowering and caring for our workforce; engaging and maintaining good relations with the resident communities; and adopting environmentally responsible measures across our estates.

Combined with our top-line approach, we seek to ensure efficiency and effectiveness in managing our costs. We are cautious and exercise due control on unwarranted costs and cap our wastage and leakages. We are also controlled and disciplined in our treasury and cash flow management to sustain the liquidity and maintain healthy gearing levels. We are consistent and focused in achieving a stable financial position.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Financial Capital Risks and Opportunities

Risks

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

Opportunities

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

Financial Capital - Strategy

Top line Growth, Profitability and Returns

- Budget financial resources efficiently and uphold and follow best business practices to drive a sustainable top-line growth
- Be focused and drive cost controls across the operations to minimise waste and non-value adding overheads
- Optimise operational viability through prudent capital expenditure management

Treasury, Cash flow and Financial Position

- Proactive treasury and cash flow management to ensure sufficient funds for internal operations
- Maintain sound relations with financial institutions to ensure availability of debt capital and to raise lower cost of funds
- Maintain a healthy capital structure and control the gearing ratio
- Maintain a sound asset base to cover liabilities and ensure a healthy financial position
- Compliance with legislature, rules and regulations

Treasury, Cash flow and Financial Position

- Comply with legislature, rules and regulations prescribed by relevant statutory and regulatory bodies
- Comply with current prescribed accounting and auditing standards
- File due disclosures in a timely manner

FINANCIAL PERFORMANCE REVIEW

Key Performance Indicators

We have maintained a strong financial performance over the years, creating sustainable value and reaching out to all our stakeholders. The following performance indicators demonstrate our commitment to uphold transparent, accountable and ethical practices that underscore our success story amidst the manifold challenges widespread within the country's tea industry.

Group -Key Performance Indicators – 2012-2016/17

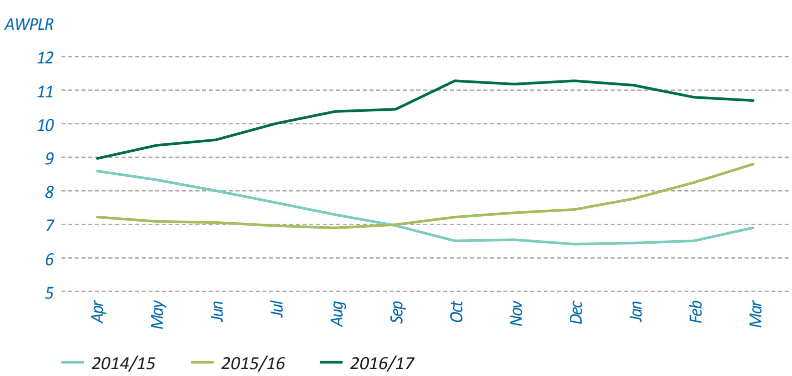
Aspect	*Measure*	*2016/17*	*2015/16*	*2014/15**	*2013*	*2012*
Revenue Growth	Turnover (Rs. Mn)	3,334.5	3,434.6	4,761.1	3,646.8	3,318.1
Profitability	Gross profit ratio (%)	13.1%	9.2%	10.6%	11.6%	12.8%
	Net profit ratio (%)	7.2%	4.3%	5.6%	5.5%	6.8%
Working capital Management	Current ratio (Times)	1.7	1.23	1.15	1.28	1.16
Liquidity	Cash flow from operations (Rs. Mn)	485.2	393.4	532.3	301.1	336.1
Asset Utilisation	Fixed Assets Turnover (Times)	1.01	1.03	1.43	1.47	1.13
Investments	Capital expenditure (as a % of total assets)	4.03%	3.6%	6.5%	3.3%	3.9%
Capital Structure	Debt/Equity (%)	18.4%	29.7%	37.3%	51.8%	60.0%
	Interest Cover (Times)	4.9%	3.81	3.68	3.28	2.79

*Note: *fifteen months*

Monetary Policy

. The Standard Deposit Rate (SDF) and the Standard Lending rate (SLF) were increased by 125 basis points to 7.25 percent and 8.75percent, respectively in the year 2016/17. Interest rates remained low along with surplus market liquidity during the beginning of the year. However despite expectations credit to private sector grew, peaking at 28.5% in July 2016, and ended recording a YoY growth of 21.9% for the year. This warranted a tightening of policy by CBSL to curtail the demand pushed inflation and growth in import expenditure. Policy rate were increased trice, including the final increase in March 2017.

The tightening measures complemented the liquidity levels in the market and controlled the down-side risks arising due to increasing trends in monetary aggregates. One-year government security rates also increased to 10.98percent by March 2017 which was a 10.9percent increase over the rates witnessed in March 2016. The monetary policy moved towards a tighter stance in the year 2016, with interest rates trending upwards in an inflationary backdrop. Interest rates remained low along with surplus market liquidity during the beginning of the year. However with the continuous growth in credit, market liquidity dropped leaving the market short for most part of 2016 and recording a marginal surplus during the last months of the year.



AWPLR Movement

PERFORMANCE SYNOPSIS

We witnessed a remarkable turn-around during the second half of the year, setting the pace to record second highest profits in the Company's history, amidst adversities across the industry.

The Company achieved a net profit of Rs. 242.3 million and recorded the lowest ever debt to equity gearing of 15.9 percent—demonstrating our consistent and continuous improvements for excellence in financial management. The financial year ended 31st March 2017 was a difficult year with full of uncertainties in the industry.
A long-delayed wage negotiation was finalised during the year—the first step towards productivity related wage system, much needed to ensure the sustainability of the plantation industry .

First half of the year suffered from a heavy drought and impacted the growth of the plantation industry significantly. On the other hand, hydro power sector was also impacted with less rainfall and generation of electricity was poor.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

TURNOVER

Despite the severe drought in the first half of the year, the annual turnover of the current year remained at Rs. 3,333.5 million compared to Rs. 3,434.6 million in the previous year, recording only a 2 percent decrease. Tea turnover was Rs. 3,203.6 million; rubber Rs. 19.6 million; and other Rs. 39.1 million. Due to adverse weather conditions that prevailed in the first half of the year, production levels were at its lowest. However, the increase in gross sales average (GSA) during the second half of the year and favourable changes in weather patterns, boosted the revenues significantly. Higher national tea prices complemented the turnover; the average national tea price increased from Rs. 402.14 per kilogram to Rs. 572.74 per kilogram towards the latter part of the year. The rubber segment continued to be afflicted with lower prices and losses, similar to the trends witnessed in the preceding financial year.

The revenue generated from hydro power for the year was Rs.72.1 million, reflecting a significant drop of Rs 39.3 million due to drought conditions that prevailed in the first two quarters of the financial year and the price reduction effected by the Ceylon Electricity Board (CEB) from the third quarter onwards.

PROFITABILITY

Gross profits increased by 63 percent from Rs. 246.9 million to Rs. 402.5 million compared to the year ended 31st March 2016. The gross profit margin moved upwards to 12.3 percent from 7.4 percent in the financial year, 2015/16. Tea prices recorded a significant increase towards the latter part of the year whilst cost of production recorded a notable decrease. The low grown tea prices increased significantly and profits increased to Rs. 49 million from losses of Rs. 77 million recorded in 2015/16. The high grown estates recorded a profit of Rs. 153.9 million compared to Rs. 125.7 million in 2015/16, representing a 23 percent increment.

Other income dropped by Rs. 48.3 million in 2016/17 and the year ended with Rs.36.8 million. Gross profits from the hydro power sector registered a 52 percent drop compared to the previous financial year due to adverse weather conditions that prevailed and the tariff reduction during the third quarter of the year by the CEB.

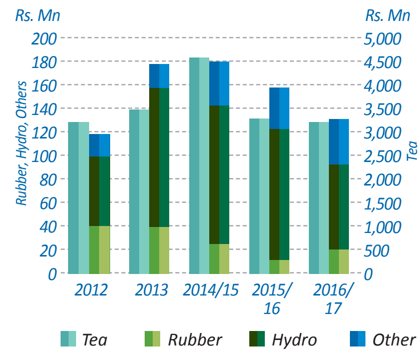
EARNINGS

Our earnings before interest, tax, and depreciation and amortisations (EBITDA) increased significantly to Rs. 458.5 million from Rs. 346.7 million recorded in the previous year. Profit before tax increased by 77 percent to Rs. 260.1 million from Rs. 147.5 million. The administrative expenses stood at Rs. 143.9 million compared to Rs. 132.1 million in the previous year. During the year under review, our organisation received Rs. 14.4 million as dividends from our hydro power subsidiaries, representing a 22 percent drop compared to the last financial year.

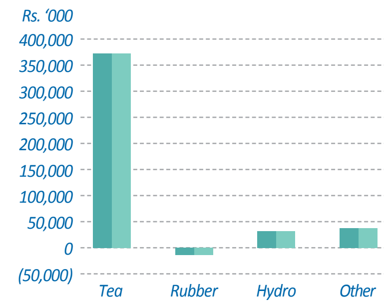
EBITDA margin increased to 14.1 percent in 2016/17 from 10.4 percent due to higher gross profit in the year. EBITDA of 14.1 percent and in terms of the Group, 14.5 percent from revenue generated, remained in the company after meeting its operational expenditures.

Earnings per share (EPS) was Rs. 10.20 compared to Rs. 4.65 at the end of the last year. The computation of EPS is given on the Note 11 of the Financial Statements.

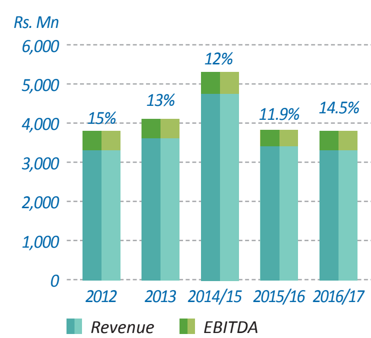
Net profit after tax increased by Rs. 134.7 million compared to Rs. 107.6 million recorded in the previous year. Net profit



Segmental Revenue Analysis



Segment Gross profit



EBITDA to sales ratio

margin increased to 7.4 percent from 3.3 percent in the year 2015/16. Hydro sector contributed Rs. 0.8 million to the Group's net profit after tax, despite the drier conditions experienced in the first two quarters of the reporting financial year.

FINANCE COST

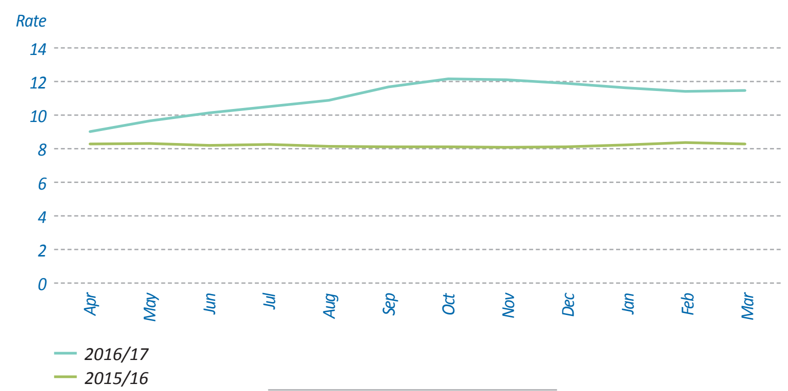
Net finance cost of the Company decreased by 9.0 percent compared to the last financial year. The Group finance cost of Rs. 35.7 million declined by 7.0 percent from the previous year's Rs.38.2 million. Average Weighted Prime Lending Rate (AWPLR) was averaged monthly at 10.3 percent during the first half of the year and subsequently, increased to 11.8 percent in the second half of the year. However, the Company managed to maintain its borrowing costs at an average of 10.4 percent throughout the year—a noteworthy achievement with inflationary pressures experienced in the economy. The hydropower sector also reduced their finance costs from Rs. 6.5 million to Rs. 4.3 million. Interest cover for the reporting period was 5.18 times, an improvement over 3.48 times registered in the previous year.

TAXATION

Income tax expenses for the year under review was Rs. 17.7 million which comprised current and deferred tax expenses. Current tax expenses increased significantly by 180 percent due to higher taxable profits achieved during the year and deferred tax reversed by 97 percent due to the reduction of actuarial gratuity provision. A reconciliation of accounting profit with the tax expenses is available in the Note 10.3 and summarised computation of deferred tax is given in Note 10.4 to the Financial Statements. The effective tax rate of the Company (excluding the deferred tax effect) has increased to 6.4 percent from 3.9 percent in the previous year. The rate of income tax applicable to the Company was 28 percent, whilst the rate applicable to profits from agricultural activities was a concessionary rate of 10 percent.

RETURN ON EQUITY (ROE)

Return on equity improved year-on-year to 11.9 percent from 6.75 percent in 2015/16. ROE is being evaluated traditionally based on the net profit margin, asset turnover and financial leverage. All three aspects have improved compared to the previous financial year, as shown below;



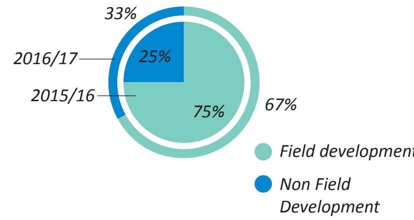
TTE PLC Average Borrowing Cost

ROE	Net Profit Margin	Asset Turnover	Financial Leverage
2016/17 11.9%	7.4%	1.1 times	15.95%
2015/16 6.75%	3.3%	1.1 times	30.2%

Return on Equity

CAPITAL EXPENDITURE

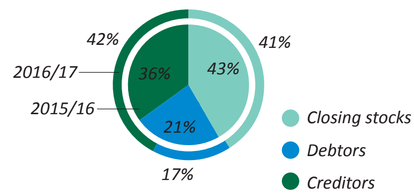
We continued with our field development plan during the year under review. We are one of the key regional plantation companies that invests continuously and consistently on field development. During the year, the capital expenditure stood at Rs. 88.6 million which is 84.5 percent of the previous year's expenditure. This is commendable given the difficult operating conditions in the first two quarters of the year under review. The investment on property, plant and equipment increased by 124.7 percent compared to the previous year.



Capital expenditure

WORKING CAPITAL MANAGEMENT

Investment in working capital increased by 21.3 percent to Rs. 274.8 million. An increase in stocks and short-term investments improved the working capital investment by Rs. 48.23 million in the year, 2016/17. The current ratio improved to 1.75 times from 1.20 times in the previous year. A reduction in short-term borrowings by Rs. 90.8 million further improved the liquidity cover.



Working Capital

CASH FLOW AND BORROWINGS

Free cash flow to the firm stood at Rs. 319.3 million compared to Rs. 177.4 million in the previous financial year. Net cash flow from operations stood at Rs. 452.5 million as against Rs.318 million in the preceding year.

Net cash deficit from investing activities increased to Rs. 88.5 million from a deficit of Rs. 75.7 million in the year 2015/16. Financing activities absorbed Rs. 79.8 million compared to Rs. 160.4 million in the previous year. Overall net cash surplus reached Rs. 284.3 million compared to Rs. 81.9 million in the previous year; and consequently, bank borrowings recorded a decline during the year. As at the year end, 31st March 2017, the Company had adequate banking facilities to support its operations.

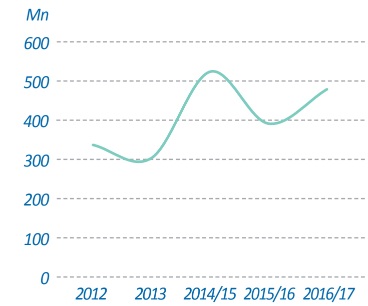
Our financial contractual obligations to financial institutions as at 31st March 2017 are given below:

Obligation	Amount due 2017	Amount due 2016	Due date
	Rs. Million		
Long term borrowings	123.4	139.2	Equal monthly installments for 4 to 7 years
Short term borrowings	0	42.0	On maturity at terms ranging from one month to 12 months
Bank overdraft	13.3	62.2	On demand
Government lease	187.9	188.3	29 years from now

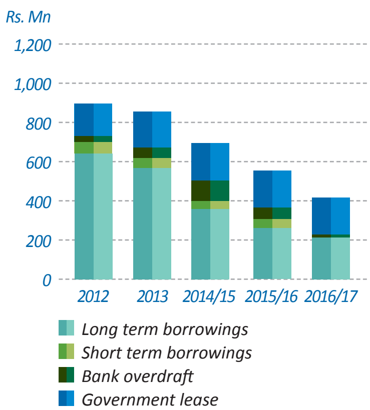
CAPITAL STRUCTURE

The subdued trend in financial gearing continued in to the year under review from the last financial year. Our equity consists of Rs. 23.75 million ordinary shares in issue including one Golden Share held by the Government of Sri Lanka with special rights. Special rights attached to the Golden Share arwe stated in the Annual Report of the Board of Directors (page186 to 189). Total equity as at 31st March 2017 was Rs. 2.03 billion and debt was Rs. 324.7 million. Equity increased by 25 percent to Rs. 401.9 million whilst debt reduced by Rs. 168.7 million, representing a drop of 34.2 percent. The debt to equity ratio at 15.9 percent was the lowest ever recorded. Group equity and debt was Rs. 2.2 billion and Rs. 413.2 million respectively; and debt to equity ratio at the Group level improved to 18.4 percent from 29.7 percent in 2015/16.

The downward trending in gearing of the company was at a healthy Debt to Equity of 15.7 percent lowest to-date; an improvement from the previous year 30.2 percent for the company. Liquidity was strong with bank borrowings declining by RS. 117.6 million.



Cash flow from Operations



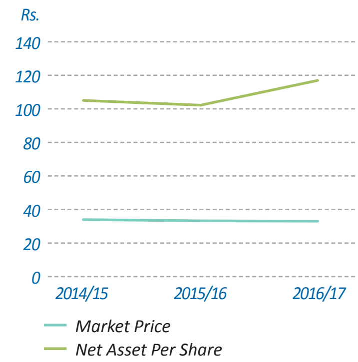
Composition of Borrowings

PERFORMANCE OF SHARE

The closing market price of the Company's share stood at Rs. 32.00 and showed a steady position amongst the other regional plantation companies. The highest price recorded during the year was Rs. 34.30 and value of shares traded during the year was Rs. 11.01 million. Market price as at 31st March 2017 was Rs. 32.50, down only by 2.0 percent, despite the bearish trends with the All Share Price Index (ASPI) declining by 0.16 percent to 6,061.94 and the Plantation Index by 0.95 percent to 641.18.

Net asset per share was Rs. 85.71 as at the year-end 2016/17 compared to Rs. 68.70 at the end of the previous financial year. Price earnings ratio was 3.25 times in the year under review compared to last year's 6.67 times, given the higher earnings per share.

Market value added (MVA) is a measure of value creation—the difference between the current market value of the firm and capital invested by the investors. MVA stood at Rs. 410 million at the end of the reporting year, down by Rs. 11.87 million; due to the fall in the share price of the Company to Rs. 32.00 from Rs. 32.50 in 2016.



Share performance

MANUFACTURED CAPITAL

OVERVIEW

In a waning plantation industry, distressed by volatile market conditions, climate change and lower productivity, it is imperative that we invest, build on and efficiently manage our manufactured capital. We recognise that this capital component plays a significant role in our business as a critical enabler, improving the efficiency of our processes; facilitating greater value addition; ensuring quality to secure our key markets; and control our cost of production to sustain the business viability. This section focuses on capital expenditure (capex); procurement of machinery and equipment; maintaining our factories; and developing our estate infrastructure.

Strategic Imperatives

- Procure best-in-class machinery and equipment
- Regular factory maintenance and availability of spares
- Develop estate infrastructure

Strategic Goals

- Strategically invest in physical assets to boost operational efficiency and optimise return on investment
- Ensure well maintained factories with due upgrades to enable streamlined operations, lower costs and stay competitive
- Follow best practices in capex to be in line with certification guidelines

Salient Approach

- Systematically assess and draw up an annual plan on capex aligned to strategic priorities
- Be consistent in factory maintenance and regularly upgrade machinery and equipment
- Carry out a due diligence survey to upgrade and develop estate infrastructure
- Ensure best practices in procurement and selection of contractors and suppliers

Key Performance Indicators 2016/17

Rs. 39 Mn
Capital Expenditure

Rs. 13.5 Mn
New Machinery & Equipment

Rs. 43.8 Mn
Estate Infrastructure Investment

MANAGEMENT APPROACH

Our manufactured capital encompasses, on one hand, field and factory machinery and equipment, computers and other equipment used in our core operations; and on the other, estate infrastructure including community based infrastructure to support our resident communities within our estates.

We are structured and pragmatic in the way we manage our manufactured capital base. Our investments in capex are carried out systematically as per an annual plan. We do a due diligence study prior to any significant investment to ascertain estate requirements, factory gaps in terms of modernisation, cost factors and available budgets. We are also timely and consistent in our maintenance of machinery and equipment within the factories. We duly check on the availability of quality spares and maintain an efficient stock control system.

Aligned to our corporate policies and procedures, we follow best practices in procurement of machinery and equipment. Our estate infrastructure is carried out on a need-based approach. We conduct estate surveys, feasibilities and audits before investing in estate infrastructure. We also follow well accepted practices in selecting our contractors in our infrastructure projects.

Manufactured Capital Risks and Opportunities

Risks

- Continued economic uncertainty and depressed commodity markets may not give a conducive platform to fully utilise the capacity of physical assets and thereby, compromise the return on investment.
- Difficulties may arise in planning capex and forecasting future cash flow in new investments.
- Lack of technical skills may hinder the adoption and use of high-end machinery and equipment with latest technology.

Opportunities

- A well-deliberated and structured annual plan is drawn up to align the corporate strategy with capex decision-making.
- Management commitment to offer strategic training opportunities to enhance technical know-how and lessen skills gap.
- Support and guidance from the certification bodies to adopt best practices in manufacturing operations.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Manufactured Capital Strategy

Procure best-in-class machinery and equipment

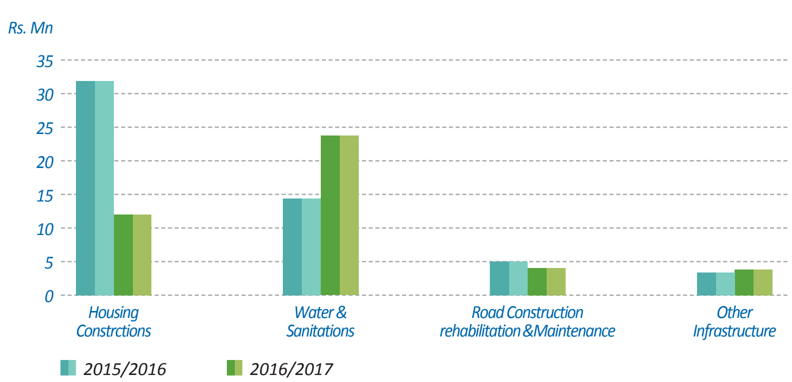
- Carryout due diligence and feasibility studies on operational requirements prior to procurement of machinery and equipment.
- Ensure best practices in procurement of machinery and equipment.
- Ensure that the quality and standards of the machinery and equipment procured are certified by a recognised certification body.

Regular Factory maintenance and availability of spares

- Undertake timely maintenance of factories and ensure the availability of spares.
- Follow manufacturer specifications in carrying out maintenance.
- Extend relevant technical training opportunities and exposure to develop the team.

Develop estate infrastructure

- Develop and up-keep estate infrastructure including community based infrastructure on a need-based analysis.



Estate Infrastructure

PROCUREMENT OF MACHINERY AND EQUIPMENT

All procurement of machinery and equipment is carried out in line with best practices. We give due consideration to manufacturer credentials, stability and integrity. We do necessary background checks to ensure that our manufacturers are socially and environmentally responsible and in compliance with the relevant legislature. We give special consideration to manufacturers who have obtained necessary certification on their processes from well-recognised certification bodies.

We consider both quality and cost in procurement. Our procurement takes into account capacity, availability of spares, environmental considerations like energy consumption and noise level and health and safety aspects of the workplace. We rely on the three-quotation basis to secure minor to mid-range procurement. For bulk and higher threshold procurement, we call for public tenders and follow through with due procedures in this regard.

In the reporting year, we purchased new machinery and equipment at a total investment of Rs. 13.5 million. Out of this, 91percent were for factory and field operations whilst the balance 9 were ICT equipment for both the head office and the estates.

MAINTENANCE OF FACTORIES

Maintenance of factories across our estates are carried out systematically. We are timely, consistent and methodical in our maintenance including periodic servicing and replacements with quality spares. We follow through with best practice and are guided by the procedures set out by the manufacturers' specification manuals and guidelines. We have in place a well-trained team of engineers and technical staff in each estate to do the necessary maintenance and keep our factories current.

In the reporting year, all our estates operated at 75percent capacity. Our certification from ISO 22000 audits and validates our maintenance procedures.

ESTATE INFRASTRUCTURE DEVELOPMENT

Our infrastructure development covers buildings and processing floors of our operational areas and community based roads, housing, water, sanitation, recreation facilities, etc,. All infrastructure development is carried out by reputed contractors. Our selections are based on proper tender procedures. We also obtain community support and in some instances, collaborate with plantation sector based government and non-government agencies to carry out these initiatives.

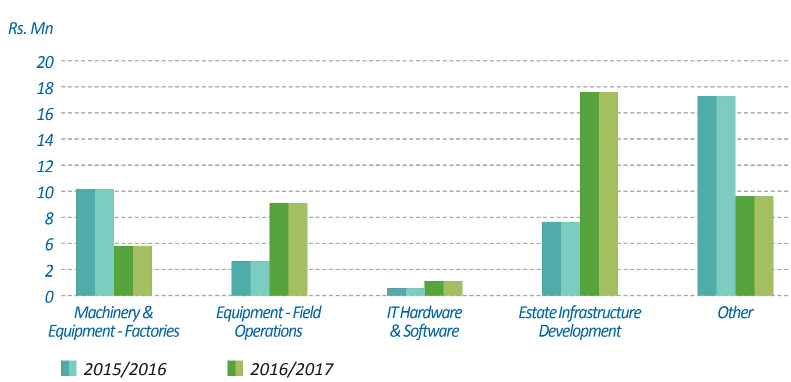
In the reporting year, we incurred a sum of Rs. 43.8 million on estate infrastructure.

Estate Infrastructure 2016/2017		
Cost Component	***Rs. Mn***	
Social Infrastructure	***2016/2017***	***2015/2016***
Housing Constructions	11.9	32.00
Water & Sanitations	23.8	14.40
Road Construction rehabilitation & Maintenance	4.2	5.00
Other Infrastructure	3.9	3.40
Total	43.8	54.80

CAPITAL EXPENDITURE

In the reporting year, we incurred a sum of Rs39 million on capital expenditure which corresponded to 9 percent increase vis-à-vis the preceding year 2015/16.

Capital Expenditure 2016/2017		
Cost Component	***Rs. Mn***	
	2016/2017	***2015/2016***
Machinery & Equipment - Factories	4.20	9.00
Equipment - Field Operations	7.80	2.95
IT Hardware & Software	1.20	0.55
Estate Infrastructure Development	17.40	6.30
Other	8.40	16.95
Total Capital Expenditure	39.00	35.75



Capital Expenditure

INTELLECTUAL CAPITAL

OVERVIEW

In today's fast-paced business environment, we have to be pragmatic, responsive and swift in our business strategy to sustain our positioning at the helm amongst the regional plantation companies. Our intellectual capital encompassing intangible assets—our corporate repute and standing, expertise, market intelligence, systems and processes, certifications we follow, and our performance oriented workplace—supports and complements our business, differentiating our value proposition in the industry. This section will shed light on our efforts to invest and build on our intangible assets, essentially underscoring our competitive advantage.

Strategic Imperatives

- Sound reputation and brand image for quality teas
- Ethical and sustainable management systems
- Tea manufacturing know-how and processes
- Market intelligence
- Performance monitoring system

Strategic Goals

- Differentiate the product on quality and standards and leverage the brand to secure a solid market positioning and attract premium pricing
- Align the business with economic, social and environmental standards set by well-acclaimed certification bodies to reach long-term viability
- Improve the effectiveness of current processes to drive quality in value creation
- Closely monitor performance to improve productivity levels of the workforce
- Bolt on market knowledge to make timely and perceptive decisions on the product, marketing and sales.

Salient Approach

- Be consistent in producing quality teas and build corporate's reputation and brand
- Strengthen management systems and uphold guidelines of certification programmes
- Build on, improve and invest on manufacturing know-how and processes to make best quality teas
- Strengthen market intelligence in strategic decision making
- Systematic performance monitoring in field and factory operations

Key Performance Indicators 2016/17

NO 1 Overall GSA Ranking	**17** Certified Estates
34 Corporate Awards for Business Excellence, Sustainability and Reporting	**199** Top Price Rankings Overall and Estate Level Colombo Tea Auctions

MANAGEMENT APPROACH

Our intellectual capital stands as our critical value drivers, enabling a unique value proposition in an intensely competitive and complex operating backdrop. We are steadfast in our efforts to nurture these assets and leverage on their strengths to support our value creation process and thereby, reinforce our positioning as a top-tier regional plantation company.

In our approach, we are focused in our strategy and action to consolidate our corporate standing and brand for premium quality teas; bolt on our market intelligence to make adept decisions in our operations; follow through with our certification programmes to ensure efficient, equitable and sustainable business practices; make necessary investments to improve on our manufacturing processes; consolidate our management systems; and drive for a performance oriented culture to boost productivity, culminating in our viability.

Intellectual Capital Risks and Opportunities

Risks

- Changing demographics, perceptions and expectations of stakeholders may change the status-quo of the organisation's brand positioning.
- Down-turn economic conditions may lead to less quality consciousness in buyers and reluctance to pay premium pricing for quality, undermining the organisation's unique selling proposition.
- Financial constraints due to plantation industry issues may slower the pace of adopting best practices and continuing with well-recognised certification programmes.
- General reluctance to accept a performance based culture where remuneration, rewards and recognition are tied to performance results and thereby, dampen productivity levels.

Opportunities

- Top management commitment to ensure long-term viability and invest and follow through with best business practices.
- Competent operational team to adopt and implement effective management systems and follow through the guidelines set by the certification bodies.
- Availability and access to market information, buyer profiles and preferences to strengthen market intelligence for strategic decision making.
- Industry-wide awareness of the necessity to move on to a performance based plantation culture for higher productivity.
- Commitment of the operational management team to closely monitor performance of the workforce.
- Due technology and data analytics team in place to implement the performance monitoring mechanism effectively.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Intellectual Capital Strategy

Sound Reputation and Brand Image for Quality Teas

- Build strong ties with buyers, brokers and customers by leveraging on the organisation's solid reputation for quality teas.
- Showcase the certifications to demonstrate the organisation's commitment to carry out operations with integrity and responsibility and thereby, differentiate the product offer.

Ethical and Sustainable Management Systems

- Reinforce our management systems, adopt best and sustainable practices in field and non-field operations to sustain the quality and standards of the teas produced.
- Strengthen the field and non-field operational processes by adopting and following through with the guidelines prescribed by recognised certification bodies.

Tea Manufacturing Know-how and Processes

- Engage in due diligences studies and invest in research and development to reinforce the Company's expertise to manufacture quality teas and uphold sustainable agricultural practices.
- Invest on latest technology, machinery and equipment to strengthen operational processes and facilitate higher productivity and yields.

Market Intelligence

- Be savvy with the current developments in the tea industry and follow changing consumer patterns and market trends and know buyer requirements to make perceptive decisions in operations, marketing and new product development.

Performance Monitoring System

- Follow through a well-structured performance monitoring mechanism at the estates, factories and the head office.
- Extend performance based increments, rewards recognition and promotions.
- Address skills gaps with strategic training opportunities.

CORPORATE REPUTE AND BRAND IMAGE

Commencing our operation in the 1980s, we have stood the test of time and remained committed and disciplined in delivering operational excellence within the plantation industry. Today, we stand poised at the helm amongst the RPCs, well-respected and trusted for our quality teas, best business practices and staying true to good governance. The strength and support of our parent, Hayleys PLC, underline our corporate standing in the industry.

We have made a distinct mark at the Colombo Tea Auctions amidst intense competition and we are able to fetch premium prices for our teas, in most instances, surpassing the elevation averages in the industry. This is the case, most often, even in a depressed market scenario. The awards and the recognition we have received from well esteemed institutions at both the governmental and non-governmental level demonstrate our good repute and standing as a top-tier RPC and as a good corporate citizen in the country.

This year under review, we continued to clinch top awards for our excellence in operations, environmental sustainability and governance from the National Chamber of Commerce at the National Business Excellence Awards 2016. Our flagship estates, Mattekelle in the high grown region and Kiruwanaganga estate in the low grown were recognised for green initiatives by the Central Environmental Authority at the National Green Awards. Our reporting initiatives were also recognised by the Institute of Chartered Accountants; Institute of Certified Management Accountants of Sri Lanka and at the international level, by the South Asian Federation of Accountants.

Intellectual Capital - Targets and Actual Performance

Key Indicators	*Unit*	*Target*	*Actuals*	
			2016/17	*2015/16*
Repeat Buyers	Number of Buyers	-	102	99
Overall Gross Sales Average Ranking	Ranking	1	1	1
Top Price Ranking	Number of Top Prices	200	199	156
Certification Coverage	Number of Estates	All Estates	15 out of 16	16 out of 17
	% of Operations	100%	RA – 87.5% ISO 22000 – 95% UTZ- 13%	RA – 87.5% ISO 22000 – 95% UTZ- 6.5%
Certification Audits	Number of Estates	All Estates	15 out of 16	16 out of 17
Internal Audits	Number of Estates	All Estates	16 out of 16	17 out of 17
Labour Productivity	Percentage Change	-	(2%)	-
Investments on Technology and Process Improvements	Rs. Mn	15.0	11.2	13.3

Our Awards - 2016/17

Awarding Area	*Award*
Operational Excellence	➲ **National Business Excellence Awards 2016,** National Chamber of Commerce ❍ Agriculture and Plantations Sector, Silver Award ➲ **Ralston Tissera Memorial Award, Excellence in Tea Manufacture, 2016,** Planters Association of Sri Lanka ❍ Highest Gross Sales Average in the Western High Grown for the 7th Consecutive Year
Reporting Excellence	➲ **CA 52nd Annual Report Awards 2016,** Institute of Chartered Accountants of Sri Lanka Plantation Sector, Gold Award ➲ **CMA Excellence at Integrated Reporting Awards 2016,** Institute of Chartered Management Accountants of Sri Lanka ❍ Certificate of Merit
Commitment to Green Initiatives	➲ **National Green Awards 2016,** Central Environmental Authority ❍ Radella Estate-Silver Award ❍ Deniyaya Estate-Merit Award

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

ETHICAL AND SUSTAINABLE MANAGEMENT SYSTEM

Upholding environmental and social stewardship, we advocate long-term value creation. Our management system looks into economic, social and environmental considerations in our business processes. The system is geared to track, monitor and measure the performance, outputs, outcomes and impacts of our core operations in line with our corporate values and our policies. The system and processes are duly certified by well-acclaimed certification bodies. Under these certification programmes, independent audits are carried out periodically and the findings of the audits are duly deliberated by the management. Necessary action is taken to comply with the recommendations and thereby, remain current, follow through and sustain best practices.

International Certifications and Accreditations

Certification and Accreditation		*Estates Certified*		*Scope of Certification*
		High Grown Estates	**Low Grown Estates**	
RAINFOREST ALLIANCE CERTIFIED	Rainforest Alliance-Sustainable Farm Certification	Mattakelle Bearwell Holyrood Great Western Wattegoda Palmerston Dessford Somerset Clarendon Calsay Logie Radella Wangioya Factory	Kiruwanaganga Deniyaya	Ecosystem conservation Wildlife protection Climate change Fair labour practices Human Rights Food and farming Communities
Ethical Tea Partnership	Ethical Tea Partnership	Calsay Clarendon Dessford Somerset Great Western Mattakelle Palmerston Radella Bearwell, Holyrood Logie Wattegodde Wangioya Factory	Kiruwanaganga Deniyaya	Raising social and environmental and standards of tea estates and processing factories Wellbeing of tea workers and communities Climate and environment Tea smallholders
UTZ CERTIFIED Good inside	UTZ Sustainable Tea Certification	Radella Wattegodde		Farm practices, farm management Social and living conditions environment.
SLSI ISO 22000 Food Safety Management System Certified RvA MGMT. SYS. RvA C 052 SLAB ACCREDITED ISO/IEC: 17021 FMS-001-01	ISO 22000 Food Safety Management Systems Certification	Somerset Wattegodde Radella Dessford Great Western Holyrood Mattakelle Bearwell Wangioya factory		Food safety
ISO 22000 REGISTERED DNV RvA MGMT. SYS. RvA C 024 DNV Certification BV			Kiruwanaganga Deniyaya Moragalla	

TEA MANUFACTURING KNOW-HOW

Refer: Human Capital, Training, Page 129 & 130

Our value proposition focuses on producing 'trusted premium quality teas'. We have the know-how along with the necessary processes in both field and factory operations, skilled workforce and focused strategy to produce black and green teas in both low grown and high grown elevations under highest quality and standards. We look to modernise our processes, innovate and add value to our products. We invest well in research and development and the Tea Research Institute supports our endeavours in this regard.

Our processes are duly certified by the ISO 22000 Food Safety Management Systems and we are in conformance to the specifications given by Ceylon Tea Traders Association. This underlines our quality and standards and the premium prices we fetch on the Colombo Tea Auction. We make necessary investments to upgrade our factories, in turn building capacity for higher volumes and higher share of main grades in the production mix. The investment with regard to factory upgrades in the last five years, 2012-2016, stands at Rs. 117 million.

RESEARCH AND DEVELOPMENT

Research and Development of TTE PLC has two segments, where it is functioning as "Estate Level" and "Head Office Level", Estate Level Please Refer page 64 . "Head Office Level" we have initiated Domestic Tea Operation.

DOMESTIC TEA OPERATIONS

As a result of Research and Development, our local sales operations made headway in the last quarter of the previous year. Our product offer includes premium 'Black Tea BOPF', 'Green Tea' and specialty tea 'Abbotsford Special'.

OUR LOCAL PRODUCTS ON OFFER

Talawakelle Tea Estates PLC
Black Tea - BOPF Pack

A unique blend of selected BOPF of our own high grown tea estates which gives you the ultimate pleasure of drinking a cup of tea brewed out of Dimbula Tea.

Packed in Alu-Foil pack to retain its freshness as its from the factory which comes in 250g & 500g.

Talawakelle Tea Estates PLC
Green Tea - Radella Estate

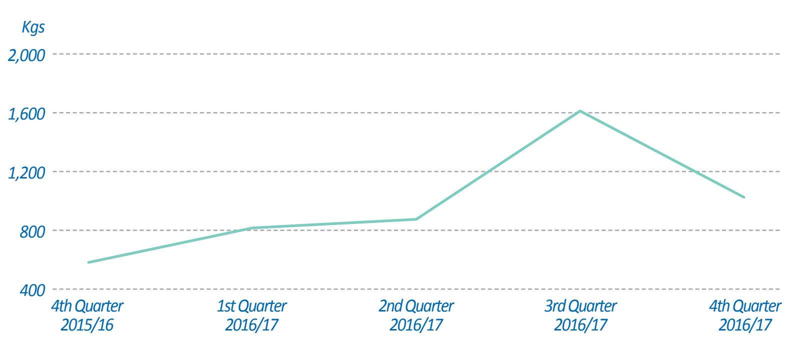
Radella produces some of the best Green Tea in Sri Lanka. Similar to the beauty and elegance of the finest diamonds, the Gun Powder range of Green Tea. Radella produces emit a truly splendid aura that makes them immediately distinguishable from the others.

Packed in Alu-Foil pack to retain its freshness as its from the factory which comes as a 100g Loose Tea Pack & a Canister.

Talawakelle Tea Estates PLC
Abbotsford Special - Dessford Estate

The Abbotsford gourmet-special is produced exclusively form the buds harvested from the tea bushes planted by British planter, M. Ferguson in 1871 on Abbotsford Estate, Ceylon. No longer as young as they once were, these ancient, sturdy plants yet produce some of the most flavoured buds, rich in oxidants and flavouring compounds. Processed in an exquisite unique manufacturing process.

Packed in Alu-Foil pack to retain its freshness as its from the factory which comes as a 50g Canister.



Local Sale - Quantities Quarterly 2015/16 & 2016/17

Local Sale Promotion

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

OUR PERFORMANCE

Building market demand and progressively expanding our customer base, we recorded sales of 4,309.6 kilograms by the end of the reporting year.

Our sales peaked in the third quarter, but witnessed a drop by the fourth quarter given the price increase we made to factor in the rising tea prices at the Colombo Tea Auctions. The total revenue earned by our local operations stood at Rs. 2.83 million where is a remarkable achievement during the inaugural year

For the new financial year with a intention of enhancing the local sales to contribute more into companies revenue, we have planed to approach supermarkets in parallel to develop new products to attract more customers with more varieties.

MARKET INTELLIGENCE

Market intelligence is key to our competitive strategy. We gather and analyse information relevant to our key markets which we rely for accurate and confident decisions-making in determining market opportunity. We rely on the information gathered from the weekly Tea Auctions. We visit and maintain a consistent dialogue with our top buyers to ascertain market conditions, demand trends and buyer purchasing patterns for our product offer. We also research online particularly in gathering information on the global economic and geopolitical developments which may impact our marketing prospects. The information thus gathered and duly analysed is used in our strategic planning process, particularly to identify our risks and opportunities for the overall business; we also forward this information to the estate management and the operational staff to support them in their day-to-day decision making.

PERFORMANCE MONITORING MECHANISM

Refer: Human Capital, Performance Management

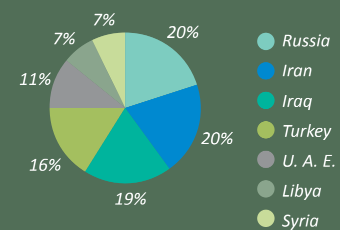
Nurturing a performance based work culture is pivotal to our labour intensive organisation. Our performance management mechanism enables us to motivate our employees to be proactive, be target oriented, give their best to the organisation, thereby, reach out for higher productivity levels and to our business goals.

We have the necessary systems and processes in place to support the performance management to work effectively, covering both the estates and the corporate office. The system enable real-time information communication which together with our dedicated and qualified team to carry out the data analytics, facilitate tracking and monitoring performance against the given targets. This process generates key-performance-indicator dash-boards along with other management information reports, supporting us in our decision making on promotions, recognition and rewards which are purely determined on performance merits.

Strategic Action and Key Targets – 2017/18

Strategic Imperatives	***Strategic Actions***	***Key Indicators***	***Unit***	***Target***
Quality Teas	Produce quality teas upholding best business practices and following our certification guidelines	Ranking in prices amongst RPCs in both elevations	Rank	Number one
Land and Labour Productivity	Improve land and labour productivity through sustainable agriculture practices and complying with certification guidelines. Closely monitor workforce performance and productivity and ensure timely actions for setbacks	High grown yields	Kilogram/hectare	1,567
		Low grown yields	Kilogram/hectare	1,246
		Tea replanting extent	Hectares	18.00
		Tea production volumes	Million kilograms	6.48
		Worker productivity	Kilogram/worker	2.75
Value Addition and New Revenue Streams	Research and market value added products and explore new revenue streams through diversification	Cinnamon planting extent	Hectares	27.64
Cost Controls and Management	Be disciplined and smart in maintaining a lean cost structure and control leakages.	Turnover	Rs. Mn	3,549
		Profit before tax growth	Percentage	5
		Capital expenditure	Rs. Mn	167
		Current ratio	Times	1.77
		Operating cash flow	Percentage of profit before tax	178
Climate Change & Environmental Management	Reduce dependency on non-renewable resources, manage greenhouse gas emissions and solid waste and engage in other environmental initiatives	Greenhouse gas intensity	tCO_2e/ton of made tea	0.70 tCO_2e
		Energy consumption	kg/kwh	1.3
		Plant native, fruits and other plants	Number of plants/ annum	10,000
		Plant fuel wood	Number of plants/ annum	150,000
		Recycle solid waste	Kilograms	10% increase over previous year
Workforce Development	Empower through focused training and drive a performance based culture	Employees trained	Number	15,000
		Training hours	Number	18,000
		Training investments	Rs. million	1.5
	Ensure clean, tidy and safe workplaces to address employee wellbeing	Training programmes on health and safety	Number	150
		Employees trained on health and safety	Number	8,000
		Training hours on health and safety	Number	10,000
Community Development	Support and develop resident communities by consolidating the 'Home for Every Plantation Worker' programme	Expenditure on 'Home for Every Plantation Worker'	Rs. million	25

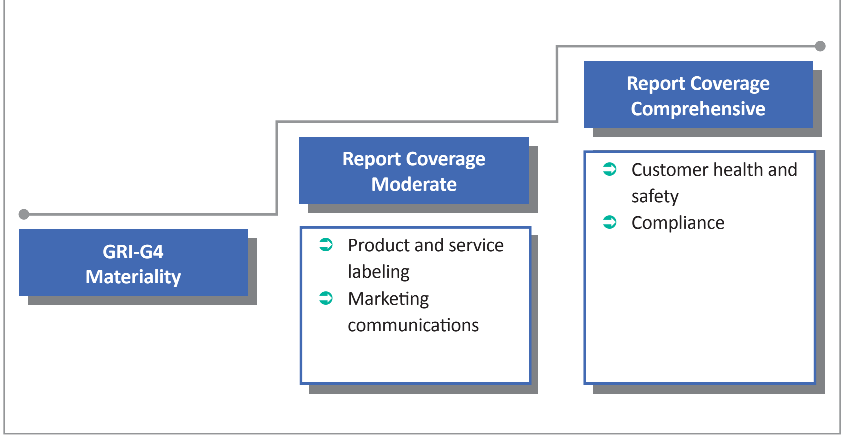
RELATIONSHIP CAPITAL - BUYERS, BROKERS AND CUSTOMERS



Tea Exports - Top Ten Countries 2016

OVERVIEW

Standing at the helm amongst the regional plantation companies, our focus is on premium product quality. Through the years, we have nurtured the art of making quality teas, upholding standards and best practices across our estates. Our teas are synonymous to the acclaimed brand 'Ceylon' and we have earned the confidence of our buyers, brokers and customers. This underlines our ability to attract some of the most remunerative prices at the Colombo Tea Auction. Our estate marks are ranked at the top in their respective elevations. In this section, we will elaborate on our engagement with our buyers, brokers and customers and how we ensure our quality and product responsibility.



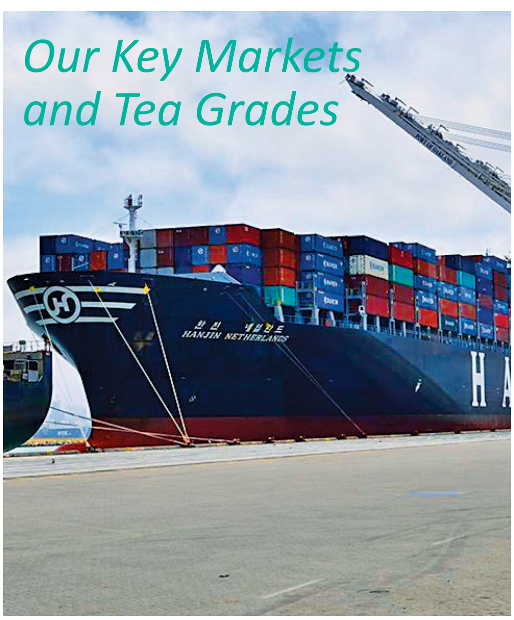
Strategic Imperatives	Strategic Goals	Salient Approach
• Buyer, broker and customer relationships • Product quality and standards • Marketing communications • Compliance with rules, regulations and voluntary codes	• Strong relationships with buyers, brokers and customers to secure market positioning at the helm • Ensure finest quality teas and uphold the brand promise and attract remunerative prices • Closely follow quality and food safety standards to ensure customer health and safety • Showcase certification programmes to influence and impress buyers, brokers and customers	• Closely engage buyers, brokers and customers • Uphold and align our business with the company's 'Quality and Food Safety Policy' • Adopt and follow best practices on product responsibility in line with certification bodies • Compliance with national food safety policies and legislature and regulations • Consistently monitor and take remedial action on quality lapses

Key Performance Indicators 2016/17

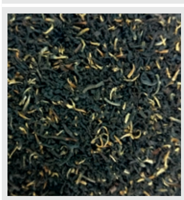
73% Customer Satisfaction Index	**07** Customer Complaints	**Number 1** Rank Amongst RPCs

MANAGEMENT APPROACH

GRI-G4-8



Russia
BOPF



Iran
Tippy Teas

Iraq
OP/OPA

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

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 endeavour 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.

Our buyers, brokers and customers mainly come from Russia, Iran, Iraq, Turkey and UAE in the Middle East. The Russian market accounting for 12 percent, predominantly buy our high grown tea. The Middle Eastern markets, on the other hand, are more interested in our low grown tea.

Our relationships with buyers, brokers and customers are built and nurtured on the principle of product responsibility. We have our systems, processes and key measures in place to ensure the highest standards of food safety and quality of our teas across our value chain. Our 'Quality and Food Safety Policy' reinforces our commitment and guides us to ensure good agricultural and manufacturing practices to be upheld across our estates. The certifications we have received from ISO 22000 Food Safety Management Systems, Rainforest Alliance Sustainable Agriculture Network Standard, Ethical Tea Partnership and UTZ Sustainable Tea stand as our testimony to our focused efforts to ensure product responsibility.

Our quality management system is well-structured and seeks to safeguard best practices in operations. The internal audit takes up a significant role in monitoring our operational processes. Independent external audits are also carried out by our certification bodies. Our quality checks enable us to identify and take necessary remedial action on operational bottlenecks and risks of malpractices that would mark our responsibility to our valued buyers, brokers and customers.

Relationship Capital - Buyer, Broker and Customer Risks and Opportunities

Risks

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

Opportunities

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



Buyer visit - Somerset Estate

Relationship Capital - Buyer, Broker & Customer - Strategy

Buyer, broker and customer Relationships

- Engage and network with buyers, brokers and customers to build strong and loyal ties.
- Reduce customer complaints and improve customer satisfaction index.

Buyer visit - Dessford Estate

Product Quality and Standards

- Sustain product quality by adhering to the 'Quality and Food Safety Policy and retain GSA number one ranking amongst all RPCs
- Consolidate and collaborate with certification bodies to strengthen harvesting and product processes to be in line with the principles stipulated on quality and standards.


Manufacturing Customized Products

Marketing Communications

- Organise site visits and familiarisation tours to educate buyers, brokers and customers on TTE operations including best practices in the field and in the factory processes.
- Promote teas through trade fairs, events and roadshows and in collaboration with Sri Lanka Tea Board.

Compliance with Rules, Regulations & Voluntary Codes

- Carry out annual and periodic audits both internal and external on field and factory operations to ensure that our estates are in compliance with relevant laws, regulations, and voluntary codes and standards.


Buyer visit - Deniyaya Estate


Buyer visit - Bearwell Estate


Buyer visit - Wattegodde Estate


Buyer visit - Bearwell Estate

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Relationship Capital - Buyer, Broker Customer
Targets and Actual Performance

Key Indicators	*Unit*	*Target*	*Actuals*	
			2016/17	*2015/16*
Buyers	Number	112	108	102
New Buyers	Number	10	6	3
Increase in Buyers	% increase	10%	6%	3%
Highest Tea Prices – High Grown	Rupees	1,300	1,650	1,150
Highest Tea Prices – Low Grown	Rupees	4,950	2,300	2,000
Customer Complaints	Number	0	07	22
Customer Satisfaction Index	Percentage	100%	73%	70%
Overall Rank Amongst RPCs	Number	1	1	1
Rank – High Grown	Number	1	1	1
Rank – Low Grown	Number	1	1	1
Certification Coverage	% of total operations	100%	RA – 87.5% ISO 22000 – 95% UTZ- 13%	RA – 87.5% ISO 22000 – 95% UTZ- 6.5%

PRODUCT QUALITY AND STANDARDS

GRI-G4-PR1 & PR2



Quality Assurance Activities - Tea tasting sessions

Quality & Standards Audits - 2016/17			
Audit	***Location of Audit***	***Areas Audited***	***Salient Findings & Recommendations***
3rd party audit by Sri Lanka standard Institution on ISO 22000:2005 Food safety management system. 3rd party audit by DNV on ISO 22000: 2005 Food Safety Management System	Dessford, Somerset, Radella Green tea Factory, Wangioya reprocessing centre, Mattakelle, Bearwell, Holyrood, wattegodde, Great western Deniyaya, Kiruwanaganga and Moragalla	Requirements specified in the ISO 22000:2005 Food Safety Management System. Do	Areas which need to be improved on monitoring activities regarding regular cleaning and evaluation on training activities. Effectiveness on record keeping. Do
Rainforest Alliance sustainable agriculture standard audit initiated by Rainforest Alliance certification body.	All upcountry estates and Deniyaya and Kiruwanaganga estates	All requirements specified in SAN standard	Mainly shortcomings on solid waste management system Gaps in training activities Short comings in record keeping
UTZ audit by Sri Lanka Standard Institution	Radella green tea factory and Wattegodde estate	As per the checklist for the factory and agricultural activities.	Record keeping on traceability to be improved. Training to be improved.
In addition to the above internal audits (1st party audits) on food safety, UTZ and Rainforest Alliance were conducted by the Manager, Sustainability and Quality Systems Development (M.M.Kapila Bandara) and records are maintained.			

Upholding our product responsibility, we are consistent in ensuring highest standards of food safety and quality across our value chain, encompassing our tea nurseries, planting and harvesting in our fields, and manufacturing made tea in our factories. We are guided and comply with the HACCP/ISO 22000 food safety criteria in harvesting and transporting of green leaf through to its manufacture, packaging and sale. All products are subject to necessary quality checks which includes testing for maximum residue levels, heavy metals, micro biological and physical parameters. The Sri Lanka Tea Board also carries out quality checks at the point of sale at the Colombo Tea Auction in conformity to ISO 3720 standard.

We also ensure that our product quality reflects best practices upheld in managing our estate workforce, suppliers, resident communities and the environment. The guiding principles of our certification programmes underline our social and environmental responsibility which ultimately culminates in our product responsibility.

This reporting year, we carried out 46 audits on our manufacturing systems, processes and practices across all 17 of our estates. This included health and safety facets of both the customer and employees. Audit findings were presented to the respective estate management for their deliberations and necessary improvement and actions.

In the reporting year, we did not report on any incident on non-compliance with our ‘Quality and Food Safety Policy’, laws, regulations, principles, standards and practices upheld by our certification bodies with regard quality and standards of our teas.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

PRODUCT AND SERVICE LABELING

GRI-G4-PR3 to PR5

Product and Service Labeling

Estate Name	Selling Mark	Grade	Manufacturers Number
Number of Packages in the Invoice	Net Weight	Gross Weight	Certifications acquired by the paper sack manufacturers

In line with the guidelines set out by the Sri Lanka Tea Board and the Ceylon Tea Traders Association, we comply with the labeling requirements. Our packaging entails the required product information to support our customers in ascertaining the quality of our teas. Incidents of non-compliance with regulations concerning product labeling have not been reported during the year under review.

CUSTOMER SATISFACTION

We have a structured process in place to deal with customer complaints and concerns, if any. We maintain a consistent dialogue with our buyers, brokers and customers and ensure our proactive support and remedial action to address all their concerns and issues. In the reporting year, we did not record any substantiated customer complaints.

Our customer satisfaction index in the year stood at 73percent, improving by 3percentage points over the preceding year index of 70 percent.

MARKETING COMMUNICATIONS

GRI-G4-PR6 & PR7

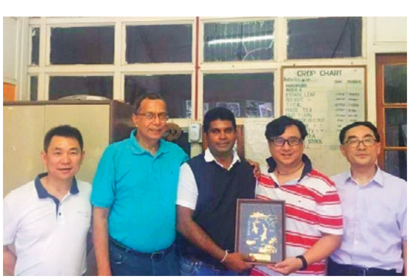
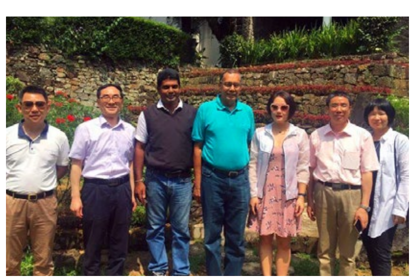
Our marketing and promotions are carried out through road shows, trade fairs and networking events. We also rely on product brochures and leaflets to support our marketing efforts. We encourage our buyers, brokers and customers to visit our tea plantations and factories to observe our tea production process and the best practices and measures in place to ensure highest standards. We organise site visits and familiarisation tours in this regard. Such visits support us to build strong relationship ties with them.

In the year under review, our organisation did not report on any incidents of non-compliance with regulations and voluntary codes with regard to marketing communication aspects. As a principled organisation, we do not engage in sale of banned, disputed or illegal products.

COMPLIANCE

GRI - G4-PR9

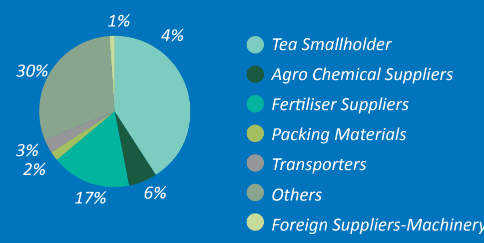
For the 12 months ended March 2017, our organisation did not record any monetary fines for non-compliance with laws and regulations concerning products and services.

Buyer visit - Deniyaya Estate

Innovative Product Brochure

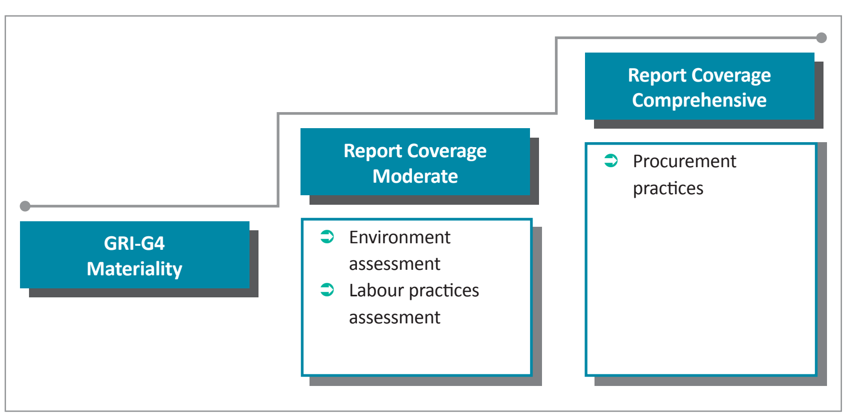
RELATIONSHIP CAPITAL - SUPPLIERS



Supplier Distribution

OVERVIEW

As a regional plantation company, we have a considerable supplier base. Over the years, we have built and nurtured long standing relationships with them and they essentially support our value creation process. This section will shed light on the procurement aspects of our operations, our relationships with suppliers and on how we support and guide them to aspire and embrace best practices in their respective businesses.



MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Strategic Imperatives

- Supplier relationships
- Local procurement
- Supplier business practices

Strategic Goals

- Closely manage and secure suppliers within the value chain to ensure streamlined procurement process
- Ensure greater trickle-down benefits to society through local procurement
- Advocate best business practices amongst suppliers to ensure sustainable value creation

Salient Approach

- Select new suppliers based on a screening process on their business practices
- Give preference to long standing and local suppliers
- Follow the guidelines given on dealing with suppliers by certification bodies
- Guide and monitor supplier business practices

Key Performance Indicators 2016/17

51.9%
Tea Smallholder Suppliers

12%
Bought Leaf as % of Total Production

99%
Local Suppliers

95%
Quality Standard

MANAGEMENT APPROACH

GRI - G4-12 & G4-13

Supplier Chain

Distribution
- Transporters

Field Operations
- Tea Smallholders
- Agro-chemicals
- Fertiliser

Processing Operations
- Factory Equipment
- Packing Material
- Fuel & Fuelwood

Our supplier network consists of tea smallholders within our bought-leaf operations in the low grown region, agro-chemical and fertiliser suppliers, packing material, firewood and fuel suppliers, transporters and other service providers.

As a principled plantation company, we give due precedence to be responsible in procurement within our value creation process. We stand committed to treat our suppliers equitably without prejudice and ensure that we are ethical and responsible in all our dealings with suppliers.

Our approach to suppliers is selective and built on-long term relationships. New suppliers are selected after a stringent screening process on their respective operations—establishing that they are not involved in unlawful activities and do not have unacceptable working conditions and practices within their operations. We give preference to suppliers who follow best practices in business operations including environmental and social considerations. Our allegiance to internationally acclaimed certification programmes clearly advocates and guides us in this regard. Accordingly, we seek to develop the supply chain through our direct interactions and structured programmes to spread best practices in agriculture and factory processes to ensure quality compliance. We have in place an effective monitoring mechanism.

Relationship Capital - Supplier Risks and Opportunities

Risks

- Tendency of suppliers to compromise on best business practices for short-term gains.
- Supply of poor quality produce
- Higher supplier prices impacting the cost of production
- Climate change impacting the quality standards and volumes of green leaf supplies.
- Macroeconomic imbalances impacting the viability of supplier businesses
- Government policies including subsidies that may impact supplier businesses and relationship with the company
- Shift in loyalty due to intense competition

Opportunities

- Strong supplier base
- Greater recognition and acceptance by buyers for advocating best business practices across the supply chain
- Willingness of suppliers to embrace best practices in their operations
- Long standing and loyal relationships with suppliers
- Acceptance of the Company's advocacy role on best practices in business
- Allegiance to certification programmes that supports and guides effective supplier screening and assessments for best practices

Relationship Capital - Supplier - Strategy

Supplier Relationships

- Give precedence to longstanding supplier relationships
- Ensure timely and due payments
- Ensure fair pricing for bought-leaf suppliers
- Support suppliers with technical know-how

Local Procurement

- Give preference to local suppliers if the procurement criteria is fulfilled.

Supplier Business Practices

- Consolidate and collaborate with certification bodies to support suppliers to embrace best practices in business
- Carry out periodic audits on supplier operations and on the validity of their certifications to ensure that they are in compliance to relevant laws, rules and regulations
- Exercise due diligence, guide, support and empower suppliers to uphold quality and standards in their operational processes

Relationship Capital – Supplier
Targets and Actual Performance

Key Indicators	*Unit*	*Target*	*Actuals*	
			2016/17	*2015/16*
Local suppliers	Percentage of total	100%	99%	99%
Tea smallholders	Number	1,500	1,365	2,184
Bought-leaf	Percentage of total production	13%	12%	14%
Tea smallholders covered under certifications	Percent covered	%	%	%
Quality standard	Percentage	100%	99%	99%

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

LOCAL PROCUREMENT

GRI - G4 - EC9

We give preference to local suppliers in procurement, wherever deemed feasible. For the year under review, 2016/17, we incurred a sum of Rs. 784 million on procurement in terms of material supplies for operations, and out of which 99 percent was paid to local suppliers.

For the Y.E	2016/17		2015/16	
	Rs. Mn	*%*	*Rs. Mn*	*%*
Local Suppliers				
Tea smallholders	314	40.2%	407	45.6%
Agro chemical suppliers	43	5.5%	33	3.7%
Fertiliser suppliers	136	17.4%	110	12.3%
Packing materials	19	2.4%	22	2.5%
Transporters	26	3.3%	32	3.5%
Other	238	30.4%	288	32.2%
Foreign Suppliers				
Machinery	5	0.6%	2	0.2%
Total	781		894	

SUPPLIER ENVIRONMENTAL ASSESSMENT

GRI - G4 - EN32 & EN33

Supplier Certification and Assessments	
Suppliers	*Environment of Assessments/Standards Achieved*
Fertiliser and Agrochemical Hayleys Agro-fertilizer (Pvt) Ltd	ISO 14001:2004 EMS ISO 9001:2008 QMS
Packing Material Uni-Dil Packaging Ltd Uni-Dil Papersacks (Pvt) Ltd	ISO 14001:2004 – EMS ISO 22000:2005 – FSMS ISO 9001:2008 - QMS HACCP Codex Alimentarius SLS 1474 : 2013
Fuelwood	Periodic evaluations by TTE's staff on their legality and environmental practices

All our supplies are met by our traditional suppliers, whom we have carefully selected and retained following continuous and consistent evaluations on their business credentials as well as on their practices and values in terms of social and environmental facets.

The operational activities of tea smallholders are monitored by the Tea Smallholders Authority and Tea Inspectors engaged by them. On our part, we conduct awareness and educational programmes on the required environmental practices through the Rainforest Alliance Sustainable Agriculture certification programme. We intend to extend this cover to all leaf suppliers within the next two years.

We continue to source fertiliser and agrochemicals from two renowned suppliers. These two suppliers are certified under ISO 14001:2004 Environmental Management Systems and ISO 9001:2008 QMS certification. We also have two packing material suppliers and both have obtained ISO certifications. These certifications taken by our suppliers confirm that they comply with relevant environmental aspects as required, including environmental impact assessments. Due measures are in place at the purchasing division to carry out periodic audits on the validity of their certification and requirements. All firewood suppliers are evaluated through a structured questionnaire to ensure that they do not violate any environmental laws and requirements and are legally authorised to supply firewood to our factories.

In the reporting year, we have not identified any supplier as having significant actual or potential negative environmental impacts.

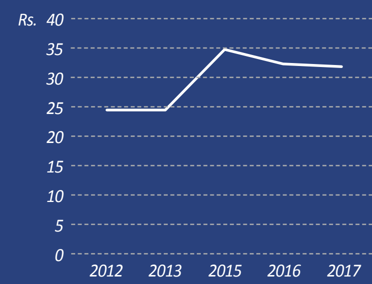
ASSESSMENT FOR LABOUR PRACTICES

GRI - G4 - LA14, LA15 & HR-4

We take due care to ensure that our procurement is responsible. We ensure that our suppliers follow best and ethical practices in labour management within their business processes. However, we do not have a routine screening process for suppliers to assess their labour and human rights practices; but, we rely on our longstanding relationships which we have built and nurtured through the years to assess their credibility in this regard. As mentioned above, most of our key suppliers are certified by the acclaimed ISO certification programme and other standards which support and advocate best practices in business including social considerations.

In the year under review, there were no violations of labour practices reported along the supply chain. We have not identified any supplier with incidents of child and forced labour and violations of the rights to exercise freedom of association and collective bargaining. We did not engage new suppliers in the reporting year.

RELATIONSHIP CAPITAL - INVESTOR



Market Price Movement

OVERVIEW

As a well-established public quoted company on the Colombo Stock Exchange for over two decades, we have a deep sense of responsibility towards our investors. We stand committed to be an exemplary regional plantation company—financially astute and sustainable in our business practices.
The section herein will highlight on how we strive to strategically steer our organisation to reap optimum returns for our investors; our efforts to be transparent and accountable in our transactions; and conscientious and fair in our communications and disclosures.

Strategic Imperatives

- Investor communications
- Financial viability and returns
- Mandatory and voluntary disclosures

Strategic Goals

- Facilitate informed decision making
- Boost corporate credibility and attract and retain long-term investors
- Ensure highest returns on shareholder investment
- Be in line with relevant regulations and directives
- Sustain investor goodwill by addressing their needs and grievances

Salient Approach

- A dedicated investor relations team to engage and support investor needs
- Effectively communicate at general meetings and adopt best practices in reporting
- Follow best business practices in value creation and ensure profitability, healthy financial position and positive cash flows.
- Be timely and efficient in filing due disclosures on material affairs of the company
- Top level commitment and key measures in place to uphold good governance and corporate code of ethics

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Key Performance Indicators 2016/17

-62.4%
Growth Shares Traded

Rs. 410 Mn
Market value Added

Rs. 760 Mn
Market Capitalisation

Rs. 10.75%
Return on Equity

Rs. 9.84
Earnings per Share

Rs. 1.00
Dividend Per share

3.25 times
Price Earnings Ratio

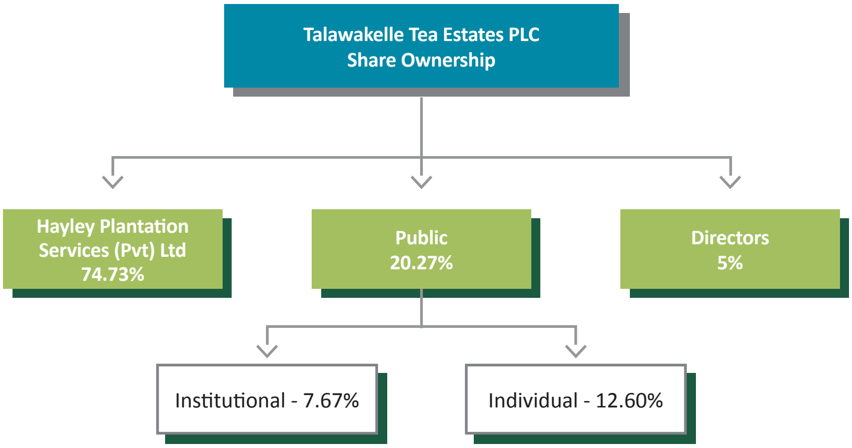
At TTE, we give top priority to build, nurture and sustain strong and long-standing relationships with our shareholders and potential investors. It is our principle responsibility to ensure that we take every effort to manage the myriad of challenges prevalent within our industry, build on our brand and deliver on our business plans; thereby, ensuring optimum returns for our shareholder investments.

Closely engaging, we strive to be open, transparent and accountable in all our dealings with our investors. We maintain a regular dialogue and provide key, accurate and relevant information on the company through general meetings, quarterly and annual reporting. Our financial statements are externally assured by independent auditors. Our aim is to build trust and support investors to be well informed on our goals, strategy, performance and our future plans and prospects; thus, enabling them to make smart choices and make key decisions on their investment.

Hayleys Group Services (Pvt) Ltd (Company Secretaries) is dedicated to plan and run our investor relations programme—looking into investor information requirements, responding to their queries and seeking to resolve any issues or grievances in a timely manner.

MANAGEMENT APPROACH

Refer: Corporate Governance & Risk Management



We comply with our disclosure obligations and file material information on the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka. We adhere to ‘Continuous Listing Requirements’ under the capital market regulatory framework whilst being conscientious and careful in dealing with sensitive information to prevent insider trading. We take due precautions to avoid conflict of interest through related party transactions in our operational activities and if there are any material conflicts, we ensure that necessary mitigatory action is taken and duly reported as per the regulatory requisites. The Code of Good Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and our corporate Code of Ethics clearly guide our organisation to uphold the highest ideals in governance and business ethics. Our risk management and internal controls are well in place, underlining the sustainability of our operations from a long-term perspective. The Board with the support of the sub committees ensure that we follow best practices and comply with regulatory requirements.

Relationship Capital - Supplier Risks and Opportunities

Risks

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

Opportunities

- Sound corporate standing and reputation and the strength and backing of the parent, Hayley PLC
- Long-standing and well established presence on the Colombo Stock Exchange
- Company secretariat division handles investor needs and address their issues
- Top level commitment and focused efforts to adopt best and ethical business practices in operations and uphold good governance
- Strong commitment from top-down to adhere and comply to legislature, regulations and directives

Relationship Capital - Investors - Strategy

Investor Communications

- Be timely in publishing relevant quarterly reports and issue press statements on key achievements and milestones
- Adhere to best practices in convening annual general meetings and extraordinary general meetings, if and when necessary
- Adopt best and current practices in annual reporting to ensure that investors are fully aware and well informed of the material affairs of the company and future strategic direction and plans
- Empower and support investor relations team to disseminate information to investors, file disclosures and resolve investor grievances

Financial Viability and Returns

- Be focused to improve on land and labour productivity to boost tea production
- Ensure quality and standards to differentiate the product and obtain remunerative prices
- Control cost of production and keep a lean overhead cost structure
- Be disciplined in managing cash flows and maintain a sound asset base to adequately cover liabilities
- Ensure fair dividends to shareholders and strive to boost share market performance to pave way for capital gains

Mandatory and Voluntary Disclosures

- Be timely and transparent in filing necessary disclosures of material affairs of the company on the Colombo Stock Exchange
- Follow and comply to the 'Continuous Listing Requirements'
- Closely monitor compliance with relevant laws, regulations, directives and codes.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Relationship Capital - Investors
Targets and Actual Performance

Key Indicators	*Unit*	*Target*	*Actuals*	
			2016/17	*2015/16*
Growth - net profit/(loss) after tax	Percent	50%	67.9	(46.3)
Dividend payout ratio	Percent	20%	10%	-
Dividend per share	Rupees	2.00	1.00	-
Dividend yield	Percent	3.10	3.13	-
Dividend cover	Times	5.1	10.17	-
Return on equity	Percent	10.5%	10.75	7.88
Net asset value per share	Rupees	85.00	87.32	70.75
Earnings per share	Rupees	9.5	9.84	4.87
Price earnings ratio	Times	3.00	3.25	6.67
Shareholders	Number	13500	13,529	13,607
Share of local shareholders	Percent	99.5	99.73	99.65
Public shareholding	Percent	20	20.27	20.27
Total shares traded	Number	500,000	363,435	1,416,648
Company share turnover	Rupees	13,500,000	13,011,950	34,557,181
Market value	Rupees	32.50	32.00	32.50

INVESTOR COMMUNICATIONS

With the plantation industry grappling with difficult market conditions and issues, it is crucial that we keep our shareholders and potential investors closely engaged and well-informed on how we navigate through the challenges and strive to be viable and sustainable in the long-term. In the year under review, we continued to reach out to our investors through periodic financial and other disclosure filings, our annual report, press releases, general meetings and networking events. We duly held our Annual General Meeting with the participation of our Chairman, the Board of Directors and the senior management. Considerable number of shareholders attended the meeting and we encouraged their active participation in adopting key resolutions.

We also continued in the year to further our reporting initiatives, seeking to be more interactive and relevant in content development and design. We strived to enhance the integrated reporting approach, reflecting the balance we strike between economic, environmental and social facets of our operations. We kept our report in line with the GRI – G4 reporting standard—'in accordance' – comprehensive. Our Annual Report 2015/16 themed 'Stronger' was well-acclaimed in the industry and in the business arena for reporting excellence. We clinched several awards and certificates for our initiatives, including the Gold under the plantation sector category at the 52nd Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka. We also duly filed our quarterly financial statements along with shareholder information on the Colombo Stock Exchange and published press releases on the mainstream newspapers to keep our investors abreast of the latest developments in the industry and keep them informed on our accomplishments and milestones reached in the year.

FINANCIAL VIABILITY AND RETURNS

Refer: Financial Capital

Amidst a challenging business backdrop, we continued to be steadfast in following through with our strategy and ensured that we remained financially viable. We recorded a sound top-line result in the year under review and our net profits after tax reached Rs. 241.5 million. This year, we expect our dividends to total up to Rs. 23.75 million. Our dividend payout ratio is 10 percent, corresponding to an improvement of 100 percent over the ratio recorded in the preceding year. Return on equity stood at 10.75 percent, whilst our earnings per share touched Rs. 9.84, up by 102 percent over the previous year.

COMPANY SHARE PERFORMANCE

With bearish trends in the year under review, the Colombo Stock Exchange continued to perform below potential. Both price indices—ASPI and S&P SL20—saw greater volatility at modest levels whilst the market capitalization and turnover recorded a sluggish performance. The Plantation Sector Index also remained mediocre.

In this lackadaisical capital market backdrop, we managed to keep our share market performance buoyant. For the year ended 31st March 2017, 363,435 TTE PLC shares were traded. Our share turnover touched Rs. 13 million whilst our market capitalistion stood at Rs. 760 million.

Reflecting the market trends, our share price performance was steady, but remained modest. Our share price closed at Rs32 as at 31st March 2017, compared to the closing price of Rs. 32.50 in the previous year. The highest price in the year touched Rs.39.30 whilst the lowest touched Rs. 29.50.

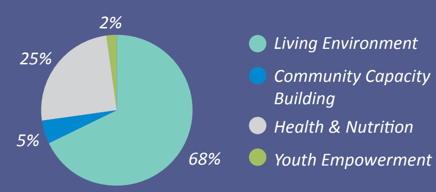
MANDATORY AND VOLUNTARY DISCLOSURES

Upholding our regulatory obligations, we continued to be prompt and accurate in filing the mandatory disclosures as per the Continuous Listing Requirements stipulated by the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka.

FOR INVESTOR INQUIRIES:

Contact	Hayleys Group Services (Private) Limited
Address	No 400, Deans Road, Colombo 10, Sri Lanka
Telephone	(94-11)2627650
Fax	(94-11)2627655
Email	Info.sec@hayleys.com

SOCIAL CAPITAL



Social Investments

OVERVIEW

As a plantation sector organisation, our business is inter-twined with vibrant and dynamic communities. They are our source of human capital and we stand committed to ensure their wellbeing. We are proactive and supportive in our efforts to nurture and develop their lives, with trickle-down benefits to the entire society. Our dedicated community programme underscores the way we build sound relationships with our resident communities across our estates. This section of the report sheds light on our efforts to engage our communities, support their basic needs, better their living standards and address their grievances. The report also focus on our social responsibility from a broader perspective.

GRI-G4 Materiality Aspects

Report Coverage Moderate
- Public policy
- Compliance

Report Coverage Comprehensive
- Local Communities- engagement, impact assessments and development programmes

'Shramadana'- Palmerston Estate

Activities for Children- Clarendon Estate

Sports Meet- Somerset Estate

Strategic Imperatives	Strategic Goals	Salient Approach
A Home for Every Plantation Worker • Improving the living environment • Health and nutrition • Community capacity building • Empowerment of youth • Public policy • Social impacts	• Develop good-will and strong bonds with communities for good industrial relations and sustainability in operations • Improve community living standards to ensure healthy and balanced workforce for higher productivity	• Uphold and align our business with the Company's 'Social Policy' • Closely engage communities with consistent dialogue and key initiatives under our dedicated community development project • Align our operations in line with certification guidelines • Take up policy advocacy role as a leading plantation company • Compliance with legislature and regulations

Key Performance Indicators 2016/17

Rs. 26.3 Mn
Investment Community Infrastructure Development

12,476
Beneficiaries Community Capacity Development

Rs. 2.1 Mn
Investment Community Capacity Development

17,718
Beneficiaries
Youth Empowerment Programmes

Rs. 0.66 Mn
Vocational Training Youth Empowerment

Rs. 9.7 Mn
Investment
Health and Nutrition

293,159
Beneficiaries
Health and Nutrition


Educating Youth on Home Gardening-Kiruwanaganga Estate


Children Education- Clarendon Estate


HB Testing- Bearwell Estate

MANAGEMENT APPROACH

SOCIAL CAPITAL POLICY

- 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.

Underlining our long-term sustainability, we recognise the necessity and the significance of maintaining sound relations and goodwill with the communities of over 41,000 resident within our estates and living in neighbouring villages in both high and low grown elevations. Close engagement is central to our management approach. We are pragmatic, structured and responsible in the way we engage our communities. Our business strategy and action plans are well integrated with our commitment to social responsibility. Our certifications which we have pledged our allegiance give us clear guidelines on upholding best practices in managing community relations.

Our community engagement comes under the 'Estate Worker Housing Corporative Societies' (EWHCS) and we have in place a dedicated 'A Home for Every Plantation Worker' to carry out focused community based projects and initiatives. The dedicated programme is structured to support and uplift the communities resident within our estates on a four-pronged basis-to support the communities by improving their living environment through infrastructure development of basic amenities; capacity development; health and nutrition; and youth empowerment. We have access to funding support for estate housing and other infrastructural development through a national programme led by the Ministry of Hill Country New Villages, Infrastructure and Community Development through Plantation Human Development Trust.

Besides our dedicated programme for the resident communities, we also support neighbouring communities to organise religious ceremonies and festivals, sports activities, medical camps, recreational trips and also 'shramadana' to keep the environs clean and beautiful.

Apart from community engagement, we also take up our public role in terms policy making for the industry. We engage the government and relevant institutions to lobby and advocate positive solutions to industry issues and thereby, uplift the plantations for all stakeholders concerned.

Social Capital Risks and Opportunities

Risks

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

Opportunities

- Positive corporate recognition and brand enhancement for being socially conscious and for social responsibility initiatives
- Establishment of EWHCS to improve living conditions and quality of life
- Collaborative support from the Plantation Human Development Trust, local and non- government organisations and professional bodies for social development programmes

Field Restroom- Great Western Estate

New Housing Project- Mattakelle Estate

Road Concreting- Bearwell Estates

Social Capital - Strategy

'A Home for Every Plantation Worker'

Improving the Living Environment

- Develop community infrastructure including housing, water, sanitation, recreation and learning facilities in collaboration with relevant government and non-government organisations

Health & Nutrition

- Create awareness on preventive healthcare and on communicable and non-communicable diseases
- Carryout a comprehensive immunisation programme
- Create awareness and carry out programmes to promote nutrition
- Carry out programmes on antenatal and postnatal wellbeing for female residents
- Support children through child development programmes
- Carry out auxiliary medical services including medical camps and eye clinics

Community Capacity Building

- Collaborate with EWHCS on their capacity building activities
- Extend training opportunities and create awareness on livelihood options, saving habits, loan schemes and financial management etc

Empowerment of youth

- Create awareness and extend vocational training and employment opportunities to the estate youth

Public Policy

- Take a proactive role in addressing and lobbying for industry issues with relevant government and non-government agencies

Social Impacts

- Consolidate the certification programmes to further enhance and internalise social responsibility values within the business
- Ensure an effective grievance mechanism to address and rectify community issues including human rights issues and concerns
- Compliance with relevant laws and regulations

Elderly Clinics - Somerset Estate

Awareness on Agriculture for Youth - Kiruwanaganga Estate

Awareness on Health & Safety- Kiruwanaganga Estate

Introducing the Importance of Nutrition- Kiruwanaganga Estate

Social Capital Targets and Actual Performance				
Key Indicators	*Unit*	*Target*	*Actuals*	
			2016/17	*2015/16*
Investment in community infrastructure development	Rs Million	25	26.3	54.8
Beneficiaries community capacity development	Number	12,000	12,476	15,387
Investment in community capacity development	Rs Million	5	2.1	7.06
Youth on vocational training	Number	5,000	3,557	12,688
Investment on youth empowerment	Rs Million	1.0	0.68	1.02
Beneficiaries on health and nutrition programmes	Number	250,000	293,159	211,285
Investment on health and nutrition programmes	Rs Million	9.5	9.7	9.22

A HOME FOR EVERY PLANTATION WORKER

GRI - G4 SO 1

Our dedicated social responsibility project, 'A Home for Every Plantation Worker' supports the estate community and provides them their basic needs. The project which is structured on a five-pronged basis as mentioned under the management approach is implemented across all sixteen of our estates. The project focuses on improving the living environment of the estate communities; promoting healthy living and ensuring their physical and mental wellbeing; building capacity; and educating the youth and giving them vocational training and employment opportunities. We collaborate with the EWHCS in taking forward this project along with relevant government and non-government bodies.

LIVING ENVIRONMENT

Identified as a strategic priority under our dedicated social responsibility programme, we give due precedence to develop and improve infrastructure facilities across our estates. The scope entails housing and providing water, sanitation, recreation and learning facilities and road development. We collaborate with the following governmental and non-governmental agencies for funding and implementation of these projects:

- Plantation Development Project
- Plantation Human Development Trust
- National Housing Development Authority
- Ministry of Livestock and Rural Community Development
- International Institute of Development Training (IIDT)
- T- Field Child Development Foundation
- Berendina
- Save the Children International
- Estate Worker Housing Co-operative Societies

During the reporting period, we invested a sum of Rs. 26.3 million on infrastructure development.

Investment - Infrastructure Development	
	1992-2016
	(Units)
Water schemes	145
Re-roofing houses	4311
Ramps and drains	1635
Sanitation	4873
Field rest rooms	89
Factory rest rooms	18
Child development centres (new/upgrading)	67
New houses built	1175
Play grounds	30
Electrification (housing units)	95
Community centres	19
Road rehabilitation	50
Roads (concerted)	59
Upgraded staff quarters	219
Upgraded houses	174

COMMUNITY CAPACITY BUILDING

Under community capacity building, we extend training opportunities to resident communities, encouraging and supporting them to build suitable livelihoods and improve their living standards and quality of life. Under this, we support capacity building activities carried out by the EWHCS. This reporting year, we trained 12,476 estate members under this programme whilst the EWHCS supported with a total capital investment of Rs. 2.1 million. Saving Schemes through EWHCS were supported for 6,118 with a total capital base of Rs. 5.3 million whilst Housing loans were granted for 1,269 estate members totaling to Rs. 9.3 million.

Community Capacity Building in Collaboration with EWHCS - 2016/17

	Key Initiatives	***Output***	
		Beneficiaries (Number)	***Investment (Rs. Mn)***
EWHCS Activities	Introducing Savings Schemes	1,742	2.07
	Introducing Housing Loans		
	Providing Roofing Sheets		
	Providing Gas Cookers & Cylinders		
	Donations for Spectacles/Surgeries		
	Donation of "School Bags/Accessories"		
	Donations for Religious Festivals		
Awareness Building	Happy Family Concept	10,734	0.04
	Household Cash Management		
	Introducing the Importance of Micro Financing		
	Safe Working Methods		
	Vegetable Cultivation Programme		
	Training on Making Compost		
	Awareness Programmes on Dengu & Health & Safety		
Total		12,476	2.11

HEALTH & NUTRITION

Our initiatives under health and nutrition focus on improving the overall physical and mental wellbeing of the resident communities. This programme is structured on seven key aspects, encompassing immunisation, preventive health, nutrition, early childhood development, auxiliary medical services, antenatal and postnatal care. During the reporting year, we reached out to 293,159 residents with these structured programmes at a total cost of Rs. 9.7 M, up by 0.52% over the previous year.

'Sahana Badu Malla'- Indola Estate

Immunisation - Kiruwanganga Estate

EWHCS- Palmerston Estate

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Health and Nutrition Programmes- 2016/17			
	Key Initiatives	*Output*	
		Beneficiaries (Number)	*Cost (Rs. Mn)*
Preventive Healthcare (Immunisation)	BCG vaccine for Tuberculosis Oral Polio vaccine Penta vaccine for Diphtheria, Tetanus, Pertussis, Hepatitis B and Influenza Type B DPT/DT/TT vaccines for Tetanus, Diphtheria and Pertussis MMR/MR/MV for Measles, Mumps and Rubella	7,726	-
Preventive Healthcare (Awareness)	Awareness on HIV/AIDS Awareness on "Chlorine" Awareness on Personal Hygiene Importance of Drinking Boiled Water Demonstrating Nutritious Food Awareness of Underweight Children	34,868	0.01
Nutrition (Feeding)	Distribution of Milk Powder/Milk Distribution of Flour Distribution of "Thriposha" Distribution of Nutrients Distribution of Vitamins Kolakanda Programme	153,057	5.23
Nutrition (Awareness)	Awareness of Prevention of Anemia Awareness on Home Garden Awareness on "Balance Diet" How to Prepare a Nutrition Meal Awareness on Underweight Children Awareness on "Save your Life from Drugs"	20,137	0.05
Antenatal Care	Antenatal Clinics Issue of Vitamins Free Transport for Clinics/Screening Free Transport for Hospitalisation Health & Nutrient Awareness Awareness of Hygiene	11,524	0.58
Post Natal Care	Awareness of Prevention of Anemia Awareness on Home Garden Awareness on "Balance Diet" How to Prepare a Nutrition Meal Awareness on Underweight Children Save your Life from Drugs	15,092	0.08
Early Childhood Development	Daycare Extended to Children Free Mid-Day Meal Dental Clinics Eye Care Programmes Sports Activities Distribution of Milk/Thriposha CDC Activities - Special	38,033	0.88
Auxiliary Medical Service	Medical Camps/Screening - Workers Cataract Detection Programmes Providing First Aid Boxes Dog Vaccination Programmes Introducing Personal Protective Equipment Eye Clinics Distribution of Iron Tablets	12,722	2.87
Total		293,159	9.70

EMPOWERMENT OF YOUTH

Recognising the significant role of youth in the nation's development trajectory and within the plantation sector, we are committed to take forward our youth development programmes. We believe that the youth within the estates have immense potential and empowering them would pave the way to uplift their lives and improve their quality of life. On the other hand, having skilled and empowered youth will boost our human capital-particularly addressing the issue of the aging workforce and will bring in higher level of productivity to our estate operations.

Our youth development programmes cover vocational training and seek to build awareness on significant and current socio-economic issues. Our programmes this reporting year entailed vocational training for 3,557 young people within our communities. We also gave them 39 scholarships for tertiary education which were determined purely on merit. Our awareness training programmes on social issues reached out to 14,161 youth.

Empowerment of Youth – 2016/17

	Key Initiatives	*Output*	
		Beneficiaries	*Cost (Rs. Mn)*
Vocational Training	English/Sinhala/Tamil Classes Computer Awareness Classes Sewing/Dressmaking/Beauty Culture Classes Scholarships for Estate Children Quiz/Art/Drama Competition Educating Slow learners Re-schooling Programmes	3,557	0.66
Awareness Building	Awareness on Health & Safety Teenage Programmes HIV/AIDs Programmes Dengue Awareness Programmes Awareness on Personal Hygiene & First Aid Improving Communication & Leadership Skills Awareness on Nutrition	14,161	0.02
Total		17,718	0.68

Training for Youth at Labuduwa Farm- Kiruwanaganga Estate

Quiz Program- High Grown Estates

'Kolakanda' Program- Palmerston Estate

Dental Clinic- Somerset Estate

Awareness on hygiene for Youth- Palmerston Estate

Distribution of 'Thriposha'- Kiruwanaganga Estate

PUBLIC POLICY

GRI-G4-SO6

As a leading player in the tea plantation sector, we take our role on policy advocacy with responsibility. We maintain active memberships and even hold office in relevant associations and policy making committees, both at the governmental and non-governmental level. We use our memberships and our official positions as a platform to support industry issues and guide the present and future course of the industry for the betterment of all stakeholders.

Apart from the broad policy-level standpoint, we do not extended support for political causes. This reporting year, we did not record any monetary or non-monetary political contributions.

Designation in the Company	Policy Making Institutions	Status
Managing Director	The Planters' Association of Ceylon	Ex-Chairman
	Tea Small Holdings Development Authority	Member
	Tea Research Institute Board	Member
	Chamber of Commerce (Arbitration & Mediation Steering Committee)	Member
	Tea Council of Sri Lanka	Member
Director/CEO	Plantation Housing Development Trust (PHDT)	Board Member
Senior Managers	National Institute of Plantation Industries (NIPM)	Member
	Tea Research Institute	Member
	Employers' Federation of Ceylon	Member

SOCIAL IMPACTS

GRI-G4-SO2, SO8 & SO11

Key Measures to Mitigate Negative or Potential Social Impacts

- Follow the country's labour legislation, rules and regulations
- Estate level workers have the right to access trade unions and collective bargaining
- All statutory payments are met on time and as per the relevant legislation
- Adoption of internationally accepted certification programmes to ensure best practices in labour and community management
- Well internalised code of conduct in place for estate-level teams including supervisors and managers
- Zero tolerance and structured mechanism to take disciplinary action against any violations on the code of conduct
- Grievance mechanism in place to redress worker issues at the estate level including trade unions

It is of strategic importance to be conscientious in addressing community grievances and negative or potential social impacts from our operations. Our community based initiatives carried out in our estates under our social responsibility project as elaborated in this section, are well structured and implemented effectively to ensure the wellbeing of our communities and support to lessen or mitigate the negative impacts from our operations, if any. The certification programmes we have pledged our support enable a fine platform for us to maintain sound relations with the communities resident in our estates. We also have in place code of business ethics and conduct which act as our guide to be fair and responsible in the way we operate across all our estates.

We have a formal mechanism in place where our communities could approach to redress their grievances or resolve significant issues. The respective estate managers are responsible to handle all social grievances at the estate-level. If resolutions are not made at this stage, grievances are directed to Corporate Management. The trade unions also have a role to play in this regard. Estate community could have formally redress their grievances with the management through the trade unions.

In the reporting year, we did not record formal grievances through this mechanism. We were also not subject to monetary fines or any other non-monetary sanctions for non-compliance with laws and regulations.

HUMAN CAPITAL

OVERVIEW

As a plantation based organisation, we rely on our people-their hard-work and commitment essentially defines our business. Engaging our workforce, boosting their work morale and productivity stand crucial to drive growth and ensure our long-term viability. Hence, we are focused in our human resources (HR) strategy to create a progressive work environment and build an empowered workforce where all employees are well-respected, have equal opportunity, fair compensation and welfare, training and development and wellbeing. In this review, we outline our management approach, our strategic imperatives and actions along with key performance indicators.

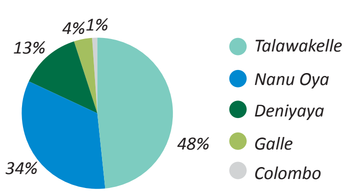
GRI-G4 Materiality Aspects

Report Coverage Moderate

- Labour management/ relations
- Freedom of association and collective bargaining
- Non-discrimination, diversity and equal opportunity
- Labour practices grievance mechanism
- Child labour
- Forced or compulsory labour
- Investment on human rights training

Report coverage Comprehensive

- Employment - recruitment, retention and remuneration
- Occupational health and safety
- Training and education
- Performance evaluation



Workforce Analysis

Strategic Imperatives	Strategic Goals	Salient Approach
• Labour Practices • Occupational Health and Safety • Training and Development • Productivity and Performance Management • Labour Relations	• Enhance productivity for higher production volumes and returns • Manage cost of production and boost the level of competitiveness and viability • Ensure the availability and retention of manpower to carryout smooth and sustainable operations	• Uphold and align our business with the company's 'Human Resource and Social Policy' • Adopt and follow best practices on labour management in line with certification bodies • Compliance with Sri Lanka Labour Laws and industry regulation, standards and consensual decisions • Closely engage and build the workforce on the lines of five selected key value drivers • Consistently monitor, motivate and incentivise employees on performance

Key Performance Indicators 2016/17

7,469 Total Workforce	**448** New Recruitments	**90%** Retention Rate
9% Average Turnover Rate	**100%** Executives and Staff Performance Evaluated	**19,984** Total Training Hours
192 Health and Safety Programmes	**9,580** Employees Trained on Health and Safety	**16,520** Employees Trained
Rs. 2.2 Mn Training Investment	**39.4%** Manual and Staff Representatives in Health and Safety Committees	

IN RECOGNITION OF BEST HR PRACTICES

Talawakellle Tea Estates - Hayleys Plantation

"Innovation and excellence are the driving force behind the continued success of the Hayleys Plantations. In that regard, the unprecedented achievements of our team at the Global HRM Excellence Awards is emblematic of the Hayleys Plantations' holistic commitment to nurturing a dynamic, yet sustainable performance driven culture."

Roshan Rajadurai,
Managing Director
Hayleys Plantations

Gold Award, National HR Excellence Awards 2016, Institute of Personnel Management of Sri Lanka, in recognition of driving organisational performances through sound HR management practices.

Asia Pacific HRM Congress Awards, 2016, Bangalore, India, in recognition of 'Leading HR Practices In Quality Work-life'

Global HR Excellence Awards, 2016, World HRD Congress, Mumbai, India, in recognition of 'Leading HR Practices In Quality Work-life.

MANAGEMENT APPROACH

Corporate HR team sets policies, strategies and plans and manages recruitment, retention, employee development and performance.

Regional clusters overlook and coordinate HR functions across estates in line with corporate policies

Six HR development officers elected by their peers are responsible to lead and implement the HR strategy and action plans within estates.

HR Corporate Office

Regional HR Cluster Talawakelle	Regional HR Cluster Nanu Oya	Regional HR Cluster Deniyaya
Seven Estate Level HR Development Teams	Five Estate Level HR Development Teams	Four Estate Level HR Development Teams

HUMAN RESOURCE AND SOCIAL POLICY

- People will continue to be our most valued resource and we are committed **to nurture and develop** them 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 talent 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 children 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 decision making process.
- We shall give priority to **local workers** for training and employment on estates

"Reshaping plantation sector HR for positive workforce engagement to develop core competencies and achieve competitive advantage through enhanced performance leading to higher quality of work-life."

Our management approach advocates proactive and consistent engagement with our workforce both at the corporate office in Colombo and at the estate level. Aligned to our HR policy and complying with the country's labour legislation and in keeping with the principles and standards prescribed by our certification programmes-ISO 22000, Rainforest Alliance and Sustainable Farm and Ethical Tea Partnership, we uphold the highest ideals of work ethics and follow current best practices in labour management. We are fair in our labour relations and treat our people with impartiality and respect, and thereby, nurture their self-respect and morale. This underlines our empowered and inclusive workplace culture that we have built over the years.

Our labour management is 'top-down' and 'hands-on' with a close monitoring mechanism to support our employees to achieve their targets, both individually and collectively. We invest well in employee development and ensure that our executives, including managers and supervisors, are provided with due training opportunities to enhance their technical and soft skills including supervisory, management and leadership skills. We recognise and reward our people purely on performance. At the estate level, our field and factory supervisors and managers closely interact with the estate workforce. Our focus is on the worker wellbeing and their quality of life-underlined by five value drivers covering attendance, nutrition and health, hygiene and their families. This essentially support us to nurture sound labour relations, leading to worker morale and higher productivity.

Human Capital
Risks & Opportunities

Risks

- Intensive and irrational trading union activity will mar labour productivity, lead to higher cost of production and impact viability.
- Absenteeism will lead to lower productivity and compromise the organisation's competitive edge.
- Urbanisation and changing socio-economic aspirations, particularly, amongst the younger workforce, will lead to greater out-migration of workers from the plantation sector to take up alternative employment and lifestyles, in turn, creating a labour shortage, gap in the age structure and thus, impacting the future viability of operations.
- Aging workforce will impede on labour productivity and operational viability.
- Influencing power of latest technology trends will change worker attitude and expectations, impacting productivity levels, causing labour unrest and out-migration.

Opportunities

- Availability of a large human resource base amongst the resident communities will enable smooth field and factory level operations.
- The trainability qualities of the workforce will support progressive changes and adopt key measures needed to modernise operations.
- Top-down commitment to inclusivity and diversity will support to nurture an enabling work environment and pave way for greater loyalty, motivation and higher productivity.
- Management commitment to build the workforce through focused and structured skill development programmes will empower the workers, enhance their performance and bolster the business viability.
- Commitment to nurture a performance oriented work environment will support to closely monitor productivity, rectify any gaps and build an engaged workforce.

New Housing Facility- Mattakelle Estate

Resting Facility for Field Employees-Mattakelle Estate

Human Capital - Strategy

Labour Practices

- Ensure all employees are treated with respect and equality as per the Company's HR Policy.
- Be an equal opportunity employer and extend due remuneration and benefits.
- Recognise and reward employees purely on performance merits.
- Map career paths for talented and outstanding employees.

Occupational Health and Safety

- Work towards creating a safe work environment for workers handling hazardous agro chemicals and substances.
- Create awareness through training programmes on anemia, nutrition, health and hygiene.
- Encourage and support female workers to maintain healthy lifestyles for themselves and their families.
- Carry out awareness programmes on communicable and non-communicable diseases and organise medical camps.
- Create awareness and organise programmes to ensure clean, tidy homes and workplace.

Training and Development

- Extend strategic training opportunities to build competencies and soft skills and nurture positive attitudes.
- Extend structured training programmes to advocate occupational health and safety.
- Succession planning through mentoring high achievers and extending strategic training opportunities on leadership and management.
- Carry out train the trainers programmes to guide the HR development team at the estate level to be effective in training and motivating the workforce.
- Create awareness and organise training programmes on labour management policies for trade union leaders.
- Develop the workforce and nurture a 'shared mindset' to drive for productivity improvements

Productivity and Performance Management

- Continuous and consistent monitoring of performance and support poor performers to meet their targets.
- Incentivise, reward, appreciate and recognise high performers and achievers.
- Maintain a consistent dialogue with the workforce on the importance of their role in estates and the mutual benefits of higher productivity.
- Ensure the physical and mental wellbeing of workers based on key value drivers
- Educate workers on productivity based wage formula and create awareness of the need to move into a new business paradigm on revenue share basis.

Labour Relations

- Maintain positive relations with workers and trade unions and uphold the spirit of the collective bargaining process and the collective agreements in force.
- Ensure an effective grievance mechanism to address and rectify labour and human rights issues and concerns.

LABOUR PRACTICES

Workforce Diversity

GRI-G4-10, LA12, LA13 & HR3

Being an equal opportunity employer, we strive to nurture diversity and inculcate tolerance and unity within the workplace. Our HR policy sets out our commitment to be impartial in our work practices. We do not discriminate our employees across the grades as against gender, race, ethnicity or any other bias. We follow a policy of non-discrimination in recruitment, promotions and remuneration. Our collective bargaining agreements and the certifications we have pledged allegiance support and complement our efforts in this regard.

We have not received any complaints of discriminations or being subject to any legal action for discrimination during the reporting year. Procedures are in place to deal with such incidents, if and when, they occur.

Awareness on Company Policies - Indola Estate

Awareness on Environment Protection-Kiruwanaganga Estate

Human Capital Targets and Actual Performance

Key Indicators	*Unit*	*Target*	*Actuals*	
			2016/17	*2015/16*
New Recruitments	Number	500	448	339
Retention Rate	Percentage	90%	90%	94%
Average Turnover Rate	Percentage	6%	9%	6%
Executives and Staff Performance Evaluated	Percentage	100%	100%	100%
Total Training Hours	Number	18,000	19,984	19,654
Health and Safety Programmes	Number	150	192	139
Employees Trained on Health and Safety	Number	8,000	9,580	4,967
Employees Trained	Number	15,000	16,250	11,594
Training Investment	Rs. Mn	1.5	2.2	1.3
Manual and Staff Representatives in Health and Safety Committees	Number	5%	4%	8%

WORKFORCE DIVERSITY

Our workforce stood at 7,469 as at 31st March 2017 with 99.6 % as permanent employees. Manual grade, majority in the high grown, accounted for 83.7% of the workforce. The staff grade took up just 5% whilst the executive grade is less than 1%.

Gender

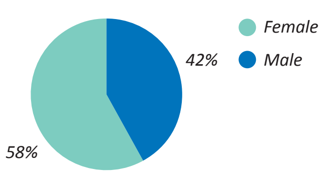
- Females account for 42% of the workforce, mainly employed within the manual grade.
- In the staff and executive grade, females take up 23.7%.
- Management is included with one member on the Board.

Age

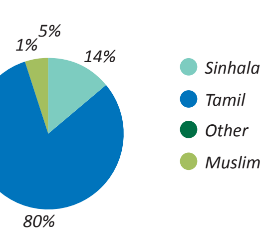
- Majority of the workforce is between 31-50 years.
- The corporate team is represented by a good blend of well-experienced senior executives and the dynamic younger staff.

Ethnicity

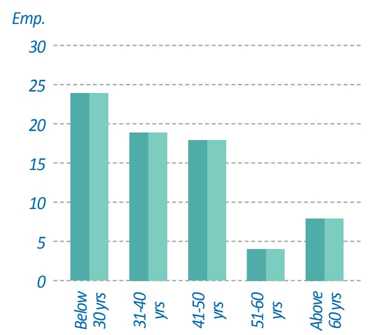
- Typically, Tamil community dominates the manual grades, particularly in the high grown.



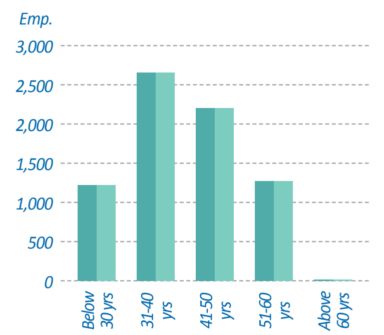
Gender Representation as at 31st March 2017



Workforce - Ethnicity as at 31st March 2017



Executive - Age Analysis as at 31st March 2017



Staff & Manual - Age Analysis as at 31st March 2017

Recruitment

GRI-G4-LA1

We pursue and recruit the 'cream of talent' to our organisation. Upholding 'equal opportunity' principle in our recruitments, we give the right employment opportunities to the right candidates, without prejudice. We have in place a special screening system to identify the most suitable candidates to fill-in our vacancies. Our recruitment and selection policy advocates internal staff promotions and suitable cross-placements between estates and departments.

In the reporting year, the new recruitments totaled to 448 employees. The majority of the new recruits were employed within the manual grade with almost 46.6% of female dominance. Out of 95 executive and staff recruitments, 17% were female employees. Aside recruitments, we also promoted 21 employees within the staff and executive grades.

Recruitment – 2016/17

Age Group	Executives		Staff		Manual Grade		Grand Total	
	Male	Female	Male	Female	Male	Female	Male	Female
< 30 years	11	-	21	5	45	94	77	99
31-40 years	1	-	29	5	34	50	64	55
41-50 years	-	-	9	4	37	30	46	34
51-60 years	1	-	5	2	45	18	51	20
> 60 years	1	-	1	-	-	-	2	-
Total	14	0	65	16	161	192	240	208

Child Labour

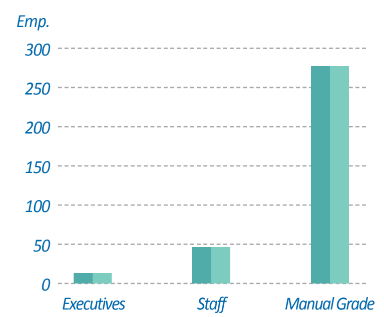
GRI-G4-HR5

Aligned to our HR policy, we do not engage nor complicit in child labour. We do not employ minors, paid or otherwise, within our estates or production facilities. In our recruitment, we require documentary proof of age and we have in place a strict verification process in this regard. We also ensure that necessary precautions are taken to prevent any risk of child labour within the business operations including the bought leaf operations. We fully advocate and invest in child care programmes to support their wellbeing and development.

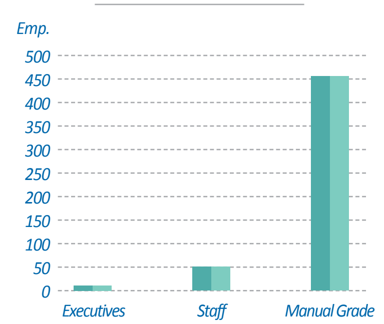
Forced or Compulsory Labour

GRI-G4-HR6

As a responsible organisation, we stand firmly against any form of exploitation of the workforce. We are guided and follow Sri Lanka's labour laws in our employment process. We also uphold the standards prescribed by our certification bodies- Ethical Tea Partnership, Rainforest Alliance and UTZ certification. Employees are well respected and treated humanely with focused efforts to ensure their well-being. We are timely and fair in meeting our remuneration obligations and statutory benefits which are on par with industry norms.



Recruitment for the Period April 2016 - March 2017



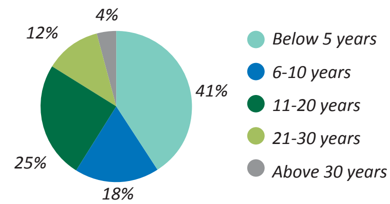
Turnover for the Period April 2016 - March 2017

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Staff Turnover

GRI-G4-LA1

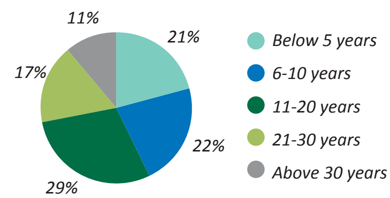
With best labour management practices, we were able to sustain a retention rate of 90% as at 31st March 2017 compared to 94% recorded in the preceding year. The overall average turnover rate stood at 9%. With respect to manual grades, average turnover corresponded to a ratio of 88.6%. Considering out migration, ageing of manual grade employees 9% turnover rate is bench marked as good according to the industrial norms.



Executives - Service Analysis as at 31st March 2017

Staff Turnover - 2016/17

Age Group	*Executives*		*Staff*		*Manual Grade*		*Grand Total*	
	Male	*Female*	*Male*	*Female*	*Male*	*Female*	*Male*	*Female*
< 30 years	4	1	7	4	93	19	104	24
31-40 years	2	0	26	2	87	79	115	81
41-50 years	2	0	13	0	75	82	90	82
51-60 years	1	0	11	4	85	125	97	129
> 60 years	5	0	5	0	18	15	28	15
Total	14	1	62	10	358	320	434	331



Staff & Manual Grade - Service Analysis as at 31st March 2017

Maternity Leave

GRI-G4-LA3

Guided by Sri Lanka's labour legislation, we extend 84 working days as maternity leave for female employees with regard to the birth of the first two children. They are entitled to 42 working days for the third child or more. In the year under review, 206 of female employees availed maternity leave and 101 returned to work. Currently, 105 are still on maternity leave.

Maternity Leave & Retention – 2016/17

	Number	*% of Total Female Workforce*
Female employees who went on maternity leave	206	0.04%
Female employees who returned to work after maternity leave	101	0.02%
Female employees who resigned from work after maternity leave	0	0

Service Analysis

As at 31st March 2017, we maintained a healthy and a stable service record. In terms of the manual and staff grades, almost 51.4% accounted for a service between 6 to 20 years. In terms of the executive grade, over 42.5% fell within this service category.

Remuneration & Benefits

GRI-G4-LA2 & LA13

Refer: Economic Value Creation, Page 59

As an equitable employer, we are conscientious in meeting all our financial obligations to our employees. Our remuneration policy is aligned to industry norms. Collective bargaining underlines a fair pay system across the organisation. Our salary structure is well-balanced between the genders.

As will be discussed under 'economic value addition section', we are timely in meeting our statutory obligations. The Employees Provident Fund and Employee Trust Fund obligations in the year stood at Rs. 162 million whilst the gratuity liability provision stood at Rs. 98 million. We also provide, comprehensive benefits to full-time permanent employees for which we incurred Rs. 106 million in the year under review.

Benefits Provided to Permanent Employees – 2016/17	
Estate Level	
Executives	• Housing with electricity and water facilities • Medical insurance for employees and their immediate family covering OPD, spectacles and hospitalisation • Tea allowance
Staff	• Quarters with electricity and water facilities • Medical insurance covering OPD and hospitalisation • Death donations • Tea allowance
Manual Grade	• Housing with water facilities • Free prescription drugs • Medical facilities and free medical clinics • Ambulance service • Maternity benefits • Child development centers • Youth empowerment programmes • Scholarships for children • Milk and wheat flour for children • Mid-day-meal • Nutrition programme • Tea allowance • Death donations
Head Office	
Executives	• Medical Insurance covering OPD, spectacles and hospitalisation • Tea Allowance
Staff	• Medical • Tea allowance
Total Cost of Benefits – 2016/17: Rs. 130 Mn	

OCCUPATIONAL HEALTH & SAFETY

GRI-G4-LA5, LA7, LA8

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**.

Bearwell Estate won this award for 'Being & esteemed Organization by discharging statutory obligations through the facilitation of payments in a conscientious and continuous manner to the Employees' Trust Fund Board, thus demonstrating genuine commitment and care to safeguarding the best interests of your own employees, thereby enabling them to take advantage of the many benefits offered by the ETF Board,

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Health & Safety Key Measures

Medical Centers
with qualified health and medical staff on all estates

Five Ambulances
located at strategically placed estates providing 24-hour medical service

Worker Health and Safety Committees
spearhead health and safety programmes in all estates.

Sanitation and Changing Room Facilities
separate facilities for all agrochemical sprayers

Personal Protective Equipment
for all agrochemical sprayers

Awareness Building
for workers engaged in agrochemical transport, storage and application

Material Safety Data Sheets
to monitor agrochemical application responsibly

Training and Awareness Building
on health and safety including nutritional and support for manual workers.

Human Development Progress Reports quarterly track and monitor plucker analysis, health and medical care and worker absenteeism

Collective Agreements
cover health and nutrition and safe manufacturing practices

As guided by our health and safety policy, we carry out comprehensive programmes to cover health and safety aspects across all estates. We have in place worker health and safety committees in all divisions and factories within the estates. During the reporting period, these committees were well represented by all employee categories-comprising: 134 executives, 577 staff and 2,341 manual grade employees-to ensure effective implementation and monitoring of the health and safety programmes. In terms of the total workforce, manual grade employees accounted for over 31.3% representation of the committees whilst 6.3% were represented by staff and executive categories.

These committees spearhead special projects on health and safety issues of the workforce, their families as well as the communities resident within the estates. These projects include awareness building on health and nutrition; safe manufacturing practices; and agro-chemical applications. In the reporting year, we trained 16,520 employees across all estates, covering 19,984 training hours. Our collective agreements have clauses covering these aspects. Our certification programmes also advocate and guide us in this regard.

Over 93% of our workforce are engaged in field operations and they are greatly exposed to occupational diseases. Our focused efforts to ensure worker wellbeing have minimised the impacts from such diseases. Our key value drivers-as discussed below-stress the importance of maintaining a healthy lifestyle including the right nutrition for our workers. We also encourage preventive healthcare to arrest the risk of non-communicable diseases.

Injury & Lost Days

GRI-G4-LA6 & LA7

Occupational Health & Safety Records – 2016/17

Employee Category	*No of Injuries*		*Type of Injury (Major/Minor)*				*No of Occupational Diseases*		*Lost Days*	
			Major		*Minor*					
	Male	*Female*	*Male*	*Female*	*Male*	*Female*	*Male*	*Female*	*Male*	*Female*
Executives	0	0	0	0	0	0	0	0	0	0
Staff	2	0	0	0	2	0	0	0	8	0
Manual Grade	45	70	0	0	45	70	0	0	202	366
Total	47	70	0	0	47	70	0	0	210	366

In the reporting year, 117 of our staff and manual grade employees were injured on work-related accidents within the field and in factory operations, representing 1.5% of the total workforce. The total man days lost due to these injuries was 576. All injured employees were given duty leave and insurance relief under the workmen's compensation cover. There were no fatalities recorded within the workplace or during work hours in the reporting year under review.

"Excellence is an art won by training and habituation."

TRAINING & DEVELOPMENT

GRI-G4-LA9 & LA10

The success of a labour intensive organisation resides mainly on the performance of the worker. We rely on training and development to build a proficient workforce, not only focusing on technical skills and knowledge, but, developing a well-rounded team with positive attitudes and collaborative spirit. This underscores our quest to motivate our employees to achieve excellence in operations, from a long-term standpoint.

Our training needs are aligned to address the skills gap which is ascertained through our interactive and structured performance evaluation mechanism-reaching out to all departments and estates. Our annual training plan takes into account the findings of the evaluations, so that we are effective in bridging the skill gaps and achieving our strategic goals; in turn, developing and uplifting our employees-their careers and their standards.

Our training cuts across all staff grades-executives, staff and manual grades. Our programmes are both internal and external including overseas training. We collaborate with specialised institutes such as the National Institute of Plantations Management, Tea Research Institute and National Institute of Business Management to provide best training opportunities for our employees. We also extend scholarship opportunities-particularly, targeting the younger staff members-to take up further studies under well-recognised professional bodies and universities. Most of the funding on these training initiatives are borne by the organisation and we are conscientious to uphold equal opportunity in selecting employees.

We also focus on developing skills and knowledge through on-the-job training. Most of our estates have in-house training facilities to support the training needs of all staff grades. Employees are granted leave to attend training sessions as per the training calendar. Our well-experienced executives and staff led by our HRD Manager and Sustainability and QSD Manager support our endeavours in this regard. All employees are well versed in company policies and health and safety aspects of the organisation as mentioned above. They are well aware and trained on 'key value drivers' which give the platform for the workforce to be focused and productive in discharging their duties.

During the reporting year, we invested Rs. 2.2 million on local and overseas training programmes for 16,520 employees at all levels. The training was structured on the four key areas, viz. strategic management, sustainable agriculture practices, environmental management, occupational health and safety and HR development.

Training – 2016/17

Grades	*Number Trained*		*No. of Training Hours*	
	Male	*Female*	*Male*	*Female*
Executives	58	8	613	193
Staff	452	257	3,434	2,660
Manual Grade	5,547	10,198	5,372	7,712
Total	6,057	10,463	9,419	10,565

Training Programmes - 2016/17

Key Training Area	*Training Institute/Trainer*	*Training Programme*	*Executive*	*Staff*	*Manual*	*Number Participated*
Strategic Management	National Institute of Plantation Management (NIPM)	Professional programme in tea manufacture and factory practices	✓			2
		Plantation accounting and financial management	✓			3
		Book keeping and plantation accounting		✓		2
	HIDA Nagoya, Japan.	The Program on Corporate Management for Sri Lanka- (LKMC)	✓			2
	Senior Managers - Kiruwanaganga and Somerset	"Planter trainee" programme	✓			2

Training Programmes - 2016/17

Key Training Area	*Training Institute/Trainer*	*Training Programme*	*Executive*	*Staff*	*Manual*	*Number Participated*
Sustainable Agriculture Practices	In-house Training	➲ Improving water quality and availability in the plantation sector through integrated solid and water resources management	✓			6
Environmental Management	In-house Training	➲ Quantification of greenhouse gas emissions and calculation of carbon footprint ➲ Energy conservation and management ➲ Integrated pest and weed management ➲ Environmental risk assessment and life cycle assessment of material ➲ Agro chemical application and use of PPE/MSDS ➲ Environment protection, integrated waste management, soil conservation and water management.		✓	✓	443
	RH Training	➲ Maintenance on steam boilers -factory		✓		8
HR Development	HRD Manager, International Institute of Training and Development (IITD)	➲ Residential training programme on: ❍ community capacity building ❍ Improve the living standards of the employees ❍ Women development and gender based violence ❍ Leadership and communication ❍ Occupational health and safety ❍ First aid ❍ Waste management.		✓	✓	14
	National Institute of Business Management (NIBM)	➲ Human Resource Management		✓		36
	Senior Consultant, Human Resources	➲ Employment and labour laws - to develop employer-employee relations.	✓			19
Occupational Health and Safety	In-housing training	➲ Occupational Health & Safety ➲ Awareness & Correct Methods of using Chemicals ➲ Good Safety Practices at Work ➲ Knowledge & improvement of MSDS ➲ Handling of Chemicals & Use of PPE's ➲ Reducing Occupation Injuries ➲ Protection from Fire Hazards		✓	✓	6,131

TRAINING INVESTMENT IN HUMAN RIGHTS

GRI - G4 HR 1 & HR 2

As a principled plantation company, our commitment to uphold human rights across operations, be it in the field, factory or at the corporate office remains firm. We strive to nurture an inclusive workplace, where we respect diversity and encourage our employees to uphold team spirit. During the reporting year, we continued to create awareness and invest on training our employees on human rights related aspects. We trained a total of 123 employees for 96 hours on the Company's policies including human rights. This corresponded to 1.6% of the total workforce.

We have not entered into any significant investment agreement with human rights aspects addressed.

PRODUCTIVITY AND PERFORMANCE MANAGEMENT

Driving Productivity (Values are being calculated)

Key Value Drivers and Key Initiatives – 2016/17

Key Value Drivers	*Key Initiatives*	*Programmes*	*Participants*
Zero anemia for a healthy life	Awareness programmes on anemia, nutrition, worm infestation, health and hygiene	339	11,454
	Testing hemoglobin levels	42	2,796
	Workers given iron supplements	98	7,269
100% attendance at work for increased earnings	Awareness on the importance of estate work	345	7,983
	Supporting poor performers through HR and welfare programmes	155	3,534
	Rewards and recognition events	43	336
Create a better future for your family for a prosperous life	Awareness programmes created on bad habits	110	2,614
	Awareness programmes for parents on children's education	152	5,465
	Awareness on thrift and cash management	74	1,280
	Programmes on promoting 'happy family life'	65	1,148
	Awareness programmes for antenatal and postnatal care	131	3,158
Clean, tidy homes and working places	Training on the Rainforest Alliance principles and importance of protecting the environment	200	4,177
	Awareness programmes on cleaning houses and surroundings	208	4,115
	Training on solid waste management	146	3,989
A healthy lifestyle, nutritious food for a better quality of life	Training female workers on preparing nutritious food	123	2,334
	Training on home gardening and organic agriculture	105	1,625
	Awareness programmes on communicable and non-communicable diseases	54	1,647
	Eye clinics and medical camps	18	1,060

Awareness Training for Factory Employees- Kiruwanaganga Estate


HR Training with NIBM- HRD Team Members


Employment & Labour Laws- Planting Executives

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Key Value Drivers	Salient Changes
Zero Anemia for a healthy life	Medical screening of Hemoglobin levels of workers periodically
	Iron supplements issued to prevent anemia and awareness of the benefits of consuming iron rich foods
	Reduced habits of betel chewing and consumption of excessive black tea
	Increased number of workers having breakfast consistently
100% attendance at work for increased earnings	Positive attitudes and greater motivation on estate work
	Worker satisfaction of being recognised and rewarded for top performance
	Field staff successfully using participatory management techniques
Create better future for your family and children for a prosperous life	Increased savings especially for children
	Self-employment opportunities created for unemployed youth
	Greater awareness of the importance of children's education
	Reduced school drop-out rate
Clean, tidy homes and working place	Greater awareness on solid waste management
	Structured waste management programmes in place in all estates
	Greater interest in keeping workers' living areas clean and tidy
	Greater interest in home gardening
Healthy lifestyle, nutritious food for a better quality of life	Greater awareness amongst female workers on preparing nutritious food for their families
	Greater level of monitoring on the workers' food habits
	Greater awareness of the importance of drinking boiled cool water and advantages of hand washing before meals.

Productivity Indicators	2016/17	2015/16
Estate Workers	7,469	8,287
Production	5,616,836 kg	6,809,983 kg
Production/ Worker	752 kg	822 kg
Estate Revenue	Rs. 3,262,361,252	Rs. 3,323,123,255
Revenue/ Worker	Rs. 436,786	Rs. 401,004
Profit before tax	Rs. 260,061,256	Rs. 147,552,888
Profit/ Worker	Rs. 34,817	Rs. 17,805

In a labour-intensive business, productivity is a critical success factor, leading to greater and sustainable profits and returns on investment. Our strategy is to build a robust workforce and nurture their quality of life. This we believe will boost worker morale, foster their loyalty and commitment, retain them within our estates and improve their productivity.

We have strived, to set up a solid platform to develop our workforce. Our focus is on five key value drivers, encompassing worker wellbeing both physically and mentally. All estates have adopted and are driving these value areas through a structured implementation mechanism-action plans on creating awareness and carrying out comprehensive programmes, close monitoring and periodic audits. We have in place a competent team of HR development officers under the regional cluster supervision to closely engage the estate workforce and ensure that they fully understand the need to adopt and follow these drivers-paving the way to achieve our strategic goals.

In the reporting year, we conducted Progress Review Meetings, Field Monitoring Visits & Orientation Programs on our key value drivers in all high-grown estates. The audit findings highlighted the need to further coordinate with the trade unions, relevant government agencies and non-governmental organisations to drive in the programmes for mutual success and benefits. These findings were presented to the estate and corporate management for deliberations and for necessary remedial and counter action.

"What gets measured gets done"

Performance Evaluations

GRI-G4-LA11

Our performance management mechanism is well-structured to ensure that we are 'hands-on' in monitoring, guiding and supporting our employees to give their best to the organisation whilst developing their personal career aspirations. We have in place clear measurement criteria to evaluate employee performance which form the basis of setting up annual performance targets for the executive and staff categories. All rewards including salary increments, bonuses, incentives and recognition are based on the results ascertained during the performance evaluation process carried out annually.

In the year under review, we continued to evaluate the performance of all executive and staff grade employees and they were duly rewarded with performance based increments and incentives. Top performers were recognised and promoted. We also continued to mentor them to take up managerial and leadership roles. Some of our managers at the corporate office and at the estates took up high achievers and management trainees under their abled guidance.

Worker Appreciation- Clarendon Estate

Plucker Appreciation- Somerset Estate

Best Tapper- Indola Estate

Performance Management Scheme – 2016/17				
Category	***No. of Personnel Evaluated***		***Total Evaluated***	***% Evaluated***
	Male	***Female***		
Executives	63	10	73	100%
Staff	297	102	399	100%
Total	73	399	472	100%

LABOUR MANAGEMENT/RELATIONS

GRI-G4-11, LA4, HR4

Collective Bargaining Agreements Key Areas Covered

Manual Grades
- Base Wage
- Attendance Incentives
- Productivity Incentives
- Fixed Price Share Supplements
- Over kilo Rates
- EPF, ETF

Staff Grades
- Salaries, Overtime, Increments
- Promotions
- Holidays
- Leave
- Gratuity
- Transfers

We recognise and accept our employees' right for freedom of association and collective bargaining. Over 98% of our workforce is covered by the relevant collective bargaining agreements with trade unions. These agreements contain special clauses to ensure that the organisation is transparent and accountable in its actions, particularly, in making significant operational changes and corporate decisions. The clause, 'Labour Management Relations' which is assigned for the manual grades, 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 organisation's structure or operations even amalgamation, sub-leasing of estates/ divisions shall be finalised with prior notice and consensus between the management and the unions.

Labour Grievance Mechanism

GRI-G4-LA16 and HR12

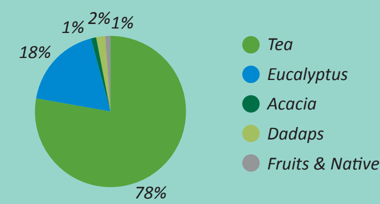
Labour related grievances are addressed by the estate management and the trade union representatives as a practice. The management is encouraged to be open and proactive in maintaining a healthy dialogue with workers and address any grievance or concern at the onset itself. This is evident within our estates which maintained good labour relations and sustained harmonious operations in the year -under review. Besides, the standard labour practices and the procedures to address grievances and disputes are set out and enshrined in the collective agreements.

We did not record formal grievances related to labour practices including human rights within the 12 months ended 31st March 2017.

Rs. 106.6 Mn
Worker Welfare

9%
Employee Turnover

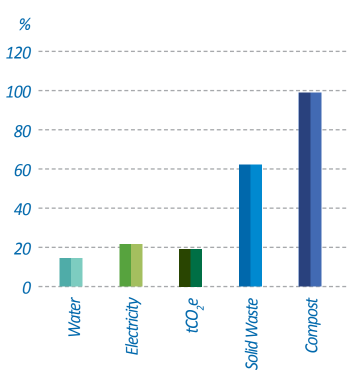
NATURAL CAPITAL



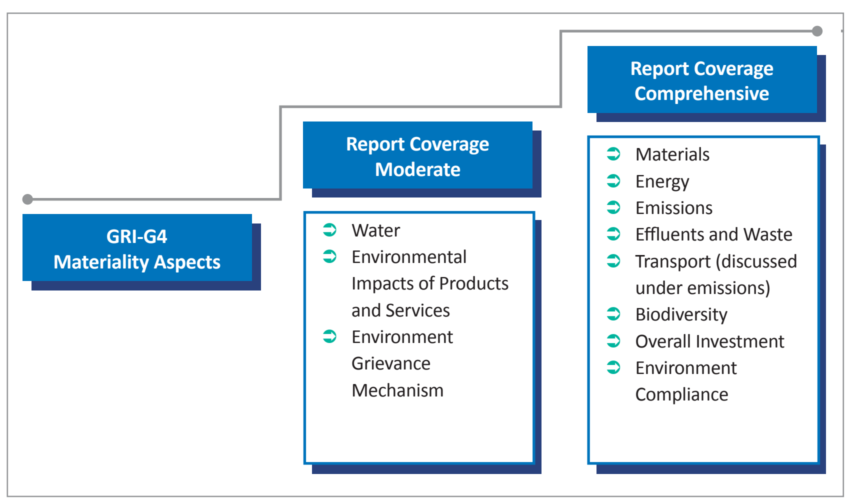
643,860 *Total Plants Planted 2016/17*

OVERVIEW

Our estates cover 6,490 hectares of high value and environmentally-sensitive land resources. As a responsible Regional Plantation Company, we stand committed towards protecting and conserving these natural resources within our estates. We are deeply aware of the need to utilise our resources efficiently, manage operational impacts and minimise our footprint on the environment. We are also aware that the environment is inextricably linked to our operations, determining the very sustainability of our business, the wellbeing of our estate community and shareholder interests. This section will focus on our key initiatives and measures we have adopted following through a well-structured environmental agenda.



Non-Financial Highlights 2016/17



MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Strategic Imperatives

- Materials management
- Solid waste management
- GHG emissions management
- Water conservation and protection of water resources
- Soil conservation, agro chemicals and fertiliser management
- Biodiversity conservation and protection

Strategic Goals

- Be efficient in resource utilisation and opt for renewable resources
- Increase recycling of solid waste
- Improve electrical and thermal energy efficiency
- Reduce GHG emissions and the carbon footprint
- Maintain quality of drinking water and wastewater discharged
- Maintain soil nutrients and reduce erosion
- Reduce agrochemical usage
- Increase tree inventories and canopy cover

Salient Approach

- Uphold and follow the comprehensive Environmental Policy
- Adopt and follow environmental best practices as advocated by well acclaimed certification bodies
- Compliance with national environmental policies and legislature and regulations

Key Performance Indicators 2016/17

10,454 kilograms Solid Waste Recycled	**128,451 kilograms** Compost Production	**0.3%** Production Waste
4,420 tCO_2e GHG Emissions	**0.74 tCO_2e per ton tea** GHG Emissions Intensity	**4,076 tCO_2e** Net GHG Emissions Saved From Hydro power Generation
1.26 kg/kWh Electrical Energy Intensity Factories	**1,329 kWh/staff member** Electrical Energy Intensity Bungalows, Staff Quarters, Offices & other Buildings	**25.33 kg/litre** Fuel Intensity
212 kg/cum Fuelwood Intensity	**44.77 Hectares** Fuelwood Planting	**643,860** Trees Planted
5.99 Mn kWh Hydro power Generation	**Zero** Insecticide Usage	**2.9 L/Hec/annum** Herbicide Usage
147 Protected Drinking Water Sources	**96** Factory & Domestic Wastewater Purification Systems in Estates	**8,522 kilolitres** Water Withdrawal Estates

MANAGEMENT APPROACH

GRI - G4-14

Environmental Policy

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

We have a comprehensive environmental policy in place, setting forth our commitment to bring in environmentally responsible best practices across our field and factory operations. Our team is well-versed and fully attuned to our environmental policy and stand committed for effective implementation and compliance. We are conscientious in our efforts to educate and create awareness on the policy content and intent amongst the estate workforce and the resident communities. We have the necessary in-house expertise to implement the environmental policy, manage awareness building, monitor and report on the progress of our initiatives.

Our approach to natural capital management is aligned to the national policies and legislative requirements along with relevant multilateral environmental agreements, declarations and programmes. We have in place due certification from the globally acclaimed 'Rainforest Alliance (RA) Sustainable Agriculture Network (SAN)', and the 'Ethical Tea Partnership (ETP)-UK'. We are also an active member of the 'Biodiversity Sri Lanka'—the only national initiative in which the corporate sector works together with conservation agencies on environmental and biodiversity related issues, influencing and impacting the environment in which we operate. In the year under review, we pledged our commitment to uphold the 'universally sustainable' principles prescribed by the 'United Nations Global Compact (UNGC)'.

Our integrated environmental strategy is formulated taking into consideration the environmental risks that challenge our operational path as a plantation based organisation. We also look at the opportunities that we could explore to ensure environmental wellbeing and support our efforts to be sustainable in operations. Within our strategic framework, we have identified six strategic imperatives, encompassing materials; solid waste; Greenhouse Gas (GHG) emissions; water; soil conservation, chemical and fertiliser management and biodiversity. Our action plans and management programmes are in line with these imperatives.

Our well-structured monitoring mechanism supports us to ascertain the effectiveness of our strategy and action plans in mitigating our operational impacts on the environment. Within this mechanism, we track, measure and monitor our performance against our environmental objectives and goals and ensure that we are in line with our key performance indicators to reach environmental sustainability.

Environmental Risks and Opportunities

Risks

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

Opportunities

- Top management commitment to protect the environment and reduce the corporate's carbon footprint
- Comprehensive Environmental Policy in place
- Dedicated officers to spearhead forestry and sustainability initiatives
- Rainforest Alliance – Sustainable Agriculture Network and Ethical Tea Partnership Plantations Certification programmes in place
- Pledge to follow UNGC principles
- Implementation of cleaner production technologies and sustainable agriculture practices
- Availability of land for promoting sustainable environmental initiatives
- Availability of lakes, ponds, wetlands with swamps and marshes for effective rainwater harvesting and protecting fauna and flora
- Availability of water streams for hydro power generation
- Greater demand for green and ethical products
- Recycling of solid waste

Natural Capital - Strategy

Materials Management
- Closely monitor material consumption and reduce wastage wherever possible
- Opt to use renewable resources over non-renewable resources
- Explore the possibilities and increase the use of recycled material in operations

Solid Waste Management
- Implement an integrated solid waste management programme based on the '3-R' concept - Reduce, Reuse and Recycle
- Periodically measure and monitor the solid waste recycled
- Produce compost from bio-degradable waste

GHG Emissions Management
- Periodically measure and monitor GHG emissions at each operational site
- Periodically measure and monitor electricity and fuel consumption at each operational site
- Install energy saving machinery, lighting and implement other energy efficient measures
- Implement cleaner production technologies
- Plant trees to increase tree canopy cover and carbon sequestration
- Pursue energy conservation measures and fuelwood planting

Water Conservation and Protection of Water Resources
- Protect water resources, conserve the usage of water and purify wastewater
- Periodically test the quality of drinking and wastewater discharged as per accepted parameters
- Harvest rainwater in reservoirs, mini tanks, lakes and ponds to sustain the ground water table
- Establish chemical free buffer zones along water sources

Soil Conservation, Agro-Chemicals and Fertiliser Management
- Soil testing and take precautionary measures to be responsible in agro-chemical and chemical fertiliser applications and reduce the usage by adopting more sustainable agricultural practices
- Complying with 4R Nutrient Stewardship and TRI guidelines and the minimum residue level for agro-chemical and fertiliser usage adopted by the European Union and Japan
- Measure, monitor and reduce agro-chemical usage through integrated weed and pest management

Biodiversity Conservation and Protection
- Conserve and protect biodiversity within the estates
- Assess the impacts of operational activities on fauna and flora and take mitigatory action
- Consistently track and record fauna and flora species within estates
- Organise tree planting campaigns across estates

Environmental Targets and Actual Performance				
Key Indicators	***Unit***	***Target***	***Actuals***	
			2016/17	***2015/16***
Recycled Solid Waste	Percentage change	10% increase over previous year	62.2%	5.3%
Reduction of Production Waste	Percentage change	Reduce to < 1%	0.3%	0.1%
Electricity Intensity	kilograms per kilowatt hours	1.3	1.26	1.23
Firewood Intensity	kilograms per cubic meter	220	212	193
GHG Emissions Intensity	Emissions (tCO_2e) per ton tea	0.70	0.74	0.73
Quality of Drinking Water	National parameters	Comply to National Parameters	Achieved	Achieved
Quality of Wastewater	National parameters	Comply to National Parameters	Achieved except fecal contamination in some sources	Achieved except fecal contamination in some sources
Usage of Insecticides	Litre per hectare per annum	Zero	Zero	Zero
Usage of Herbicides	Litre per hectare per annum	2.5	2.9	3.0
Planting Fuelwood Species	Plants per annum	150,000	123,150	126,820
Planting Green Manure/Shade Species	Plants per annum	25,000	18,297	22,673
Planting Native, Fruits & other Plant Species	Plants per annum	10,000	7,108	3,586

RAINFOREST ALLIANCE (RA) SUSTAINABLE AGRICULTURE NETWORK (SAN) CERTIFICATION PROGRAM

RA Mission: *"Conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviour"*

RA 10 Principles Display Board

RA Audit in Progress
Discussions with Estate Executive

Inspection of Drinking Water Sources

Inspection of Wastewater Purification System

Visit of RA Delegation to Bearwell Estate
Inspecting Environmental & Social Compliance

Team of RA Delegates
UN representatives, Diplomats and Officials of Indonesia, China, UK, India and Foreign & Local Media Personnel

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

SAN

RAINFOREST ALLIANCE CERTIFIED

The RA standards are nurtured on three pillars of sustainability—environment, economy and social justice. The standards prescribe the adoption of best management practices in agricultural operations to mitigate environmental and social risks and advocate each operational site to be firm in their efforts to improve performance for greater sustainability.

At TTE, we have in place an Internal Management System (IMS) and related processes to effectively implement and monitor the activities of the RA programme. The implementation manual, comprehensive with the policies, objectives, strategies, programmes, activities and key sustainability performance indicators, guide our operations and effectively monitor and consistently aligned with the RA standards. Apart from regular inspections and evaluations, comprehensive internal audits are carried out on each estate by a competent and qualified team headed by the Senior Regional General Manager/RA Group Administrator and Deputy Manager–Sustainability and Quality Systems Development. Compliance is evaluated by certification and annual audits conducted by SAN authorised certification bodies and their sub-contracted authorised auditors that measure the degree of farm's conformity to the environmental and social practices under the Sustainable Agriculture Standard.

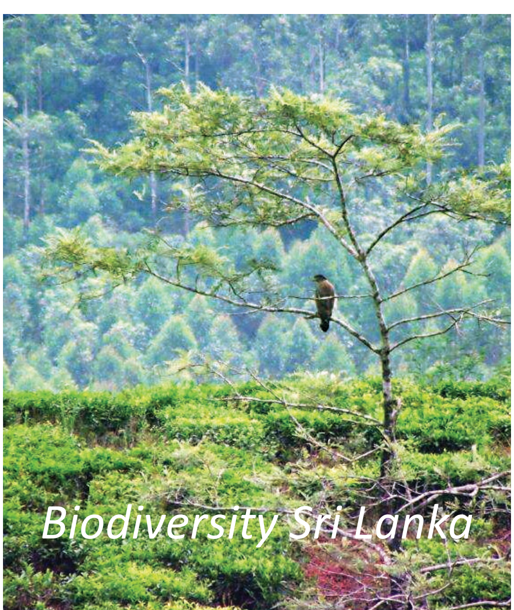
Twelve of our high grown estates and Kiruwanaganga in the low grown are certified under the RA programme since 2011. The Deniyaya estate obtained certification in the preceding year whilst the Calsay Factory (Broken Mixed Fibre (BMF) Reprocessing Centre) is currently in the process of obtaining the RA certification.

Our organisation was commended and recognised by the RA for our commitment to uphold best practices in 'sustainable farm management' for the past five years, since 2011.

The Bearwell estate was also commended for their efforts to uphold best practices in line with the RA guidelines. During the Audit, the RA Auditor identified that Bearwell Estate has implemented RA's best practices effectively and a team of RA delegates comprising UN representatives, officials and diplomats of Indonesia, China, UK and India along with foreign and local media personnel visited the Bearwell estate on 17th March 2017 to inspect the measures adopted to be in compliance with the RA guidelines.

Website: www.rainforest-alliance.org & www.sanstandards.org

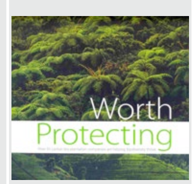
BIODIVERSITY SRI LANKA



The Ceylon Chamber of Commerce

International Union for Conservation of Nature

Dilmah Conservation



"Worth Protecting" Coffee Table Book

General Member

BIODIVERSITY SRI LANKA

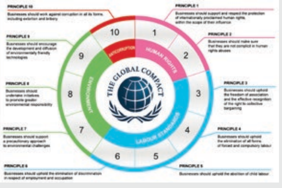
We continue to be an active member of the BIODIVERSITY SRI LANKA, formerly known as Sri Lanka Business and Biodiversity Platform (SLB&BP), which is an initiative launched by The Ceylon Chamber of Commerce together with IUCN (International Union for Conservation of Nature) and Dilmah Conservation. It is also linked to international centers of excellence and networking bodies including the UNGC and the World Business Council for Sustainable Development.

The Biodiversity platform aims at providing valuable services to Sri Lankan businesses interested in investing in sustainable development and conserving the natural resources of our country. This platform is the only national initiative in which the corporate sector works together with the public sector and concerned partners on environmental and biodiversity conservation issues.

"WORTH PROTECTING" a coffee-table book was published by the Biodiversity Sri Lanka highlighting how Sri Lanka's tea plantation companies are helping biodiversity thrive and the best biodiversity conservation projects undertaken by the Regional Plantation Companies. The key initiatives and best practices implemented by our estate teams under the RA Sustainable Agriculture programmes have been highlighted in this book. Our organisation is one of the five Regional Plantation Companies to join this forum.

Website: www.biodiversitysrilanka.org

UNITED NATIONS GLOBAL COMPACT (UNGC)



Ten Principles

Sustainable Development Goals

Management Model

TTE registered as a signatory and a participant with UNGC with effect from 22nd June 2016 and made its pledge to support the universally accepted ten principles of the UNGC, encompassing human rights, labour, standards, environment and anti-corruption along with the UN goals including 'millennium development goals'. UNGC platform aims at transforming the core ten principles into value-enhancing management practices. Endorsed by the Chief Executive Officers across the globe, the UNGC is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate responsibility initiative in the world with over 8,000 signatories based in more than 135 countries.

Website: www.unglobalcompact.org

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

MATERIAL MANAGEMENT

GRI - G4-EN1 & EN2

As a producer of black and green tea for the export market, the primary materials consumed broadly fall under three categories: raw materials - green leaf; processing material; and packing material.

We are perceptive in the way we use and manage our materials so that we could keep our material footprint under control. This supports us to keep our operational costs at bay and be viable as well as be environmentally responsible. To this end, we are consistent in our efforts to bring in more renewable resources into our operations whilst seeking to be more efficient as well as cut back, wherever possible, on the use of non-renewable materials. The use of fuelwood made of recycling agriculture waste material, as energy sources in our factory operations and our conscientious efforts to plant fuelwood and generate hydro power reinforces our commitment to be sustainable in our material usage. We also follow the ‘3R’ concept—reduce, reuse and recycle—which will be discussed in detail under the solid waste management section herein.

Our consumption during the year under review, as set out in the table, has registered a contraction in terms of green leaf and process materials as compared to the prior year patterns. This year under review weedicide volumes dropped substantially, particularly following the Government ban on chemical weedicide use in agricultural operations. With regard to recycled input materials, we used 187,116 kilograms of fuel briquettes for operating tea driers, which is an equivalent of 535 cubic meters of fuelwood.

Material Footprint

Materials	*Unit*	*2016/17*	*2015/2016*	*Variance %*
Raw Materials - Renewable				
Estate Leaf	Kilograms	21,496,350	20,662,285	4.0%
Bought Leaf	Kilograms	3,424,938	4,717,816	-27.4%
Total Green Leaf	Kilograms	**24,921,288**	**25,380,101**	-1.8%
Associated Process Materials				
Fuel – Non-Renewable				
Diesel	Kilolitres	165	195	-15.6%
Petrol	Kilolitres	98	87	12.6%
Oil	Kilolitres	3	3	0.0%
Fuelwood – Renewable				
Firewood	Cubic Meters	27,536	37,839	-27.2%
Briquettes	Cubic Meters	535	909	-41.1%
Fertiliser - Non-Renewable				
Fertiliser	Metric Tons	2,870	2,898	-1.0%
Dolomite	Metric Tons	1,166	1,609	-27.5%
Agrochemicals	Kilolitres	9.1	11.54	-21.1%
	Metric Tons	1	1	0.0%
Packing Materials - Renewable				
Paper Bags	Numbers	128,362	160,810	-20.2%
Method: direct measurements and actual consumption of each estate and head office				

SOLID WASTE MANAGEMENT

GRI - G4 - EN23

Integrated Waste Management
Wattegoda Estate

Integrated Waste Management
Mattakelle Estate

"Jeewa Kotu"
Kiruwanaganga Estate

Producing Compost from Biodegradable Waste
Somerset Estate

Handing over Solid Waste for Recycling
Bearwell Estate

Training and Awareness Programmes for School children
Mattakelle Estate

Through the RA 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. In the year, 2016/17, we produced 128,451 kilograms of compost from the bio-degradable waste. Metal, glass, plastic, polythene, paper and hazardous 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 including glass, plastic, polythene, metal and paper in 2016/17 amounts to 10,454 kilograms, reflecting a significant increase of 62.2% when compared with 6,444 kilograms sent for recycling in 2015/16.

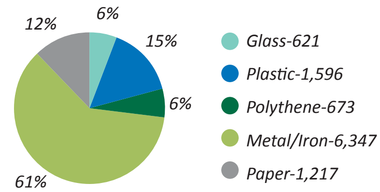
Solid Waste Recycled

Category	***2016/17***	***2015/16***	***Variance %***
Non-Hazardous (kilograms)			
Glass	621	797	-22.1%
Plastic	1,596	1,353	18.0%
Polythene	673	507	32.7%
Metal/Iron	6,347	2,640	140.4%
Paper	1,217	1,147	6.1%
Total	**10,454**	**6,444**	**62.2%**
Hazardous (Numbers)			
E-waste	254	367	-30.8%
Bulbs-used (On-site Storage)	150	279	-46.2%

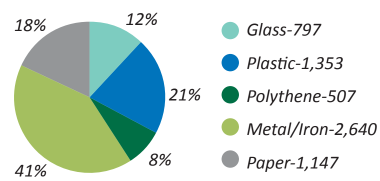
MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Training and awareness programmes on integrated waste management are being carried out regularly to educate all employees, school children and the resident communities. With the active participation of the community, awareness-building initiatives have created a clean healthy environment and a profound impact contributing positively towards uplifting the image, dignity and wellbeing of the estate community.

Waste in our tea production process has been consistently reduced by reprocessing all refuse tea in two separate factories – Wangioya in the high grown region and Pethiyagoda in the low grown region. The absolute refuse tea from these factories is sent to the Unilever Sri Lanka Ceytea factory of Agrapatna and Raigama estate factory at Ingiriya as a raw material for further extraction. We have reduced our production waste to 0.3 percent in 2016/17 by achieving our target below 1 percent.



Solid Waste Recycled by Category 2016/17



Solid Waste Recycled by Category 2015/16

MANAGEMENT OF HAZARDOUS WASTE AND SPILLS

GRI - G4 – EN24 & EN25

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

GHG EMISSIONS MANAGEMENT

GRI - G4 – EN3, EN4, EN6 & EN7

Energy Management

Key Measures to Control Energy Consumption

- Operating all tea driers on renewable energy, firewood and briquettes
- Investing on energy efficient machinery and equipment
- Installation of energy efficient capacity banks, lighting and VSDs in factories
- Implementation of machinery and light switch on/off plans
- Power factor correction
- Training and awareness on energy conservation under the RA Certification programme

As a responsible plantation entity, we are fully aware of the significance and fully committed to switch over to sustainable energy sources and thereby, control our dependence on fossil fuels and reduce our green-house-gas emissions. We are conscientious in the way we utilise energy resources and we have brought in key controls to reduce both direct and indirect consumption levels in our daily operations.

We use fuels and oils as direct energy sources to operate our machinery and equipment and for transport purposes. In the reporting year, our fuel usage diesel stood at 165 kilolitres, representing a drop of 15.6 percent over the usage in 2015/16. We also use electricity as an indirect energy source to power our factories and our bungalows, quarters, offices and other estate buildings. In the year, our total electricity consumption stood at 5.36 million kilowatt hours (kWh). Factories took up almost 88.3 percent of the total electricity consumed. This year, given a substantial drop of almost 20.2 percent in tea production levels, the consumption of electricity in factories correspondingly dropped by 22.2 percent, leading up to 20.9 percent overall drop in consumption levels. Our proactive measures to control electricity usage also supported us to bring down the consumption levels in bungalows and other buildings by 9.8 percent over the preceding year.

Energy Consumption			
Energy Source/Area of Operation	***2016/17***	***2015/16***	***Variance %***
Direct Energy Consumption by Primary Energy Source			
Fuelwood (cubic metres)			
Firewood	27,536	37,839	-27.2%
Briquettes	535	909	-41.1%
Diesel (kilolitres)			
Power Generators	14.34	20.59	-30.4%
Estate Transport	120.86	141.32	-14.5%
Estate Supervisory Vehicles, Ambulances	18.47	18.10	2.0%
Others	3.46	3.39	2.1%
Head Office Vehicles	7.72	11.94	-35.3%
Total Diesel	**164.85**	**195.34**	**-15.6%**
Gasoline (kilolitres)			
Estate Supervisory Vehicles, Motorcycles, Ambulances	60.82	55.66	9.3%
Agriculture Equipment & Machinery	14.30	9.47	51.0%
Others	2.64	1.68	57.1%
Head Office Vehicles	20.64	20.58	0.3%
Total Gasoline	**98.40**	**87.39**	**12.6%**
Oil (kilolitres)			
Estate Supervisory Vehicles, Motorcycles, Ambulances	1.09	1.14	-4.4%
Agriculture Equipment and Machinery	0.30	0.50	-40.0%
Factory Machinery	0.90	0.45	100.0%
Others	0.04	0.07	-42.9%
Head Office Vehicles	0.30	0.30	0.0%
Total Oil	**2.63**	**2.46**	**6.9%**
Indirect Energy Consumption by Primary Source			
Electricity (kilowatt-hours)			
High Grown Manufacture	3,440,171	4,363,257	-21.2%
Low Grown Manufacture	1,293,285	1,721,604	-24.9%
Bungalows, Quarters, Offices & other estate buildings	554,883	625,496	-11.3%
Head Office	72,517	70,271	3.2%
Total Electricity	**5,360,856**	**6,780,628**	**-20.9%**
Method: direct measurements and actual consumption of each estate and head office			

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

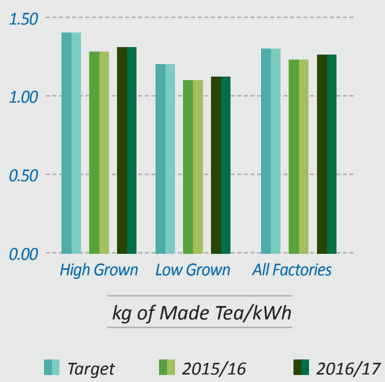
GRI - G4 – EN5

Energy Intensity Snapshot

Non-Renewable Energy

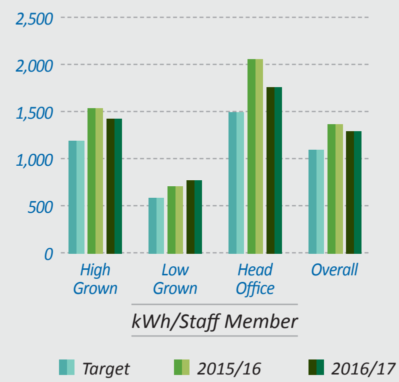
Electricity Intensity

Factories



- Electricity intensity in factories is represented by kilograms of Made Tea produced per unit (kWh) of electricity consumed.
- Electricity intensity for all factories of 1.26.kgs/kWh in 2016/17 was in line with targets and reflected a marginal 2.4% percent increase over 1.23 kgs/kWh recorded in 2015/16.

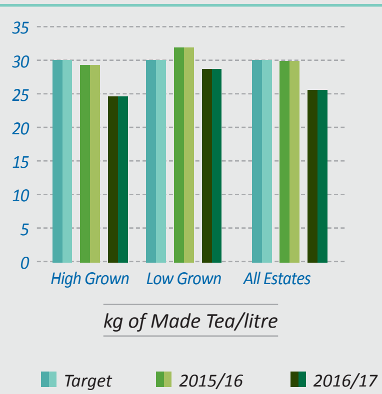
Bungalows, Staff Quarters, Offices and Other Estate Buildings



- Electricity intensity in buildings is represented by unit (kWh) of electricity used per staff member in these buildings.
- The overall electricity intensity in buildings in 2016/17 stood at 1,329 kWh/staff member, down by 3.1% percent over 1,372 kWh/staff member recorded in 2015/16.

Non-Renewable Energy

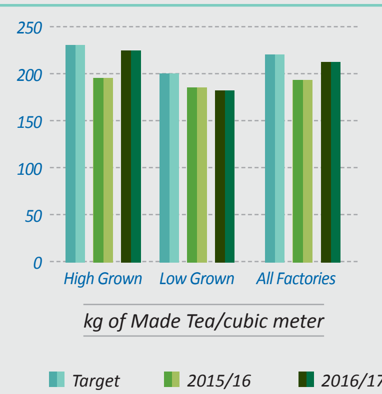
Fuel Intensity



- Fuel intensity is represented by kilograms of Made Tea produced for unit of fuel (litres) used in all vehicles.
- Well in line with our target, all estate vehicles recorded a fuel intensity of 25.33 kgs/litre, reflecting a drop of 15% percent over 29.81 kgs/litre recorded in 2015/16.

Renewable Energy

Firewood Intensity - Factories



- Firewood intensity is represented by kilogram of made tea produced for a cubic metre of firewood.
- Closely in line with our targets, firewood intensity recorded by all factories in the year 2016/17 was 212 kg/cum, up by 9.8 percent over the intensity of 193 kg/cum recorded in 2015/16.

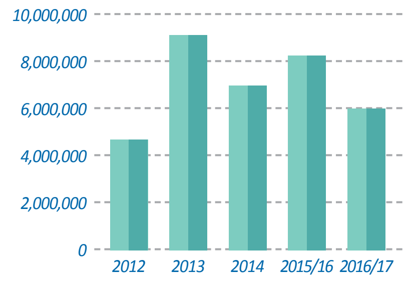
RENEWABLE ENERGY PRODUCTION BY PRIMARY SOURCE

Hydropower Energy

Our mini hydropower plants in Radella, Palmerston and Somerset under our subsidiary operations generated 5,993,907 kWh of electricity during the year, surpassing 5,360,856 kWh purchased from the Ceylon Electricity Board, significantly supporting the national cause to move towards energy sustainability. Our supply to the National Grid represented a significant decrease of 27% percent compared to the amount generated in 2015/16, given the drought conditions we experienced in the first half of the year under review.

Hydropower Generation - kWh

Projects	*2016/17*	*2015/16*	*Variance %*
Somerset	3,326,571	4,169,448	-20.2%
Palmerston	2,030,116	3,134,481	-35.2%
Radella	637,220	903,629	-29.5%
Total	**5,993,907**	**8,207,558**	**-27.0%**



Hydropower Projects
Total Electricity Generated-(kWh) Mn

Fuelwood

Planting fuelwood is a continuous programme under our sustainability initiatives. An extent of 44.77 hectares were planted in the reporting year, 2016/17, and taking the total extent to 497.01 hectares from the period 2007-2016/17. Apart from the plant species *'Eucalyptus spp'* blocks, we have now commenced establishing mixed forestry blocks including the plant species *'Calliandra calothyrsus'* and *'Acacia decurrens'*, to optimise land utilisation and achieve sustainability in land use.

Eucalyptus Nursery

Fuelwood Planting Programme

Species Planted	*2016/17*		*2015/16*
Eucalyptus spp.	115,050		111,720
Acacia decurrens	6,600		5,400
Calliandra calothyrsus	1,500		9,700
Total Fuelwood Planted	**123,150**		**126,820**
Region (hectares)	*2007-2015*	*2016/17*	*2007-2017*
Low Grown	68.52	-	68.52
High Grown	383.72	44.77	428.49
Total Planted by Region	**452.24**	**44.77**	**497.01**

Eucalyptus spp

DIRECT AND INDIRECT GHG EMISSIONS

GRI-G4 - EN15 to EN21 and EN30

Fuel and electricity usage in all estates, factories, offices, buildings, bungalows and the head office have been taken into account for the corporate's GHG emissions computation. The emissions related to purchased items such as fertiliser, agro-chemicals, packing material etc., and fertiliser applied have been excluded from the calculations. The RA Certification Programme complements and guides us in our efforts to measure, analyse and improve emissions across operations. Aligned to our Environment Policy, we are strongly committed to control our GHG emissions and lessen our corporate's carbon footprint; and thereby, support to address air pollution, climate change and global warming. Over the years, we have increasingly looked at bringing in best practices into our operations, seeking to be energy efficient, as discussed above, in turn, giving us a strong platform to nurture key initiatives and measures to reach out to our emission targets.

One of the most significant measures we have adopted in the recent years is to convert all tea driers operating from fossil fuel to wood based renewable energy, which was a major energy conservation initiative that we took up across our estates. This initiative alone has supported us to reduce 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, energy saving lighting and close monitoring and controlling of energy usage at each location also play a significant part in conserving energy and reducing GHG emissions.

We also closely monitor and have preventive measures in place to control emission impacts from transport related activities including transporting of products, materials and the workforce. Necessary precautions are taken to ensure fuel efficiency, regular maintenance of vehicles, obtain green certification and monitor fuel consumption for early detection and prevention of fuel wastage.

During the year 2016/17, GHG emissions under Scope 1 touched 665 tCO_2e, registering a contraction of 721 tCO_2e, corresponding to 7.8% drop as against the emissions recorded in 2015/16. Our efforts to control the use of fuel in both internal transports in operations as well as from the supervisory and head office vehicles underpinned this reduction. In the case of Scope 2, GHG emissions from electricity usage in factories, bungalows, staff quarters, offices and other buildings registered a notable decrease of 966 tCO_2e reaching 3,645 tCO_2e, in 2016/17. This corresponded to a drop of 20.9% over the preceding year's level of emissions. Lower level of tea production in the year under review was a key contributory factor to this drop in emissions under Scope 2.

The total GHG emissions in all operational areas—including scope 1, 2 and 3—reached 4,420 tCO_2e. The electricity we purchased from the National Grid stood at 5,360,856 kWh during the year, leading to 3,645 tCO_2e in emissions. We generated 5,993,907 kWh of electricity through our three hydropower plants during the year, which is an equivalent saving of 4,076 tCO_2e.

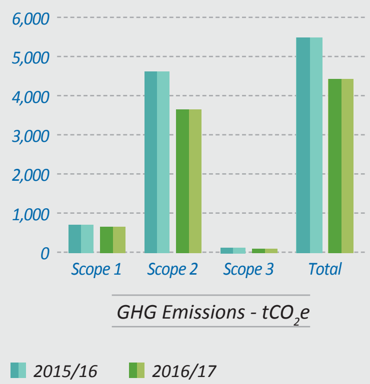
Emission of ozone depleting substances from our production facilities is non-existent and in domestic equipment almost negligible; NO_x or SO_x gases produced through our daily operations and households too, are negligible.

GHG Emissions – Scope 1, 2 and 3 - tCO_2e						
Scope	**Source**	**Units**	**2016/17**		**2015/16**	
			Quantity	**tCO_2e**	**Quantity**	**tCO_2e**
Scope 1	***Combustion of Fuels in stationary sources***					
	Diesel for Power Generators	litres	14,338	38	20,597	55
	Combustion of Fuels in mobile sources					
	Diesel for Vehicles	litres	147,050	394	171,357	459
	Diesel for Any others	litres	3,463	9	3,396	9
	Gasoline for Vehicles	litres	81,461	185	76,242	173
	Gasoline for Agricultural Equipment	litres	14,298	32	9,472	22
	Gasoline for Any Others	litres	2,635	6	1,675	4
	Total Scope 1			**665**		**721**
Scope 2	***Purchased Electricity from CEB***					
	Factories	kWh	4,733,456	3,219	6,084,861	4,138
	Bungalows, Staff Quarters, Offices & Other Buildings	kWh	627,400	427	695,767	473
	Total Scope 2			**3,645**		**4,611**
Scope 3	***Transport outside operations***					
	International Air Travel	Km	54,352	7	58,204	7
	Diesel used by Outsourced Transporters	litres	38,719	103	49,391	132
	Total Scope 3			**110**		**139**
Scope 1+2+3	**Total tCO_2e**			**4,420**		**5,471**
Note: GHG Emissions are calculated based on GHG protocol methodologies and guidelines						

GHG Emissions by Source - tCO_2e			
Scope	**2016/17**	**2015/17**	**Variance %**
Scope 1	665	721	-7.8%
Scope 2	3,645	4611	-20.9%
Scope 3	110	139	-20.9%
Total	**4,420**	**5,471**	**-19.2%**

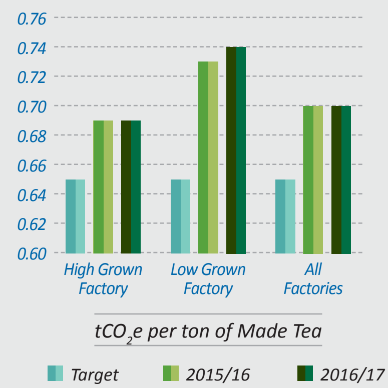
GHG Emissions and Intensity - Snapshot

GHG Emissions by Scope



- Scope 2 emissions in 2016/17 including purchased electricity from the national grid demonstrate a considerable improvement of 20.9% percent over 2015/16.
- Led by the scope 2 improvement, the total emissions for the year 2016/17 stood at 4,420 tCO_2e, reflecting a creditable improvement of 19.2% percent from 5,471 tCO_2e in 2015/16.

GHG Emissions Intensity



- GHG emissions intensity is represented by emissions (tCO_2e) per ton of made tea produced.
- The GHG emissions intensity of 0.70 tCO_2e per ton of made tea for all factories recorded in 2016/17 corresponded to the result achieved in the previous year.
- Our target is to achieve an intensity of 0.65 tCO_2e per ton of made tea in the ensuing year.

Top Five Estates – Lowest GHG Emissions Intensity – 2016/17

0.62
tCO_2e/ton of Made Tea
Great Western Estate

0.63
tCO_2e/ton of Made Tea
Dessford Estate

0.65
tCO_2e/ton of Made Tea
Wattegoda Estate

0.66
tCO_2e/ton of Made Tea
Bearwell and Deniyaya Estates

0.69
tCO_2e/ton of Made Tea
Logie Estate

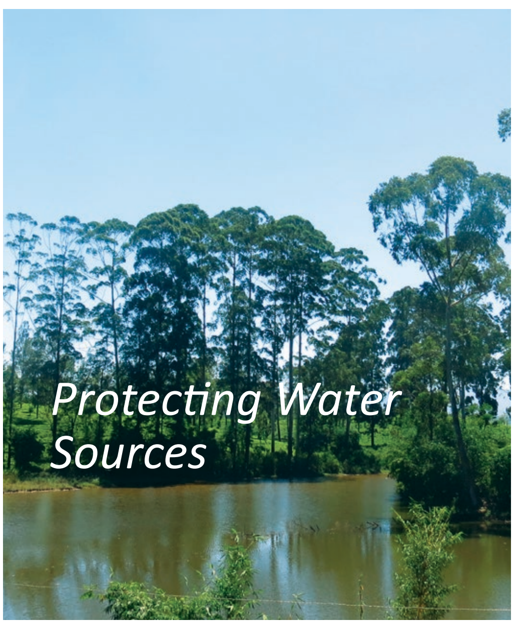
WATER CONSERVATION AND PROTECTION OF WATER RESOURCES

GRI - G4 – EN9

Integrated Water Resources Management

- Rainwater Harvesting
- Chemical Free Buffer zones and Vegetation Barriers
- Monitoring and Reductions in Agrochemicals Usage
- Wastewater Purification Systems
- Protecting Water Resources
- Awareness Programmes on Water Conservation
- Annual Water Quality Testing

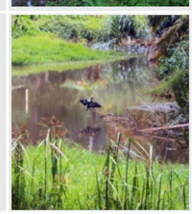
PROTECTING WATER SOURCES



Protected Drinking Water Source
Mattakelle Estate

Ponds created for Rainwater Harvesting to promote Biodiversity & improve Micro-climate
Deniyaya Estate

20-metre Chemical Free Buffer Zones around Drinking Water Sources
Holyrood Estate



Banks of Lakes & Rivers are Protected with wide Grass Buffer zones & Riparian Habitats
Kiruwanaganga Estate

Wastewater Purification System
Deniyaya Estate

Bioremediation for Wastewater Purification
Kiruwanaganga Estate

We recognise that the sustainability of the business, estate community and biodiversity is reliant and inseparably linked to the availability of water. Focused efforts are in place to protect and sustain all water sources on our lands, thereby, ensuring adequate water supplies to our operations, estate communities and even to the neighboring villages and towns.

Under the RA certification, all water sources and water bodies within the estates have been identified and mapped. A management programme with necessary initiatives to protect and conserve water sources has been implemented. We have in place live and mechanical fences, meshes and tree species including *Terminalia arjuna* (Kumbuk), *Albizia, Calliandra calothyrsus, Gliricidia sepium,* etc., which have been planted for conservation of these sources. Water quality in 147 sources is tested annually for required parameters.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Rainwater harvesting is done through many lakes, ponds and wetland areas available on the estates, which are all well protected. The ponds are constructed at strategic locations for rainwater harvesting and sustaining the ground water table. The chemical free buffer zones extending up to twenty metres around all drinking water sources and five metres along all other water bodies together with vegetative barriers have been established to prevent any contamination due to agricultural operations. The Banks of lakes and rivers are protected with wide grass buffer zones and riparian habitats.

Regular training and awareness programmes are conducted through the RA certification programme to educate the estate staff and the communities on the importance of protecting water sources, and the need for water conservation.

We also work in collaboration with the International Water Management Institute (IWMI) to be current and improve our integrated water resources management strategies and programmes. IWMI has carried out extensive studies on the water sources available on four of our estates, Wattegoda, Holyrood, Logie and Mattakelle, in the Talawakelle region. These studies highlighted the issues revolving around the quality and availability of drinking water and made available a set key recommendations and remedial measures to be adopted to ensure the sustainability of drinking water supplies.

Given our proactive conservation measures, none of our water sources are significantly or otherwise affected by the withdrawal of water.

WATER WITHDRAWAL, RECYCLED AND REUSED

GRI - G4 EN 8 & EN-10

Water is used only for humidification and washing of the rolling room during and after the manufacturing process. In addition, water is used by the employees engaged in factories. Therefore, tea manufacturing process does not consume large volumes of water.

Water required for operations are sourced from water springs and streams that are located within our estates, which are well protected. Therefore, we do not draw water from national supplies. Water collected from rain harvesting is also used as a source, albeit, to a lesser extent. In the year under review, our estates as a total withdrew 8,522 kilolitres of water as compared to 9,948 kilolitres of water withdrawn in the preceding year; representing a 14.3% percent decrease. Water withdrawal is measured based on actual consumption of factories per day for 300 operating days. Due to complexities, we have not tracked the water usage by the resident communities, which also includes a large number of vegetable cultivators and those who work outside the estate.

WASTEWATER MANAGEMENT

GRI - G4 – EN22

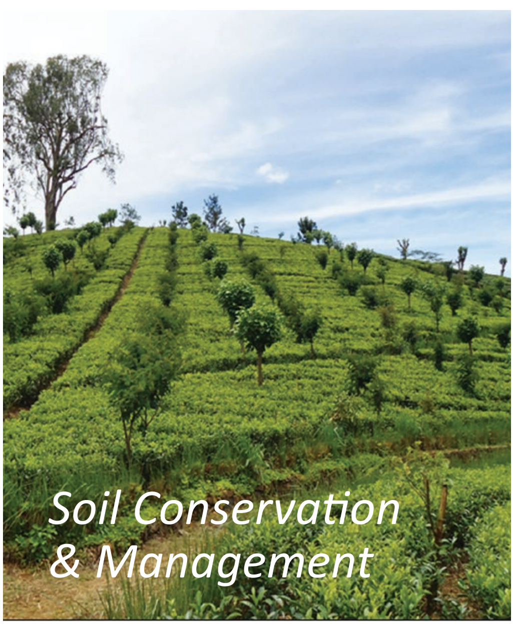
Under the RA Programme, 96 wastewater purification systems with sedimentation and filtration tanks have been constructed on all estates to purify factory and domestic wastewater. These systems have enabled the factories to treat wastewater prior to discharging as well as to purify domestic wastewater generated. In addition, we have promoted bioremediation through conservation of natural vegetation as well as by planting recommended species such as *Canna generalis* (Canas), *Tithonia diversifolia* (Wild Sunflower), *Vetiveria zizanoides* and *Wedelia trilobata* in channels through which wastewater is flowing. These initiatives ensure that factories and domestic wastewater generated on estates are adequately purified before releasing to the natural water bodies. This is verified by an annual laboratory testing of samples for required parameters to ensure that water discharged is within the permissible limits. Due to effective preventive and precautionary measures implemented, discharges of water and run off have not affected any habitats and water bodies.

During the year 2016/17, the amount of water discharged in processing factories after purification amounts to 7,443 kiloliters, which is based on the amount of water consumed in these factories. This corresponds to 13.8% percent decrease over 8,634 kilolitres of purified wastewater discharged in previous year.

SOIL CONSERVATION, AGRO-CHEMICALS & FERTILISER MANAGEMENT

Soil Conservation Techniques

- Periodic Testing of Soil Samples for Carbon, pH & Nutrient Levels
- Dolomite Applications to Correct the pH Imbalances
- Planting of Vettiver & Arachis Pintoii along Road Banks & Upper Banks of Drains
- Planting of Green Manure & Shade Trees
- Planting of Grass & other Cover Crops In Vacant Patches
- Lock & Spill Type Drains, De-silting of Drains, Distilling Lateral Drains & Leader Drains
- Terracing, Prunning, Burying, Mulching & Thatching
- Composting, Forking In Pruned Fields & Burying of Weeds
- Special Fertiliser Mixtures to Remedy Nutrition Deficiency Levels



Planting Arachis Pintoii and Vettiver along the Banks of Drains & Roads
Wattegoda Estate

Planting of Grass & other Cover Crops
Kiruwanaganga Estate

Lock & Spill Type Drains
Indola Estate

Terracing
Indola Estate

Pruning, Burying & Mulching
Bearwell Estate

Thatching
Mattakelle Estate

As a plantation entity, soil conservation is an intrinsic part of our operations and our efforts to adopt sustainable agriculture practices. We give precedence with time and due investments to minimise soil degradation and erosion and enrich its nutrients, acidity and carbon levels, whilst pursuing our commercial goal to obtain higher yields.

We have adopted and have taken proactive measures including training programmes to align our soil management practices with the '4R Nutrient Stewardship' initiative. This approach as advocated by the International Plant Nutrition Institute looks into the economic, social and environmental dimensions of nutrient management by looking for the "right nutrient source to apply at the right rate in the right place and at the right time." Our initiatives are also in line with the prescribed guidelines of the RA Certification Programme and the Tea Research Institute.

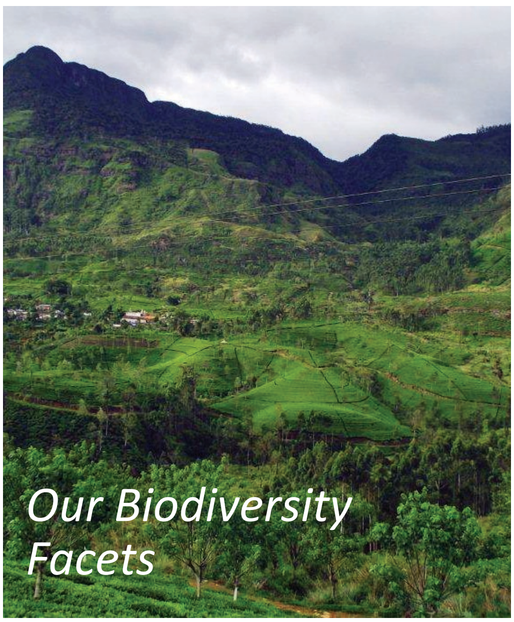
Agro-chemical usage is closely monitored both at the estate level and at the corporate level to ensure that minimum quantities are applied and progressive reductions achieved annually. Out of the twenty recommended agro-chemicals by the Tea Research Institute, we have effectively reduced the number of agro-chemicals used to five. Since 2014, we have completely suspended the usage of insecticides. We actively promote biological control measures on all our estates to control pest and insect attacks.

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

Weedicides are the most widely used agro-chemical within field operations. However, in the reporting year, we have registered a significant reduction in the use of chemical weedicides. We have in effect, discontinued the use of Glyphosate in compliance with the ban imposed by the Government of Sri Lanka. We now mostly rely on manual weeding in our field operations. We use the removed weeds for "In Situ" weed burying and thereby improve on soil moisture, organic matter, carbon content, aeration and facilitate microbial population. We also advocate weed burying on the upper slopes of fields to reduce water flowing downwards to prevent top soil erosion.

PROTECTION OF BIODIVERSITY AND HABITATS

GRI - G4 - EN11 to EN13



Kikiliyamana Natural Forest Reserve bordering Great Western, Radella and Holyrood Estates, Talawakelle

Conical Hill National Forest, Agrabopaththalawa bordering Calsay Estate, Nanuoya

Watersheds & Catchment Areas feeding National Rivers Nilwala, Gin, Kotmale Oya & Nanuoya

Conservation of Riparian Habitats Wattegoda Estate

Warning Sign Boards of Chemical Free Buffer Zones Mattakelle Estate

RA Programme Initiatives Depicted by Children Wattegoda Estate

Our Environmental Policy sets out our strong commitment towards protecting biodiversity and water sources through a well-managed conservation programme.

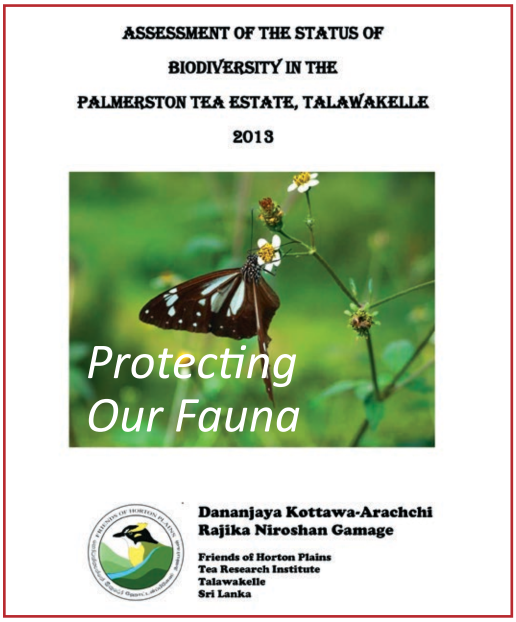
All sixteen of our estates are located in the hill country low country wet-zones, which are the regions with the highest forest cover and biodiversity that regulate climate and rainfall in the wet-zone. The estates are endowed with diverse ecosystems and habitats—lakes, ponds, streams, wetlands with swamps and marshes, waterfalls, riparian habitats, eco-forests and Eucalyptus forests. All these habitats provide sanctuary for the precious biodiversity within the estates. The lakes and the wetland store rainwater and provide seepage water essential to maintain the ground water table, regulate atmospheric temperatures and also enhance the splendour of the ecosystems.

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 RA Certification programme on 14 of our estates. Through this programme, we have identified 244 hectares as biodiversity conservation areas and the necessary measures are in place to protect and conserve these blocks. All biodiversity blocks and wildlife habitats are identified on maps and protected with a five-meter chemical free buffer zone and clear warning and sign boards in languages familiar to the community. All certified estates have undertaken biodiversity/wildlife surveys in collaboration with professional bodies and are aware of all faunal and floral species available within estates. The studies revealed that habitats provide unique niches and support maintenance of natural diversity of estates.

The estates have also established the Rainforest Educational and Information Centres (REICs) to drive and sustain the programme. Well equipped with books, leaflets, brochures, posters and other educational material, these centres 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 integrated solid waste management.

PROTECTING OUR FAUNA

GRI - G4 - EN14



ASSESSMENT OF THE STATUS OF
BIODIVERSITY IN THE
PALMERSTON TEA ESTATE, TALAWAKELLE
2013

Protecting Our Fauna

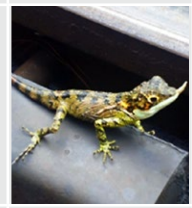
Dananjaya Kottawa-Arachchi
Rajika Niroshan Gamage

Friends of Horton Plains
Tea Research Institute
Talawakelle
Sri Lanka

Wildlife Habitats between Tea Fields
Kiruwanaganga Estate

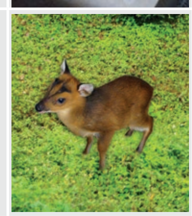
Sign Boards of Wildlife Protection
Mattakelle Estate

Asanka's Shrub Frog
(Pseudophilautus asankai)
Critically Endangered (CR)
Logie Estate



Rough-Horn Lizard
(Ceratophora aspera)
Endangered (EN)
Wattegoda Estate

Yellow Bittern
(Ixobrychus sinensis)
Near Threatened (NT)
Wattegod Estate



Barking Deer
(Muntiacus Muntjak)
Near Threatened (NT)
Mattakelle Estate

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

The biodiversity surveys carried out within our estates revealed that there are over 220 faunal species, both vertebrates and invertebrates living within our estates. Our estates are also habitats to over 114 species that are categorised as endangered, threatened and vulnerable species as per the IUCN Red Data List published in 2012. Hunting, capturing and trafficking wild animals and birds and rearing of these species within the estates have been strictly prohibited. In addition, wildlife sightings by the community are recorded for close monitoring of the presence of each species.

In view of the above protective and precautionary measures implemented, none of the IUCN Red List of threatened species or habitats for such species is affected by our operational activities.

Summary of Faunal Species within Estates
IUCN Red Data List - 2012

Conservation Status	Number of Species
Globally Threatened	-
Critically Endangered	06
Endangered	44
Vulnerable	38
Near Threatened	26
Total Species	**114**

Endangered Faunal Species Identified on Estates					
Conservation Status	**Taxonomic Group**	**Family**	**Scientific Name**	**Common Name**	**Species Status**
CRITICALLY ENDANGERED	Land Mollusk	Ariophantidae	Ratnadvipia karui		Endemic
	Dragonflies & Damselflies	Platystictidae	Drepanosticta brincki	Brinck's Shadowdamsel	Endemic
			Drepanosticta lankanensis	Drooping Shadowdamsel	Endemic
	Butterflies	Hesperiidia	Baoris penicillate	Paintbrush Swift	Native
	Amphibians	Rhacophoridae	Psuedophilautus asankai	Asanka's Shrub Frog	Endemic
			Psuedophilautus microtympanum	Small Eared Shrub Frog	Endemic
ENDANGERED	Land Mollusks	Corillodae	Corilla adamsi	Sri Lanka Toothed Lip Snail	Endemic
	Dragonflies & Damselflies	Chlorocyphidae	Libellago greeni	Green's Gem	Endemic
		Gomphidae	Megalogomphus ceylonicus	Sri Lanka Sabretail	Endemic
			Paragomphus henryi	Brook Hooktail	Endemic
			Helipgomphus walli	Wall's Grappletail	Endemic
			Microgomphus wijaya	Wijaya's Scissortail	Endemic
		Libellulidae	Onychothemis tonkinensis	Aggressive Riverhawk	Native
			Tetrathemyis yerburyii	Yerbury's Elf	Endemic
		Platystictidae	Platysticta apicalis	Dark Forestdamsel	Endemic
		Protoneuridae	Elattineura oculata	Two-spotted Threadtail	Endemic
	Butterflies	Lycaenidae	Udara lanka	Sri Lanka Hedge Blue	Endemic
		Nymphalidae	Parantica taprobana	Sri Lanka Tiger	Native
			Lethe drypetis	Tamil Treebrown	Native
			Argymis hyperbius taprobana	Indian Fritillary	Native
			Vanessa indica nubicola	Indian Red Admiral	Native
	Amphibians	Dicroglossidae	Nannophrys ceylonensis	Sri Lankan Rock Frog	Endemic
			Fejervarya greenii	Sri Lanka Frog	Endemic
		Microhylidae	Microhyla karunaratnei	Karunaratne's Narrow-mouthed Frog	Endemic
		Ranidae	Hylarana aurantianca	Golden Frog	Native
		Rhacophoridae	Psuedophilautus alto	Horton Plains Shrub Frog	Endemic
			Psuedophilautus cuspis	Sharp-snouted Shrub Frog	Endemic
			Psuedophilautus reticulatus	Reticulated Thigh Shrub Frog	Endemic
			Psuedophilautus silus	Pug-nosed Shrub Frog	Endemic
			Psuedophilautus sarasinorum	Muller's Shrub Frog	Endemic
			Psuedophilautus viridis	Dull Green Shrub Frog	Endemic
			Taruga eques	Mountain Hourglass Tree Frog	Endemic
	Skinks	Scincidae	Lankascincus deignani	Deignan's Lankaskink	Endemic
			Lankascincus taprobanensis	Smooth Lanka Skink	Endemic
	Lizards	Agamidae	Ceratophora aspera	Rough-Horn Lizard	Endemic
			Ceratophora stoddartii	Rhino-horn Lizard	Endemic
			Calotes liocephalus	Crestless Lizard	Endemic
			Calotes nigrilabris	Black Cheek Lizard	Endemic
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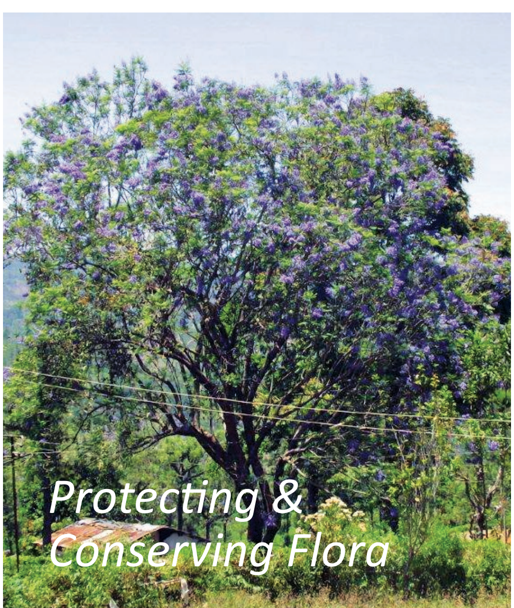
			Ceratophora stoddartii	Rhino-horn Lizard	Endemic
			Calotes liocephalus	Crestless Lizard	Endemic
			Calotes nigrilabris	Black Cheek Lizard	Endemic
	Snakes	Natricidae	Aspidura trachyprocta	Common Rough Side	Endemic
		Uropeltidae	Rhinophis blythii	Blyth's Earth Snake (Shield Tail)	Endemic
			Hypnale nepa	Merrem's Hump-nosed Viper	Endemic
	Birds	Muscicapidae	Saxicola caprata	Pied Bush Chat	Breeding Resident
		Picidae	Picus xanthopygaeus	Streaked-throated Woodpecker	Breeding Resident
		Cuculidae	Cuculus varius	Hawk Cuckoo	Breeding Resident
	Mammals	Cercopithecidae	Semnopithecus vetulus	Sri Lanka Purple-faced Leaf Langur	Endemic
		Felidae	Panthera pardus	Leopard	Native
			Prionthera rubiginosus	Rusty-spotted Cat	Native
			Prionthera viverrinus	Fishing Cat	Native
		Soricidae	Suncus montanus	Asian Highland Shrew	Native
		Viverridae	Paradoxurus aureus	Golden Palm Civet	Endemic

PROTECTING AND CONSERVING FLORA



Wild Flora
Blue Iris (*Iris Verginica*)
Wattegoda Estate

Wild Flora
Wild Orchids
Wattegoda Estate

Celebrating Environmental Day
Kiruwanaganga Estate

Tree Planting Initiative
Deniyaya Estate

'Nawa Wana Arana-Diyadawa'
Tree Planting Campaign
Deniyaya Estate

Planting of Fruits, Native, Herbal & other Plant species
Deniyaya Estate

MANAGEMENT DISCUSSION AND ANALYSIS CONTD.

The agro-ecosystems on estates are dominated by tea *(Camellia sinensis)* fields with low shade trees such as *Erythrina lithosperma*, *Calliandra calothyrsus, Gliricidia sepium* and high shade trees *Grevillea robusta* and *Albizia* species. Tea fields are also entwined with species such as *Bambusa vulgaris, Cassia spectabilis, Toona ciliate* etc. *Vetiveria 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 fruit trees adding value to the profound biodiversity within estates.

Amongst the many diverse species of flora amounting to 169 species including 27 endemic species, identification of a protected and endemic plant, *Oncosperma fasciculatum,* on the Wattegoda estate is noteworthy. Two critically endangered floral species, Diyapara (*Dillenia triquetra*) and Ruk (*Horsfieldia iryaghedhi*), have also been identified at the Kiruwanaganga estate. Two endangered species, 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.

TREE PLANTING INITIATIVE

Reducing our carbon footprint and enriching biodiversity, we continue with our annual tree planting initiatives across our estates. Increasing the tree canopy cover at the plantation, household and at the community level, we seek to bring down local temperatures, change the micro-climate and conserve our water resources. Our initiatives will positively contribute towards carbon dioxide sequestration and mitigate adverse impacts of GHG emissions and climate change. These initiatives are also in line with the objectives of UNFCCC, Kyoto Protocol and UN-REDD programme for regulation of GHG concentrations in the atmosphere.

In addition to planting Tea (*Camellia sinensis*), Green manure/shade trees and Eucalyptus to sustain our core business, native, fruit and other plant species too are planted to add value to the existing biodiversity. As an annual initiative, we are proud to report that over 600,000 plants were planted on our estates during the financial year 2016/17.

Total Number of Plants Planted

Plant Species	2016/17	2015/16
Camellia sinensis (Tea)	493,533	584,759
Hevea brasiliensis (Rubber)	500	-
Eucalyptus	115,050	111,720
Acacia decurrens	6,600	5,400
Calliandra calothyrsus	1,500	9,700
Erythrina lithosperma (Dadaps)	14,540	5,442
Gliricidia sepium	537	6,433
Grevillea robusta	1,920	10,528
Albizia	1,300	270
Bambusa vulgaris (Bamboo)	1,022	14
Toona clliate	-	-
Terminalia arjuna (Kumbuk)	150	412
Cinnamomum Zeylanicum (Cinnamon)	-	30,000
Microbiota decussata (Cypress)	100	300
Fruits, Native and other Plant Species	7,108	3,586
Total	**643,860**	**768,564**

'Nawa Wana Arana-Diyadawa'

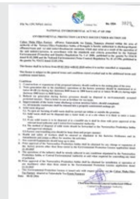
A tree planting campaign, **'Nawa Wana Arana-Diyadawa'** was launched by the Deniyaya estate in January 2017 to protect water sources and develop the forest cover in the area. This initiative is in collaboration with the President's Office and under the guidance of the Ministry of Law & Order and Southern Development, the Department of National Community Water Supply of the Matara District, the Community Water Supply Organization in Deniyaya and the Department of Forest Conservation. The campaign is expected to run for the next two years up until 2018.

The Deniyaya estate allocated 20 acres of land from Lower and Diyadawa Divisions and 6,600 plants valued at Rs. 408,550/= were supplied by the Department of National Community Water Supply of the Matara district. The plants supplied for this cultivation were Fruits, Native, Herbal and other plant species, such as, Kumbuk *(Terminalia arjuna)*, Mee *(Madhuca longifolia)*, Naa *(Mesua ferrea)*, Margosa *(Azadirachta indica)*, Kaluwara *(Diospyros ebenum)*, Jak *(Artocarpus heterophyllus)*, Goraka *(Garcinia gummi-gutta)*, Cashew *(Anacardium occidentale)*, etc.

ENVIRONMENTAL IMPACTS, CERTIFICATIONS AND COMPLIANCE

GRI - G4 – EN27 to EN29

Certifications & Compliance



Environmental Protection Licence (EPL)

Ethical Tea Partnership Certificate (ETP)

Rainforest Alliance-Sustainable Agriculture Network (RA/SAN) Group Certificate

RA Certificate of 5-Year Recognition for Commitment of Sustainable Farm Management

The Company produces only black and green teas, which are toxin free, biodegradable and environmentally friendly and therefore, does not cause any environmental risks and hazards. Our black and green tea manufacturing process is an Eco-friendly process and only renewable energy—fuelwood—is used in the production process, thereby, reducing the GHG emissions significantly. The water is not used in both black and green tea production process and wastewater arising from washing the rolling rooms in all factories is purified through the sedimentation and filtration tanks before being discharged to the environment, thereby, mitigating environmental impacts. The GHG emissions from all factories are measured, monitored and controlled to minimise adverse impacts. Our production waste is as low as 0.3 percent and is used as compost in tea fields, thereby, eliminating any pollution by residues of production. The packing materials used for bulk tea packing is environmentally friendly and are mainly exported with the produce; and therefore, not practical to reclaim.

There had been no violation of environmental related laws and regulations and therefore, no monetary or non-monetary fines or sanctions were imposed on the Company for non-compliance. We fully comply with the laws and regulations stipulated by the Central Environmental Authority and the relevant national legislation. All our processing factories have obtained Environmental Protection Licences (EPL) from local authorities.

In addition, all high grown estates and Kiruwanaganga and Deniyaya estates in the low grown are certified under the RA/SAN Certification and Ethical Tea Partnership (ETP) Certification. These programmes consist of internal and external audits and best global environmental practices, which provide further assurance of our environmental compliance. As mentioned, we also received a certificate from RA as recognition for the commitment of Sustainable Farm Management for the past five years since 2011.

OVERALL - ENVIRONMENTAL PROTECTION EXPENDITURE INVESTMENTS

GRI - G4 – EN31

The Company invested a sum of Rs. 40.4 million during the year 2016/17 to carry out the following initiatives and measures to protect the environment, underpinned by our strategic imperatives.

Overall Environmental Investment - FY 2016/17

Strategic Imperatives	***Environment Conservation Activity***	***Cost Rs***
Solid Waste Management	Integrated Waste Management	2,418,015
Water Conservation & Protection of Water Resources	Protection of Water sources & Water Conservation	1,859,985
	Drinking Water & Wastewater Quality Testing & Monitoring	2,378,933
	Construction of Wastewater Purification Systems	884,327
	Establishment of Vegetative barriers and Chemical Free Buffer zones	1,063,635
Soil Management and Conservation	Construction & Maintenance of Drains & Terracing, Soil Quality Testing & Monitoring	12,201,778
GHG Emissions Management & Biodiversity Conservation and Protection	Planting of Argo-forestry and Fuelwood	9,254,078
	Green Manure, Native and Other Trees & Cover Crops	8,238,853
Awareness Programmes & Certifications	Training and Educational programmes	379,402
	Erecting of Sign Boards	777,449
	Establishment of Rainforest Educational and Information Centres (REIC)	57,734
	Rainforest Alliance-Sustainable Agriculture Network Certification	912,627
	Total	**40,426,816**

ENVIRONMENTAL GRIEVANCE MECHANISM

GRI - G4 –EN34

Through the RA Programme, Health and Safety Committees have been formed on all estates and the members are educated and empowered to monitor environmental aspects in their respective estates and report grievances and complaints, if any, to the estate management or to the Auditors during RA/SAN Certification Audit and Internal Audits. In view of the robust environmental management systems and programmes implemented, we have not received any complaints or grievances related to any environmental impacts from any of our operational sites.

FUTURE OUTLOOK

The world economy is gaining momentum and is forecast to register higher growth levels across nations in the ensuing years, 2017 and 2018. The advanced as well as emerging and the developing nations are expected to be more robust in economic value creation. Yet, the down-side risks of economic policy and structural constraints together with geopolitical challenges may very well exert considerable pressure on the anticipated level of growth. The uncertain policies of the newly elected US administration may have significant implications on the upside projections. Although political and civil strife still remain a key concern, greater economic activity is much anticipated in our key export markets, Russia and the Middle East. This will be more pronounced if the bullish trends in oil prices remain in-tact in the ensuing year.

In the domestic front, the socio-political issues will remain a key concern that would mar the nation's economic prospects in the near-term. Yet, the economy is expected to strengthen in the medium term, with a more balanced macroeconomic environment—paving a solid platform for greater economic value and taking a steady path towards meeting upper-mid income aspirations.

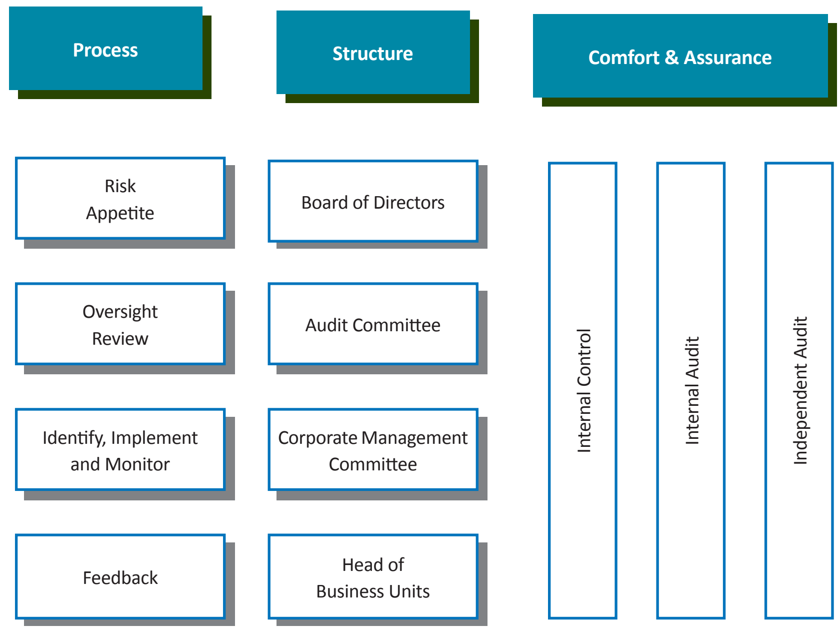
The tea industry performance in the near to medium term will continue to be challenged—climate change impacting crop and quality of the teas produced; low labour and land productivity; restrictions on chemical weedicides; rising cost of production; and socio-political and economic constraints faced by the key export markets. A fully-fledged productivity based wage mechanism and the proposed paradigm shift on a revenue share concept will play a critical role in leading our industry on its way forward from a long-term perspective. As a front-runner organisation, we stand committed to be a proactive stakeholder, supportive of the concerted efforts taken to shape our industry to meet the new-age dynamics.

From our organisation's standpoint, we will continue to be focused and cautious in managing the down-side risks inherent and emerging in our industry. We intend to reinforce our positioning, bolt on our critical success factors and brace on our strategy and best management practices, thereby, take advantage of the emerging opportunities and secure our strategic goals and ensure our long-term sustainability.

Our plan, actions and targets in line with our strategic imperatives are set out for the year ahead, 2017/18:

RISK MANAGEMENT

G4-35



"The Board is responsible for ensuring effective risk management. Risk management is an integral component of strategic management and a central part of enterprise governance."

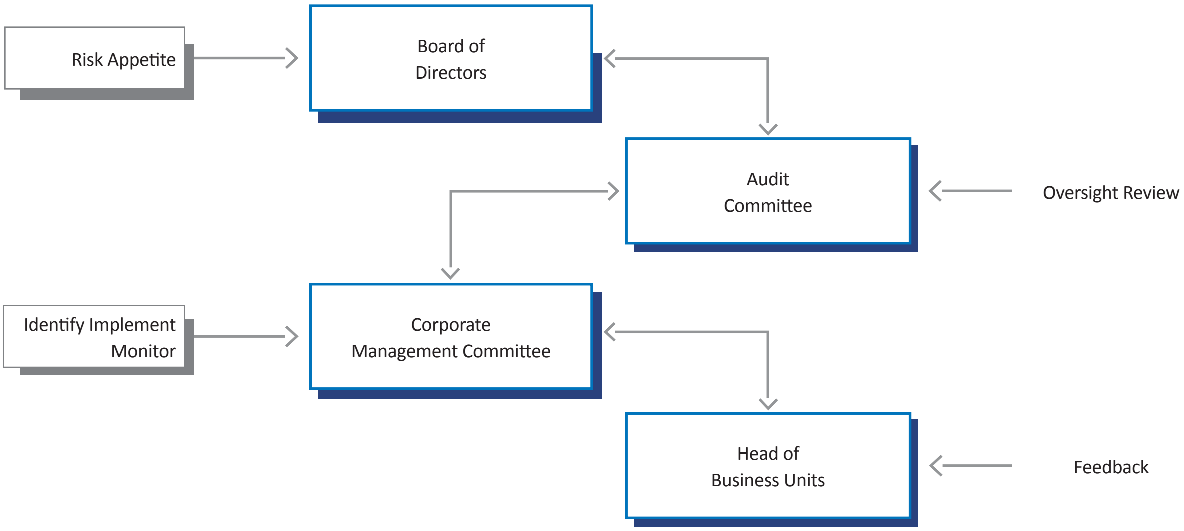
Risk management and sustainability facets are firmly intertwined within the Company's operations. We believe that sustainability is a form of overall risk management, not only considering the specific operational and financial risks, but, also encompassing the macro and other overarching risks faced by the industry. This includes possible operational impacts on the environment, employees and community.

Managing risks is a key aspect of the Board's stewardship role. As indicated in the enterprise governance report, risk management is a component of the performance dimension of enterprise governance. Thus, a risk management structure and process are necessary to timely identify risks and evaluate the risk appetite, supported by an effective management and monitoring mechanism. A well-structured risk management process encourages the management to take risks cautiously, enabling optimum returns to the organisation. We remain committed to maximise value creation by developing and growing our business within the Board determined risk appetite parameters. Our approach to risk management is described in the risk framework presented below.

G4-34

RISK MANAGEMENT FRAMEWORK

The Board is responsible for ensuring effective risk management. The Board's mandate is converted into action as described in the risk management framework. They are assisted by the Audit Committee, who has the oversight responsibility for risks and internal controls. Internal audits carried out by independent professional auditors and the Company's internal auditors provide assurance to the Audit Committee on internal control and compliance, encompassing financial and operational risks.



The Corporate Management Committee (CMC) headed by the Managing Director is tasked to implement the risk management process. The CMC examines the situations, processes, and possible events that may seriously reduce the organisation's earnings, threaten operational sustenance, impair liquidity or create legal, regulatory or reputational risks. Whilst the CMC identifies such risks internally, stakeholder engagement provides an opportunity to ascertain any risks based on their feedback.

Upon ascertaining the risks as per the risk appetite parameters outlined by the Board, the CMC will evaluate the options available to mitigate and mange such risks. Continuous monitoring of these activities has been integrated to the operations. The heads of business units (estates) with the support of the employees provide useful information and feedback to the CMC to carry out this task.

Internal control, internal audit and independent assurance provide comfort and assurance on risk management. Whilst internal controls focus on operations, assurance provided by internal and independent assurance focuses on any gaps from identification to management of risk.

The risk management review process is further enhanced by the oversight of the Hayleys Group Management Committee, Treasury, Strategic Business Development Unit and the Group Legal and Management Audit and Systems Review departments.

A well-structured risk management process encourages the management to take risks cautiously, enabling optimum returns to the organisation. We remain committed to maximise value creation by developing and growing our business within the Board determined risk appetite parameters.

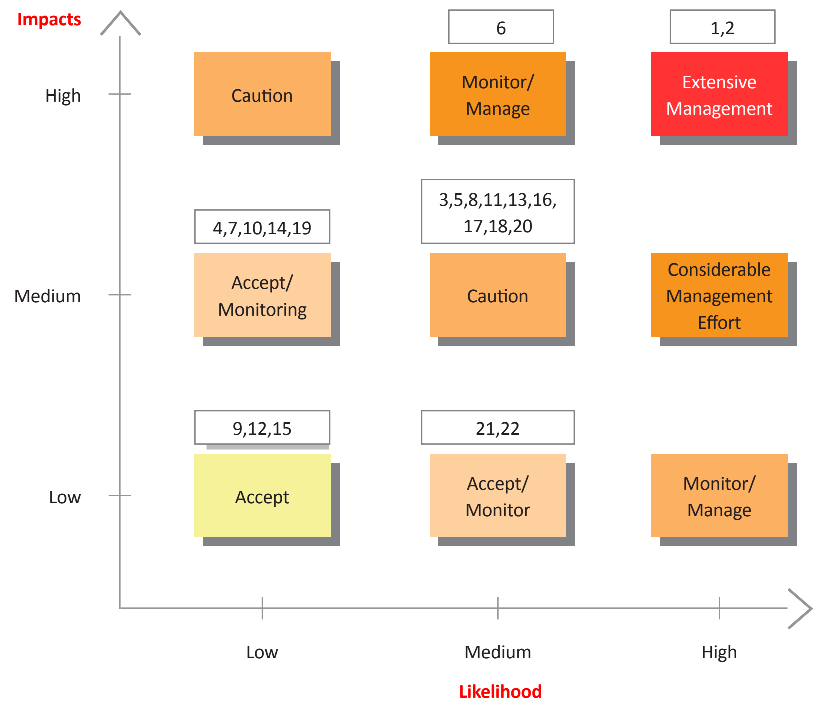
RISK MANAGEMENT CONTD.

RISK EVALUATION AND MAPPING

Risk evaluation involves assessing the likelihood of occurrence and the potential impacts should they occur. The likelihood of an event is assessed on the basis of past occurrences and the preventive measures in place. A ranking as per the probability of occurrence—high, medium and low—is assigned for each risk. The impact of an event is assessed by determining the loss it would cause and the extent of the impact. By considering these two factors the impact is then categorised as low, medium and high.

A risk map is developed based on the results of the risk assessment. The position of a particular risk indicates the risk appetite level and accordingly, the risk mitigation actions plans are formed and reviewed by the CMC.

RISK ASSESSMENT MATRIX



Risk evaluation involves assessing the likelihood of occurrence and the potential impacts should they occur.

TTELs' Holistic Approach to an Integrated Risk Management System

RISK MANAGEMENT ACTIONS:

The table given below sets out an assessment of the risks related to the organisation's value creation process and the risk mitigation actions that are in place.

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

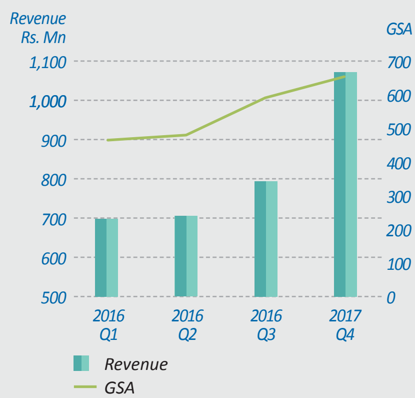
1. Socio-Economic and Political Risks

- Fluctuations in global market conditions
- Political and economic changes in key markets

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	High	High	High	High

Risk Assessment

Since revenue generated from manufacturing of Black Tea is exceeding 95 percent of the total revenue, changes in macroeconomic, political and global market conditions impact and erode the profit margins.



Revenue /GSA

Risk Management Strategies

- Optimisation of the product portfolio from high and low grown to cater to specific market segments
- Quality focus production strategy
- Promote timber and fuel wood cultivation in low yielding tea fields
- Develop revenue streams from hydro power, timber, fuelwood and leisure projects
- Explore new markets and increase value addition with the support of the marketing arm, Mabroc Teas
- Work closely with relevant authorities and associations to ensure best interest for the industry

02. Wage Structure

- Strong trade unions play an active role in determining wages
- Wage structure is not aligned to worker productivity and market conditions
- Risk Assessment
- The higher rate of increase in wage related expenses has a major impact on profitability and competitiveness.

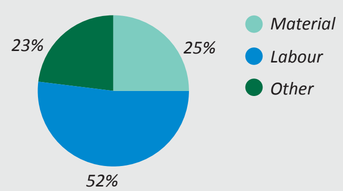
Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	High	High	High	High

RISK MANAGEMENT CONTD.

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

Risk Assessment

- The higher rate of increase in wage related expenses has a major impact on profitability and competitiveness.
- Collective Agreement is revised every two years and wage increments are not based on the market conditions
- Industry is highly labour intensive and labour cost accounts for 65 percent of the total cost
- Inadequate labour supply for the plantations gives more bargaining power to union and political bodies



Cost Structure - 2017

Risk Management Strategies

- Forecast manpower trends in the tea industry
- Increase land and worker productivity through coaching, monitoring, motivation and mechanisation
- Optimise deployment of labour to maximise productivity
- Introduce technological advancements to fulfill labour deficiencies
- Outsource or suspend of non-value adding activities
- Negotiate with trade unions and stakeholders for a wage structure that is in line with productivity
- Introduce an 'Out Grower' model on estates
- Wage negotiations are done collectively with the Employers' Federation of Ceylon and the Planters Association

3. Market and Market Prices

- Changes in customer's buying preferences

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	**Moderate**	Moderate	Moderate	Moderate

Risk Assessment

- Changes in consumer perspectives and requirements
- Coalitions of suppliers to change market equilibrium
- Increase the demand for substitute products
- Competition from global suppliers

Risk Management Strategies

- Changes in buyer's buying capacities
- Focus on producing a 'quality tea'
- Change grade mix to cater to customer requirements
- Expand product range from black tea to other varieties of tea
- Monitor market trends and design strategies to meet future trends
- Be an ethical organisation with a commitment for global sustainability, hence, obtain international certifications
- such as Rainforest Alliance – Sustainable Farm, ISO 22000
- Food Safety Management, Ethical Tea Partnership

4. Competition

- Higher volume of global supply
- Threat of substitutes

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	**Moderate**	Moderate	Moderate	Moderate

Risk Assessment

- Tea industry in Sri Lanka faces intense rivalry in global markets due to higher cost of production and substitute beverages
- Eroding profit margins and those who fail to compete with attractive prices will lose the market share

Risk Management Strategies

- Strengthen the Company's brand image
- Increase quality and productivity
- Broaden and add value to the product range
- Market promotions with Mabroc Teas (Pvt) Ltd
- Carry out extensive training programmes to increase quality of teas
- Strengthen relationships with brokers and buyers

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

5. Business Risk

- Failure to implement strategic plans, revenue enhancing and cost saving measures and initiatives on profitable investments.

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- Stifle future growth
- Reduce revenue, cash flow and profitability
- Drop of market share and dilution of corporate image

Risk Management Strategies

- An annual corporate plan with strategic and operational objectives and related actions is submitted to the Board of Directors for review
- The Board of Directors and the Management Committee hold regular meetings to formalise strategies and plans for the future
- Operations are monitored and controlled by the management information and budgetary control system and remedial action is taken including sector comparisons and monitoring performances of competitors
- Review meetings are held regularly to monitor strategic implementation

6. Ban of weedicides and other chemcials

- As a recent policy initiative, the Government has imposed a ban on chemical weedicide—Glyphosate, and thus, hindering best agricultural practices

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	High	Moderate	low	low

Risk Assessment

- Deploying more labour for manual weeding increases the cost of production and impacts operational viability
- Deploying labour and allocating time for manual weeding will lower labour productivity and crop volumes
- Slackening on weeding practices will lead to safety issues of the workforce. including poisonous
- Lack of weeding may destroy native plants and habitats

Risk Management Strategies

- Identify alternate solutions to ease out and manage the impact of the ban on chemical weeding at the management committee level
- Carry out research and development in collaboration with the Sri Lanka Tea Research Institute to find cost effective and alternative solutions to weeding
- Allocate resources to use expensive chemicals available in the market for weeding
- Conduct training programmes for the workforce to create awareness and develop skills in manual weeding
- Introduce new technology on plucking and invest in other agricultural practices to boost efficiency

OPERATIONAL RISK: ARISING FROM REGULAR BUSINESS OPERATIONS

7. Product Quality

- Fluctuations in quality of products

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Low	Low	Low	Low

Risk Assessment

- Buying volume are lower due to quality issues
- Drop in market price and eroding market share
- Widening working capital deficiencies

Risk Management Strategies

- Adhere to a 'Quality Policy'
- Adopt and implement quality assurance measures such as food hygiene standards and certification of factories under HACCP and ISO
- Carry out buyer feedback programmes and implement corrective strategies

8. Human Resource

- Failure to recruit and retain skilled employees
- Immobility of labour within/between estates
- Failure to maintain appropriate working environment
- Reduction in resident manpower
- Migration of workforce to other sectors

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

RISK MANAGEMENT CONTD.

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

Risk Assessment

- Human resource management has a major impact on productivity
- Mishandling human resources can lead to labour unrest and damage to business properties

Employee Type	Cadre 31st March 2017
Manual	73
Staff	399
Executive	6,997
Total	7,469

Risk Management Strategies

- Ensure industrial peace through Collective Agreements entered into with the trade unions as a member of the Employers Federation
- Maintain a close relationship with employees
- Training and development programmes to improve performance
- Maintain healthy working environment through effective two-way communication system
- Determine remunerations in line with the industry and not on an ad-hoc basis
- Direct collective agreements towards the market

9. Reputation

- Failing to comply with statutory requirements
- Engaging in unacceptable business practices

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Low	Low	Low	Low

Risk Assessment

Business reputation is the most valued asset of a company and can be damaged due to unethical business practices in relation to legal and statutory compliance.

- Dilution of market reputation and brand image

Risk Management Strategies

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

- Strict application of Code of Best Practice on Corporate Governance at all levels of management
- Seek expert legal advice to incorporate risk mitigatory clauses in drafting legal contracts and agreements especially those of new ventures and investments
- Strengthen internal control systems and procedures to avoid fraud and malpractices
- Introduce health and safety, sustainable environmental practices and industrial best practices
- Closely communicate with the Golden Shareholder
- Sustainability framework of the group to addresses economic, social and environmental impacts from operations

10. Investments

- Investments made without proper feasibility study and technical know-how.

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Low

Risk Assessment

- Project failures
- May impact future profitability and sustainability
- Deficiencies in long term replanting programme

Risk Management Strategies

- Investment plans are reviewed annually together with the corporate plan
- Carry out comprehensive feasibility studies with the support of external expertise
- Obtain Board approval and discuss at the Group Management Committee prior to embarking on proposed investments
- Closely monitor the progress to ensure project deliverables are achieved within given budgets and time lines

11. Information & Information Systems

- Inability to generate accurate and timely information for management decision making

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

Risk Assessment	*Risk Management Strategies*
Malfunctions in the information system may lead to communication of incorrect information to the management and loss of important information. - Loss of business opportunities - Breach of system security	- Proper usage of acceptable IT use policy of Hayleys PLC - Disaster recovery plans and sound back-up system to gear for system failure - A systems failure analysis is performed to identify non-conformance root causes and to recommend appropriate corrective actions - Enter into maintenance contracts for hardware and software with a well -established information technology company - Use of licensed software and registered security arrangements especially those of new ventures and investments - Strengthen internal control systems and procedures to avoid fraud and malpractices

12. Fraud Risk

- Fraud is any intentional act or omission designed to deceive others, resulting in misappropriation of company assets or miscommunication to stakeholders.

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	**Low**	Low		Low

Risk Assessment	*Risk Management Strategies*
- Frauds may lead to the down fall of an entire organisation, massive investment losses, significant legal costs, - incarceration of key individuals, erosion of confidence in capital markets - Operational and financial loss and dilution of corporate image - Fraudulent financial reporting	- Stringent HR recruitment and performance monitoring systems and policies. - Carry out internal audits regularly to monitor internal control system - Continuous monitoring of fraud preventive controls - Fraud detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realised. A reporting process in place to solicit input on potential fraud.

FINANCIAL RISK: ARISING FROM INADEQUACY OF CASH FLOW TO MEET FINANCIAL OBLIGATIONS AND MISREPRESENTATION OF FINANCIAL INFORMATION

13. Liquidity

- Risk of not being able to meet financial commitments as an when they fall due.

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	**Moderate**	Moderate	Moderate	Moderate

Risk Assessment	*Risk Management Strategies*
- Availability of sufficient funds is crucial as the industry is cyclical with long gestation periods for returns - Reputational damage in risk of default - Risk of widening working capital gap - Potential financial losses will hinder the prospects of future business expansion and development plans	- Structure borrowings appropriately to ensure maturity profile is not beyond the Company's ability to repay or re-finance - Monitor borrowing limits and gearing levels constantly - Closely monitor cash flow in every month and identify ways and means of managing funds. - Maintain cash flow and budgetary controls systems for effective monitoring

14. Interest rate risk

- Risk from adverse interest rate fluctuations

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	**Low**	Low	Moderate	Moderate

Risk Assessment	*Risk Management Strategies*
- Increases the cost of borrowing - Demotivate business expansions - Cash deficits - Reduce cash flow and profitability	- Negotiate with financial institutions for fixed debt servicing arrangements - Monitor debt levels constantly and maintain a balance between debt and equity - Short-term assets to be financed with the short- term finance arrangements and long-term assets to be financed with the long-term arrangements.

RISK MANAGEMENT CONTD.

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

15. Risk from high financial gearing

- Significantly reduced cash flow and profitability

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- Financial capacity and flexibility reduces
- Obligations to satisfy certain loan covenants may prevent new investments.
- Violation of a covenant may result in imposing penalties and damage reputation.
- Ordinary shareholders will be impacted under declining market conditions.

Risk Management Strategies

- Increase operational cash flow and control capital expenditure
- Cash flow management – closely monitor borrowings.
- Source market for cheaper debt/equity.
- Re-negotiate loan covenants and terms with financial institutions for favourable terms
- Restructure capital to reduce debt burden

16. Financial Reporting Framework

- A proper financial reporting framework provides credible information about the organisation to its stakeholders

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- Misrepresentation and fraudulent financial reporting will reduce the credibility of the reporting system
- Legal and financial implications

Risk Management Strategies

- Availability of good governance structure such as internal and external audits and the Audit Committee
- Compliance with regulatory requirements and Sri Lanka Financial Reporting Standards (SLFRS/LKAS)
- Existence, review and monitor of internal control system

ENVIRONMENTAL & SOCIAL RISK: ACTUAL OR POTENTIAL THREAT ON LIVING ORGANISMS AND THE ENVIRONMENT ARISING FROM OPERATIONS

17. Climate Change

- Extreme weather conditions
- Changes in rainfall pattern and ambient temperature

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- Landslides and land degradation
- Adverse impact on yields and quality of tea
- Difficulty in forecasting crop and quality of tea
- Drop in crop in-takes and profitability
- Reduced employment opportunities
- Adverse impacts on biodiversity

Risk Management Strategies

- Plant tea, green manure/shade, native and fruit plant species to increase tree canopy cover
- Harvest rainwater in reservoirs and ponds to sustain the ground water table and regulate ambient temperatures
- Implement sustainable agriculture practices
- Plant drought resistant cultivars

18. Water

- Water scarcity due to climate change and high consumption by the expanding estate community

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- Estate community may experience hardships due to water scarcity
- Crop in-takes and profitability may be adversely affected due to declining water table
- Adverse impacts on biodiversity

Risk Management Strategies

- Protect all water sources
- Harvest rainwater in reservoirs and ponds to sustain the ground water table
- Implement water conservation measures
- Train and educate operational teams and the estate community

19. Soil Fertility

- Depletion of soil organic matter and nutrients

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

Risk Assessment	*Risk Management Strategies*
• Extreme rainy weather may cause loss of topsoil, soil fertility and soil nutrients • Steep terrain in the tea fields may accelerate the soil erosion intensity	• Plant green manure/shade trees • Compost and bury prunings and weeds • Recut contour and leader drains • Establish stone and live terraces • Establish ground cover crops • Test the soil and follow rational application of Dolomite and chemical fertiliser

20. Water Pollution

- Contamination of water sources due to operational and human activities and wild animals

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment	*Risk Management Strategies*
• Agrochemicals and chemical fertiliser used in operational activities and by the resident vegetable cultivators could adversely impact the quality of water • Wild animals particularly mammals may adversely impact the water quality	• Protect water sources • Establish chemical free buffer zones along all water sources • Measure, monitor and reduce agrochemical usage through integrated weed management and integrated pest management practices • Periodically test both drinking water quality for required parameters • Train and educate operational teams and the estate community

21. Green House Gas (GHG) Emissions

- GHG emissions from operational activities and domestic consumption

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment	*Risk Management Strategies*
• GHG emissions from fuel used in transport and supervisory vehicles • GHG emissions from electricity usage in factories, staff quarters, offices and other buildings	• Measure and monitor GHG emissions at each operational site • Measure and monitor electricity and fuel consumption at each operational site • Install energy saving machinery and lighting and implement other energy conservation measures • Implement cleaner production technologies • Plant trees and increase tree canopy cover for increased carbon sequestration • Train and educate operational teams and the estate community

22. Solid Waste

- Solid waste generated from operational activities and domestic consumption

Year	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate

Risk Assessment	*Risk Management Strategies*
• Solid waste generated may cause land and water pollution • Solid waste generated may cause spread of diseases • Solid waste generated may adversely impact ecosystems and biodiversity	• Implement an integrated solid waste management programme promoting '3-R' concept • Measure and monitor the quantity of different types of solid waste recycled • Produce compost from biodegradable waste • Train and educate operational teams and the estate community including school children

CORPORATE GOVERNANCE

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

GRI - G4-41, 42 43, 46, 47

The stewardship and governance of Talawakelle Tea Estates PLC continues to be a high priority for the Board, to ensure that our strategy and requirements for excellence and good governance are instilled into the culture of the business.

Dear Shareholder,
Our organisation has maintained its reputation as a professionally-run planation company for over the past 25 years. Despite constant changes and challenges from the external environment, the Board and the management through continuous strengthening of processes and governance framework ensure that this reputation is maintained.

The Board understands the importance of setting the right culture and tone for good governance. We set the right culture from the top with strong Executive Directors who have significant industry experience and Non-Executive Directors with complementary skill sets and diverse and relevant experience.

'The Hayley's Way' – the 'Code of Business Conduct and Ethics' is our ethical road map, understood and accepted by all employees including the Board of Directors, which creates an organisation wide culture based on our values. Our governance principles take root from our Hayleys values: integrity, respect for people, teamwork, enduring customer value, good citizenship, accountability, and a 'will to win'.

The Group corporate governance framework has been developed to comply with the Companies Act No 07 of 2007, the Colombo Stock Exchange Listing Rules and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission and The Institute of Chartered Accountants of Sri Lanka in 2013.The Board has also used the G4 – comprehensive guidelines prescribed by the Global Reporting Initiative to provide guidance in ensuring that due emphasis is given to environmental and social concerns.

The governance report herein outlines our approach to corporate governance. The report is structured in line with best practices, providing a comprehensive view of relevant matters and reporting in a concise and logical manner. The report will highlight the governance framework and the activities carried out during the year to ensure the highest standards of corporate governance and compliance across the organisation.

I together with the Board of Directors hereby confirm that, we are not aware of any material violations of any of the provisions of the 'Code of Business Conduct and Ethics' as the case may be by any Director or any member of the corporate management of the Talawakelle Tea Estates PLC.

Chairman
Talawakelle Tea Estates PLC

9th May 2017

OVERVIEW

Enterprise governance is in the core of the corporate philosophy of TTEL. It perceives good governance as an uncompromising pursuit that provides the platform for growth in a sustainable manner ; not as a set controls that stifles growth.

TTEL is committed to a policy of transparent, accountable and responsible governance. In doing so the Board accepts the position of trusteeship, stewardship, and accountability that is placed upon it. The board objective is to deliver adequate returns to all stake holders and it is done in conformity to the strategic goals and imperatives in our value creation path.

The Board identifies the scope of enterprise governance through the strategic goals and imperatives. This signifies that the conformance and performance aspects of governance should be identified through the strategic imperatives. The governance framework and the duties of responsible trusteeship, faithful stewardship and uncompromising accountability underpin the manner in which TTEL is committed to governance.

The Company's governance framework which includes governance structures and policy frameworks explicitly defines how we will conduct business in responding to the numerous opportunities and threats presented by our business environment whilst maintaining the right balance between rights and obligations of our stakeholders. It defines how we conduct business, shaping the Company's culture to ensure that we are competitive and future ready whilst maintaining our values of integrity, accountability and equity for our key stakeholders.

GOVERNANCE AND VALUE CREATION

Our governance framework assembles all disciplines towards achieving our Vision and Mission. The framework enables us to revise and reshape our strategic plan in response to the opportunities, weaknesses and threats present in our operating backdrop. Beyond a set of rules and regulations, the governance framework gives us a platform for self-discipline; provides clarity and transparency to decision making; and thereby,create value through a sustainable approach.

HOW WE GOVERN

The Board is committed and stands responsible to set the right tone at the top towards governance. Governance framework supports us to be transparent and accountable to all stakeholders. The framework is pivotal to execute our strategies and monitor the outputs and the out comes. It ensures that the organisation is in compliance with all relevant rules and regulations and business ethics in every aspect of its activities.

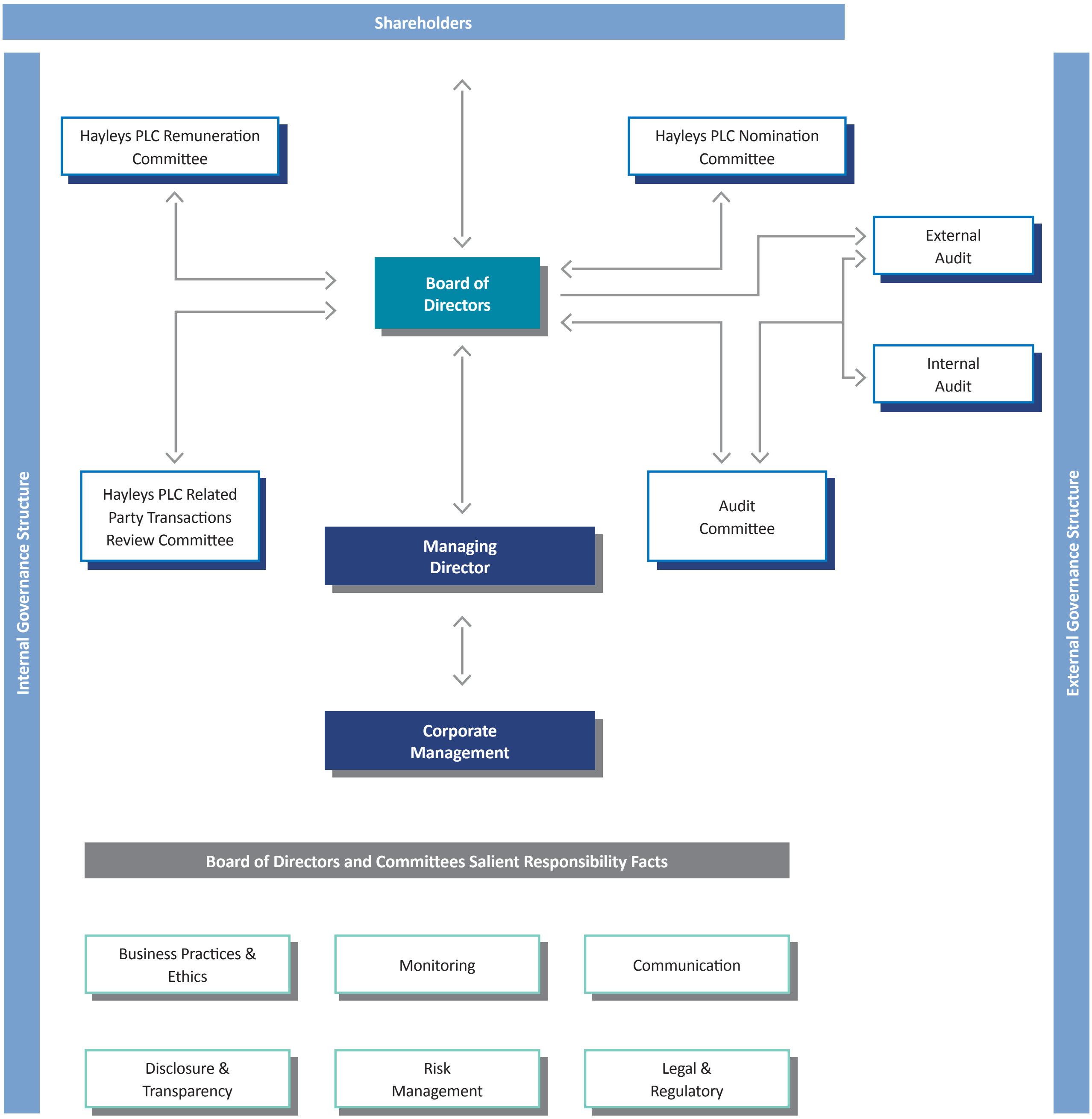
Commitment to Good Governance

Talawakelle Tea Estates PLC is pleased to state that it is fully compliant with all the mandatory provisions of the Companies Act, listing rules of the Colombo Stock Exchange (CSE) and listing rules of the Securities & Exchange Commission of Sri Lanka (SEC) and our practices are in line with the updated Code of Best practices on Corporate Governance jointly advocated by the SEC and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

CORPORATE GOVERNANCE CONTD.

G4-34, 35

GOVERNANCE FRAMEWORK



G4-36, 37

ORGANISATION

Our structure is two-pronged—internal governance and external governance. The internal governance structure is made up of a set of responsibilities and practices exercised by the Board, with a view to creating and delivering sustainable shareholder value and ensuring responsible corporate behavior. It constitutes the accountability framework of the organisation. The external governance structure, on the other hand, comprises the legislature and a set of rules, regulations and directives stipulated by the relevant statutory and regulatory bodies.

The Board is conscious that a strong corporate governance framework is critical to maintaining investor trust and business integrity. Our governance policies and practices enable the Board to manage the Company for the benefit of all stakeholders, ensuring a viable long-term business.

G4-36

STATEMENT OF RESPONSIBILITY

The statement of Directors Responsibility for financial statements as requested by the Companies Act no 07 of 2007 and the Responsibility Statement of Managing Director and Chief financial Officer as required by circular number 09 of 2008 by Securities and exchange commission are available on pages 190-191.

G4-37

GROUP MANAGEMENT COMMITTEE (GMC)

A monthly meeting chaired by the Chairman of the Hayleys PLC brings together all GMC members from different sectors within the Hayleys Group. This provides a platform for the group to review sector performance, formulate policy, communicate sector relevant matters, areas of special interests and concerns and share best practices.

G4-38

Internal Governance Structure

- Hayleys Board of Directors & Code of Business principles
- Hayleys Group Management Committed
- TTE PLC's Board Of Directors
- Audit Committee
- Remuneration Committee
- Nomination Committee
- Related Party Transactions Review Committee
- Corporate Management

External Governance Structure

- Companies Act No. 07 of 2007
- Code of Best Practice on Corporate Governance - ICASL and SEC of Sri Lanka
- Listing Rules of CSE
- Inland Revenue Act No. 10 of 2006 and Subsequent Amendments
- Exchange Control Act
- Customs Ordinance
- Ministry of Plantations
- TEA Board of Sri Lanka
- Labour Laws and Collective Agreement
- Other Legislative and Regulatory Authorities

The Chief Financial Officer (CFO) Forum held quarterly enables relevant matters to be discussed amongst the Group CFOs. At this meeting, the CFOs report to the Group CFO on any significant risks or concerns impacting the business activities of their sectors and the financials therein. This reporting may be more frequent, if warranted.

CORPORATE GOVERNANCE CONTD.

G4-41

BOARD OF DIRECTORS

The Board of Directors is the prime decision making authority of the Company. The Board comprises 11 Directors who are eminent professionals in their respective fields. Out of 11 Directors,eight are Non-executive Directors and three are Executive Directors. Out of 11 Non-executive Directors, 4 are Independent Non-executive Directors.

Board benefits from the diversity of its membership, including gender, and strives to maintain the right balance. It comprises individuals with extensive knowledge and experience in core and diverse business sectors within local and international markets, bringing a wide range of perspectives to decision making. The Board works as a team with a complementary set of skills, experience and personal characteristics.

Refer: Detailed Directors' profiles, pages 40-42

Board Disclosures, page 244

The Board's responsibility is to lead the organisation towards the corporate vision and mission and uphold the corporate ethos. The Board is well engaged in strategy development and takes responsibility on the year's planning and budgeting process, along with close monitoring of the progress of such plans and their outcomes. Necessary guidance is extended to the corporate management to keep pace with targets and corporate goals. The Board's Sub Committees stated below play a pivotal role in this regard.

The Board has determined that the independence of the Directors is assessed annually and satisfied with the Section 7.10.3 of listing rules set out by the Colombo Stock Exchange. Dr. S.S.S.B.D.G. Jayawardena, Mr. S.L. Athukorala, Dr. N.T. Bogahalande and Mr. M.H. Jamaldeen continued to be the Independent Non -Executive Directors for the financial year 2017/18 as well.

The Board believes that the independency of Dr. S.S.S.B.D.G. Jayawardena is not compromised by being a Board member for more than nine years. The Board is of the opinion that Mr. M.H. Jamaldeen has the capability to conduct himself in an independent and impartial manner on matters deliberated by the Board and his independence will not be affected by his spouse, Mrs. J.Jamaldeen being a Director of the Kingsbury PLC, a subsidiary of Hayleys PLC.

Board attendance and their presence in Board subcommittees are summarised in page 177 below;

Board of Directors- key Deliberations

- Industry issues
- Strategy, corporate plans & budget
- Performance and progress review
- Review internal and external audit report for effectiveness of internal/ operational control systems
- Review key performance indicators
- Approval of financial statements
- Determining risk appetite and adopting risk management policy

G4-37

BOARD SUB COMMITTEES

The Board committees consists of four sub committees—Audit Committee, Related Party Transactions Review Committee, Remuneration Committee and Nomination Committee. Out of those four committees, Related Party Transactions Review, Remuneration and Nomination committees were set by the Hayleys PLC and overlooks TTE's related party transactions, remunerations and nominations. All these committees with the exception of the Nomination committee are mandated by the Listing Rules of the Colombo stock Exchange and except the Related Party transaction review committee are also recommended by the Code of Best Practice on Corporate Governance jointly issued by CA Sri Lanka and the Securities and Exchange Commission of Sri Lanka Each committee has its own terms of reference.

The Board has approved the Charter and Terms of Reference to govern all sub committees. These four committees in the year under review were proactive and disciplined in carrying out the delegated duties and in turn, duly reported to the Board along with their recommendations.

The Board composition and their attendance of the sub committees in the reporting year are summarised in the below table;

G4-42, 45, 46, 55

Board of Directors - Responsibilities and Duties

- 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.
- Adopts an effective managing director and key management personnel succession strategy.
- 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.
- Recognise and adopt sustainable business development in corporate strategy, decisions and activities.
- Ensures that the company's values and standards are set with emphasis on adoption of appropriate accounting policies and fostering compliance with financial regulations.
- Fulfils other Board functions and gives priority considering the scale, nature and complexity of the business concerned.

G4-38, 39, 47, 54

Synopsis - Board of Directors Profile

Name	*First Appointment to the Board*	*Board*		*Audit Committee*		*Remuneration Committee*	*Nomination Committee*	*Related Party Transactions Review Committee*	
	First Appointment	*Position*	*Attendance*	*Position*	*Attendance*	*Position*	*Position*	*Position*	*Attendance*
Mr. A M Pandithage	2009	Chairman/Executive Director	4/4	-	-	-	Chairman	-	-
Mr. W G R Rajadurai	2013	Managing Director	4/4	-	-	-	-	-	-
Mr. Merrill J Fernando	1998	Non Executive Director	0/4	-	-	-	-	-	-
Mr. Malik J Fernando	1998	Non Executive Director	0/4	-	-	-	-	-	-
Mr. D C Fernando (Alternate to Mr. Malik J Fernando)	1998	Non Executive Director							
Dr. S S S B D G Jayawardena	2008	Independent Non Executive Director	2/4	Member	4/4	-	-	-	-
Mr. L N De S Wijeyeratne (Resigned w.e.f. 08th July 2016)	2008	Independent Non Executive Director	1/1	Chairman	1/1	-	-	-	-
Dr. K I M Ranasoma	2011	Non Executive Director	3/4	-	-	-	-	-	-
Mr. W D N H Perera (Resigned w.e.f.08th March 2017)	2011	Non Executive Director	1/4	-	-	Member	Member	-	-
Mr. J.M. Kariapperuma (Alternate to Mr. W D N H Perera-Resigned w.e.f.08th March 2017)	2015	Non Executive Director	3/4						
Ms. M D A Perera	2012	Non Executive Director	4/4	Member	4/4	-	-	-	-
Dr. N T Bogahalande	2013	Independent Non Executive Director	3/4	-	-	-	-	-	-
Mr. D S Seneviratne	2013	Executive Director	4/4	-	-	-	-	-	-
Mr. S.L.Athukorala	2016	Independent Non Executive Director	2/2	Chairman	2/2	-	-	-	-
Mr. M.H. Jamaldeen	2017	Independent Non Executive Director	0	-	-	-	-	-	-
Hayleys Board Sub Committees applicable for TTE PLC									
Mr. K.D.D.Perera	2008	Non Executive Director	-	-	-	Member	Member	-	-
Dr. H. Cabral	2011	Independent Non Executive Director	-	-	-	Chairman	Member	Chairman	4/4
Mr. M.Y.A. Perera (Appointed on 12th September 2016)	2016	Independent Non Executive Director				Member	-	Member	2/2
Mr. M.D.S. Goonathilleke (Resigned w.e.f. 12th May 2016)	2011	Independent Non Executive Director	-	-	-	Member	-	Member	0
M.H. Jamaldeen	2014	Independent Non Executive Director	-	-	-	Member	-	-	-
Mr. S C Ganegoda	2009	Executive Director	-	-	-	-	-	Member	3/4

CORPORATE GOVERNANCE CONTD.

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Board Sub Committees- Key Duties & Responsibilities

Board Audit Committee

- 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).
- Recommended the Financial Statements to the Board for its deliberations and issuance.
- Recognise and reassess the adequacy of the content and quality of routine management information reports forwarded to its members.

Board Remuneretion Committee

- Committee evaluate,assess, decide and recommend to the Board of Directors on any matter that may affect Human Resource management of the company.
- Determining the compensation of the Executive Directors of the company.
- Lay down guidelines and parameters for the compensation structures of all management staff of the company.
- Formulate guidelines ,policies and parameters for the compensation structures for the all executive staff of the company.
- Review information related to executive pay from time to time to ensure same is in par with the Market/Industry normes.
- Assess and recommending to the Board of Directors of the promotions of the Key Management Personnel, address succession planning.
- Approving annal salary increments, bonuses

Board Nomination Committee

- Considering of making any appointments of new directors or re-electing current Directors to the Board.
- Provide advice and recommendations to the Board on any such appointment.
- Review criteria and key attributes required for eligibility to be considered for appointment to the board or Key management Personnel in the company.
- Consider if a Director is able to and has been adequately carrying out his or her duties as a Director, taking in to consideration the Director's number of Listed Company Boards on which the Director is represented and other principal commitments.
- Review the structure, size, composition and competencies of the Board and make recommendations to the Board with regard to any changes.
- Recommend the requirements of new expertise and succession arrangements for retiring Directors.
- Recommitted any matter referred by the Board of Directors.

Related Party Transactions Review Committee

- Review in advance all related party transactions
- Seek any information the Committee requires from management, employees or external parties with regard to any related party transaction
- Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons.
- To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction.
- To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties.
- To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged.
- To review the economic and commercial substance of both recurrent/non recurrent related party transactions
- To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.

G4-41

BOARD AUDIT COMMITTEE

Effective internal control derives from the top and spreads throughout the organisation. The senior management sets the tone for internal control, and the Audit Committee plays an important role in maintaining effective internal controls within the organisation.

The Board Audit Committee consists of three members with two of the members including the Chair,Independent and Non-executive Directors. The members have the relevant financial expertise, experience and are familiar in accounting and audit functions and best practices to carry out their duties effectively. The Chairman of the Committee is a Fellow Member of the CA Sri Lanka.

The Committee is primarily responsible to support the Board in its oversight role by ensuring the effectiveness of financial controls, processes and reporting that are in place within the organisation. The Committee is responsible to ensure the accountability of the financial statements prepared quarterly and annually; whilst ascertaining the objectivity, reviewing and improving the internal and external audit functions of the Company.

The Committee also considers the enterprise risk management (ERM) as a top priority. They discuss and guide the Management on steering through the enterprise's risks and challenges.

The Committee meets on a quarterly basis. The four meetings were convened and the attendance details are mentioned above. The Chairman of Hayleys PLC, the Managing Director, the Group Chief Financial Officer attended the meetings by invitation. The proceedings were duly reported to the Board of Directors by the Chairman of the Audit Committee along with its findings and recommended actions.

AUDIT COMMITTEE REPORT

ROLE OF THE AUDIT COMMITTEE

The role of the Committee with specific terms of reference, is described in the Corporate Governance Report on page 178.

COMPOSITION OF THE AUDIT COMMITTEE

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

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

The names of the members of the Committee are given below along with their brief profiles are given on page 177 of this report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgment on matters that come within the Committee's purview.

MEETINGS OF THE AUDIT COMMITTEE

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

Mr. L N De S Wijeyeratne 1/1 (Resigned from the Board on 08.07.2016)
Mr. S.L. Athukorala 2/2 (Appointed to the Committee on 18.08.2016)
Dr. S SS B D G Jayawardena 3/4
Ms. M D A Perera 4/4

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

TASKS OF THE AUDIT COMMITTEE

Financial Reporting System

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

The committee recommended the Financial Statements to the Board for its deliberations and issuance. The Committee, in its evaluation of the financial reporting system, also recognised the adequacy of the content and quality of routine management information reports forwarded to its members.

INTERNAL AUDITS

The Committee reviewed the process to assess the effectiveness of the Internal Financial Controls that have been designed to provide reasonable assurance to the Directors that assets are safeguarded and that the financial reporting system can be relied upon in preparation and presentation of Financial Statements. The Group Management Audit & Systems Review Department reports on key control elements and procedure in Group companies that are selected according to an annual plan. These reports were reviewed by the audit committee.

CORPORATE GOVERNANCE CONTD.

Internal Audits are outsourced to leading audit firms in line with an agreed annual audit plan. Follow up reviews are scheduled to ensure that audit recommendations are being acted upon. The Committee obtained and reviewed statements from the management of the company identifying major business risks, mitigatory action taken or contemplated for the management of these risks.

THE COMMITTEE OBTAINED REPRESENTATIONS

from the Company on the adequacy of provisions made for possible liabilities and reviewed reports tabled, certifying their compliance with relevant statutory Requirements.

EXTERNAL AUDITS

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

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

APPOINTMENT OF EXTERNAL AUDITORS

The committee has recommended to the Board of Directors that Messrs Ernst & Young continue as Auditors for the year ending 31st March 2018.

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.

SRI LANKA ACCOUNTING STANDARDS

Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Company and made recommendation to the Board of Directors.

The Committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board of Directors informed at regular intervals.

The committee has pursued the support of Messers Ernst and Young to assess and review the existing SLFRS policies and procedures adopted by the Company.

CONCLUSION

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

S.L. Athukorala
Chairman- Audit Committee

09th May 2017

REMUNERATION COMMITTEE

The main role and the function of the Remuneration Committee are to assist the Board in developing and administering a fair and a transparent procedure for setting policy on the overall human resources strategy of the Company and the remuneration of Directors and senior management, and for determining their remuneration packages; on the basis of their merit, qualifications, competence and the Company's operational results, individual performance and comparable market statistics.

Remuneration Committee of the Hayleys PLC is the authority to determine our organisation's remuneration policies on behalf of the Board. The composition of the Remuneration Committee is stated on page 177.

NOMINATION COMMITTEE

The Nomination Committee assists the Board with the oversight of the competence profile and composition of the Board, nomination of members and committees, and other tasks as specifically decided by the Board. Nomination Committee appointed by the Hayleys PLC is currently overlooking the nomination aspects of our organisation.

The Committee carries out its duties as stipulated in the above table and the composition ensures its balance.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

With the adoption of the 'Code of Best Practices on Related Party Transactions – December 2013' issued by the Securities and Exchange Commission of Sri Lanka, which was subsequently incorporated into the Listing Rules of the Colombo Stock Exchange, the Related Party Transactions Review Committee was established by the Hayleys Board on 10th February 2015. The Committee is responsible to ensure compliance with the rules and regulations governing related party transactions for listed entities and thus, improve its internal control mechanisms.

The composition and attendance at meetings and duties and responsibilities of the Committee are reflected on page 177 & 178 Respectively.

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RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Related Party Transaction review Committee of Hayleys PLC, the parent Company functions as the Committee of the Company in terms of the Code of Best Practice on Related Party Transactions issued by the Securities & Exchange Commission of Sri Lanka and the Section 9 of the Listing Rules of the Colombo Stock Exchange.

COMPOSITION OF THE COMMITTEE

The Related Party Transactions Review Committee comprises two Independent Non-Executive Directors and one Executive Director.

The Committee comprises the Following members.
Dr. H. Cabral, PC – Chairman**
Mr. M.Y.A. Perera** -(Appointed w e f. 12.09.2016)
Mr. S. C. Ganegoda*
Mr. M. D. S. Goonatilleke** - (Resigned w.e.f. 12.05.2016)

** Independent Non-Executive
*Executive

ATTENDANCE

Committee met – 04 times in the Financial Year 2016/2017

Meetings held on 18th May 2016, 5th August 2016, 4th November 2016 and 9th February 2017.

	Meetings
Dr. H. Cabral, PC	4/4
Mr. M.Y.A. Perera	2/2
Mr. S. C. Ganegoda	3/4

The duties of the Committee

- To review in advance all proposed related party transactions of the group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.
- Seek any information the Committee requires from management, employees or external parties to with regard to any transaction entered into with a related party.
- Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons.
- To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction.
- To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders.
- Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties.
- To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged.
- To review the economic and commercial substance of both recurrent/non recurrent related party transactions
- To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.

TASK OF THE COMMITTEE

The Committee re-viewed the related party transactions and their compliances of Talawakelle Tea Estates PLC and communicated the same to the Board.

The Committee in its re-view process recognized the adequate of the content and quality of the information forwarded to its members by the management.

Dr. Harsha Cabral, PC.
Chairman
Related Party Transactions Review Committee of Hayleys PLC

17th May 2017

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CORPORATE MANAGEMENT COMMITTEE

The Committee consists of the Managing Director, Chief Executive Officer, Director–Plantations and the Senior Management of the company.

The committee formulates,seeks Board approval and implements corporate strategies within the policy framework established by the Board. The committee is also responsible for the annual budgeting process which aligns with the Group's key performance indicators (KPIs). The Managing Director reviews the annual corporate plan and the budgets prior to submission to the Board for approval. The achievement of operational targets through implementation of strategies formulated, current performance and short-term targets are reviewed at monthly meetings headed by the Managing Director, prior to the discussions at the management meetings at the group level.

The corporate management submits capital expenditure proposals to the Managing Director prior to seeking approval from the Board. All matters requiring approval of the Board are tabled and deliberated at the quarterly meetings of the Board.

The Board has delegated the primary authority to the Managing Director for formulating and implementing of policy in line with the strategic objectives of the Company. The Managing Director is also entrusted to optimise resource utilisation within the framework of the corporate and financial strategies, the annual corporate plan and the budget. The Managing Director exercises this authority within the policy and ethical framework established by the Board and the business processes inherent to the Company, which demand best practices in dealing with employees, customers, suppliers and the community at large.

The Company employs a continuous process of planning and monitoring 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.

G4-45

INTERNAL AUDIT AND CONTROL

The Board is responsible for the Company's internal control and its effectiveness. Internal control is established with emphasis placed on safeguarding the 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 important to state 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 employs the service of independent and professional accounting firms and the Hayleys Group's Management Audit and System Review department in assessing the effectiveness and successful implementation of existing controls, strengthening these and establishing new controls, if and where necessary. The audit reports are made available to the Chairman, Managing Director and the Chairman of the Audit Committee.

CODE OF BUSINESS CONDUCT AND ETHICS – 'HAYLEYS WAY'

G4-56, 57

HAYLEYS WAY

- COMPETITION
- EMPLOYEES
- BUSINESS INTEGRITY
- ENVIRONMENT
- CONSUMER
- CORPORATE RESPONSIBILITY
- PUBLIC ACTIVITIES
- CONFLICT OF INTEREST
- REGULATORY COMPLIANCE

Code of Business Conduct & Ethics - 'Hayleys Way'

The 'Group Code of Business Principles' provides the framework for our corporate conduct. The commitment to doing business with integrity and professionalism in the 'Hayleys Way' is an ethical road map that support and guides every employee of the Hayleys Group to uphold integrity and professionalism.

Principles & Scope

- Hayley's Group is committed to conduct its business operations with honesty, integrity and with respect to the rights and interests of all stakeholders.
- Hayley's Group and its employees are required to comply with the laws and regulations of the countries in which it operates.
- Every employee is responsible for implementation of and compliance with the Code in his/her environment.

Good governance is not merely confined to reporting initiatives and to compliance. It is embedded in our corporate ethos and is spread across our organisation reflecting on business operations. The Company's values upholding the highest standards of integrity, transparency, accountability and professionalism are imbued in the 'Code of Conduct and Business Governance'. This sets a blueprint for the Board of Directors, senior management, estate management and all employees across the organisation with internal guidelines on ethical corporate dealings and conduct. The Code is well internalised through regular staff briefings, internal training programmes and through corporate circulars.

G4-49, 50

WHISTLE BLOWER POLICY

Whistle Blower Policy - Outline

- Incorrect financial reporting
- Financial fraud
- Unlawful or improper conduct
- Breach of the code of business conduct, values and other policies of the Group
- Any other improper activity that may have a negative impact upon the ability of the Group to achieve its corporate objectives and which may cause damage to its image and reputation.

We at TTE are committed to upholding the highest standards of ethical, moral and legal conduct in operating our businesses. In line with this commitment, the Company's 'Whistle Blower Policy' provides a formal mechanism for employees to raise their concerns and disclose on unethical activities, practices and conduct, that may compromise the organisation's ethos underscored within the 'Code of Conduct and Business Governance'. The Policy clearly sets out the protection measures in place to safeguard employees raising such concerns from reprisals and victimisation. This Policy applies to individuals working at all levels within the Company.

G4-58

RISK GOVERNANCE

The responsibility for managing risk rests with the Board of Directors who have set in place policies and processes to manage the same. they are assisted with in discharge of their duties by the Audit Committee who have oversight responsibility for risk and internal control. The Risk Management Framework (refer page 163) of TTE PLC provides insight in to how the risk management process is implemented in the company. Materiality Matrix is designed to determine which areas should be given priority when managing risks. (Refer Page 30) Key risks identified from this process will be reported where ever required to the Audit Committee and Board during the meetings held in every quarter.

G4-48

INFORMATION TECHNOLOGY (IT) GOVERNANCE

IT Governance plays a vital role in the management and control of IT related services. It enables to establish high standards and assurances on business processes and mitigation of the associated risks. The Company utilises IT Systems provided by Hayleys Group and of its own. IT systems provided by Hayleys includes an Enterprise Resource Planning (ERP) System, internet, data communication systems and other collaborative services.

We follow the guidelines set by the IT governance frame work of the Hayleys Group where controls are exercised on multiple fronts and in line with best practices and standards. Our IT governance supports the goals of the business and people who manage those activities and IT decision making process and policies.

Deployment of technology at the estate level in terms of the accounting function as well as in reporting and monitoring of information for decision making are covered by the IT Governance policy to ensure smooth management of estate IT administration. Competent and dedicated staff is employed and by Hayleys PLC to support IT systems and processes.

Reviewing of policies and procedures at regular intervals ensure that the Company is aligned with the ever-changing needs of technology and challenges. The Group's preferred supplier programme through central procurement enables the Company to obtain price advantages.

G4-48

INFORMATION TECHNOLOGY -VALUE AND ALIGNMENT

Investments on IT are made after careful consideration of their suitability, cost savings, client satisfaction and provision of timely information. Further aspects such as balance between cost of investment and the scale of operations are also taken into account in decision making.

G4-43

INFORMATION TECHNOLOGY -RISK MANAGEMENT

Management of IT related risks and Information Security Management Systems (ISMS) are assessed as part of the Enterprise Risk Management process. TTE complies with the Hayleys Group's IT Usage Policy, covering IT discipline, use of licensed software, closer monitoring the usage of the internet, email and mail server and the use of antivirus and firewall servers and software. Business critical information and systems are backed-up or replicated at regular intervals and kept in secured off-site locations to meet statutory and other relevant compliances and as a cover for catastrophic failure.

CORPORATE GOVERNANCE CONTD.

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ASPECTS AND FOCAL REFERENCES

The focal reference refers to the mechanism in place to regulate or achieve the respective aspect of governance. The following table provides the links among the different aspects of the business such as the capitals and impacts and the strategic outcome expected from each aspect, linking each to the key governance aspects that facilitate the achievement of the strategic outcome. It also shows the key governance aspects and their corresponding focal reference. In order to as ascertain the status of effectiveness of the point of reference, please read the table titled "Level of compliance and adherence that follows the table given below.

Capital	Expected Outcome	Aspect	Focal reference
Financial Capital	Improve ROE	Internal control	Audit Committee (page 179)
		Internal audit	Risk Management Framework (page 163)
		Treasury and risk mitigation	Independent Auditors and Financial Capital (pages 195 and 74)
		Performance Management	Board of Directors and Group Management Committee (pages 40-175)
Relationship Capital	Enhance stakeholder satisfaction	Customer	Quality Management System (page 96)
		Supplier	'Hayleys Way' the group ethical road map (page 182)
		Investor	Colombo Stock Exchange Listing Rules and 'Hayleys Way' the group ethical road map (pages 254-182)
		Government & Regulatory agencies	Independent Auditors (page 195)
		Trade unions	Labour Laws and Collective Agreement (page 175)
Human Capital	Enhance employee satisfaction	Employee safety	Health and safety policy, (page 127)
		Career development	Human Resource & Social Policy (page 121)
		Compliance with laws & regulations	'Hayleys Way' the ethical road map Hay Human Resource & Social Policy (page 182 & 121)
		Equal opportunities	UN Global Compact Principles Health and safety policy, (page 141 & 127)
			Ethical & Sustainable Management System (page 139)
Intellectual Capital	Enhance brand value and reputation	Ethical marketing policies	Ethical & Sustainable Management System (page 139)
	Competitive advantage	Meet regulatory requirements	Ethical Tea Partnership (ETP) principle (page 159)
		Best corporate practices and strategic decisions	"Hayleys Way" the ethical road map (page 182)
		Retention of key personnel	Code of Best practice on Corporate Governance jointly issued by SEC & CA Sri Lanka (page 244)
			GRI-G4 Guidelines (page 257)
Social Capital	Responsible corporate behavior	Community capacity building	"Hayleys Way" the ethical road map (page 182) Home for every Plantation worker (page 114)

Capital	Expected Outcome	Aspect	Focal reference
			UN Global Compact Principles (page 141)
Natural capital	Responsible corporate citizen	Comply with all regulatory requirements	Rain Forest Alliance Certification principles (page 139)
		Fulfill corporate environmental policies and systems	UN Global Compact Principles (page 141)
		Adopt good agricultural practices	

G4-42

LEVEL OF COMPLIANCE WITH THE CODE OF BEST PRACTICES AND VOLUNTARY ADHERENCES

Focal references given in above table have been reflected in throughout the report and extent of adoption is as follows.

Focal reference	Aspect of regulation	Extent of adoption	Page reference
Audit Committee	Reviewed the financial reporting system and effectiveness of Internal Controls available	Complied/Financial reporting system and Effectiveness of Internal Control system is ensured by the Independent auditors and outsourced internal audit firms	179
Risk Management Framework	understanding, analysing and addressing risk to make sure organisation achieve its objectives	Complied/ Risk management report	163
Stakeholder engagement	Understanding how the various stakeholders are prioritized based on influence and Interest	Stakeholder engagement	26
"Hayleys Way" the group ethical road map	The Group code of business principals provide the framework for our corporate conduct	Complied	182
Ethical & Sustainable Management System	Company and Industry quality management requirements are followed.	Complied	139
Health and safety policy	Ensure the work place is safe and clean	Complied	127
Human Resource & Social Policy	Reflect how Human Resource is managed	Complied	121
UN Global Compact Principles	UNGC platform aims at transforming the core ten principles into value-enhancing management practices.	Complied	141
Code of Best practice on Corporate Governance jointly issued by SEC & CA Sri Lanka	Best practices of Corporate Governance	Complied/ requirements of the code and Level of compliances	244
Global Reporting Initiatives (GRI)- G4 guidelines	Generally accepted guidelines on sustainability as specified by GRI G4 guidelines	Complied. GRI G4 - Comprehensive guidelines were followed and GRI index with relevant references	257
Rain Forest Alliance Certification principals	In order to become certified, Estates must meet criteria set by the Sustainable Agriculture Network (SAN), a coalition of leading conservation groups that work to promote sustainability agriculture.	Complied. The SAN standard encompasses all three pillars of sustainability—social, economic, and environmental	139
Labour Laws and Collective Agreement	Compliance with labour laws and terms & conditions of the collective agreement	Complied	175

Refer Appendix II from page 244 for the detailed level of compliance with the Code of Best Practices on Corporate Governance & Listing Rules.

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

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The Directors of Talawakelle Tea Estates PLC (TTE PLC) has pleasure in presenting the Annual Report of the Board of Directors on the affairs of the Company and audited Consolidated Financial Statements of the Group for the year ended 31st March 2017.

The details set out herein provide the pertinent information required by the Companies Act No.07 of 2007, and the Colombo Stock Exchange Listing Rules and are guided by recommended best accounting practices. The Financial statements were reviewed and approved by the Board of Directors on 09th May 2017.

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 16

BUSINESS REVIEW/FUTURE DEVELOPMENT

A review of financial and operational performance and future business developments of the Group is contained in the Chairman's Statement (Pages 8 to 10) Managing Director's Review (Pages 11 to 14) and Management Discussion and Analysis (Pages 46 to 161) of the Annual Report.

These reports, together with the audited financial statements, reflect the state of affairs of the Company and the Group.

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

FINANCIAL STATEMENTS

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

The Financial Statements of the Company and the Group for the year ended, 31st March 2017, have been duly signed by the Chief Financial Officer and two directors of the Board are given on page 198.

AUDITOR'S REPORT

The Company's Auditors Messrs. Ernst and Young, Chartered Accountants carried out an audit on the Financial Statements of the Company and the Group as at 31st March 2017, and their Report is given on page 195.

ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of the Financial Statements of the company and the group are given on pages 202 & 215. There were no material changes in the Accounting Policies adopted with those of the last year other than disclosed in Note 3.24 to the financial statements.

GROUP REVENUE

The revenue of the Group during the year was Rs. 3,334.4 million (2016 Rs. 3,434.5 million) An analysis of the Group's revenue, profits and asset allocation relating to different segments are given in Note 6 to the Financial Statements.

The contribution to revenue from tea decreased by Rs. 73.5 million (2016 – Decreased by Rs. 1,304.4 million), whereas revenue from rubber increased by Rs. 8.8 million (2016- decreased by Rs. 13.7 million. Revenue contribution from hydro power decreased by Rs. 39.3 million. (2016-decreased by Rs. 6.06 million) during the year ended 31.03.2017.

Trade between Group Companies is conducted at fair market prices.

OPERATIONAL RESULTS AND DIVIDENDS

The Group profit before taxation, amounted to Rs. 266.3 million (2016 - Rs. 186.5 million) during the period under review. After charging Rs. 24.9 million (Rs. 2016 – Rs. 42.6 million) for taxation and a consolidation profit of Rs. 7.7 million (2016 – Rs. 28.1 million) for non-controlling interests, the Group profit attributable to equity holders of the Company from operating activities for the period was Rs. 233.7 million (2016 – 115.7 million). An Interim dividend of Rs. 1.00 per share for the financial year ended 31.03.2017 was paid on 31.03.2017.

The Directors have confirmed that the Company satisfied the solvency test requirement under section 56 of the Companies Act no 07 of 2007 for the interim dividend paid and the solvency certificate was obtained from the Auditors in respect of the interim dividend.

GROUP INVESTMENT

Total capital expenditure of the Group including investments in field development during the year amounted to Rs. 133.5 million (2016 – Rs. 140.6 million)

PROPERTY, PLANT & EQUIPMENT

Group investment on property, plant & equipment and capital work in progress during the year amounted to Rs 44.7 million (2016 - Rs. 35.9 million) whilst that of the Company was Rs. 44.5 million. (2016 - Rs. 35.7 million). The Company investment on replanting of tea, rubber and timber during the year amounted to Rs. 73.4 million.(2016 – Rs. 84.4 million), Rs 4.3 million (2016 – Rs. 10.1 million) and Rs. 9.2 million (2016- 10.3 million) respectively.

Information relating to movement in property, plant & equipment and replanting is given in Notes 12,13,14 A, B, C to the Financial Statements.

MARKET VALUE OF PROPERTIES

The Group does not possess any freehold land.

STATED CAPITAL AND RESERVES

The stated capital of the Company as at 31st March 2017consists of 23,750,000 Ordinary Shares and one (01) Golden Share amounting to Rs. 350,000,010. There was no change in the stated capital during the year ended.

Total Group reserves at 31st March 2017 amounts to Rs 1,723.7 million (2016 – Rs. 1,330.4 million) comprising retained earnings of Rs. 1,541.0 million.(2016 – Rs. 1,163.8 million), biological crop reserve of Rs. 9.9 million (2016- Rs. 2.1 million) and timber reserves of Rs. 172.7 million (2016- Rs. 164.4 million). The movement in reserves during the period is shown in the Statement of Changes in Equity in the Financial Statements.

PROVISION FOR TAXATION

The profit of the Company is liable for income tax at varying rates. The profit earned on agriculture and manufacturing of tea is liable at 10% and 28% respectively.

TTEL Hydro Power Company (Pvt) Ltd is liable at 12% and TTEL Somerset Hydro Power (Pvt) Ltd liable at 10% .

The Group has also provided deferred tax on all known temporary differences under the liability method.

Information on the income tax and deferred tax of the Company and the Group is given in Note 10 to the Financial Statements.

PREFERENCES SHARES

As at 31st March 2017 the company holds 14% Redeemable Cumulative Preference Shares of TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Limited amounting to Rs. 53.1 million (31.03.2016 – Rs. 53.1 million) and Rs. 16 million (31.03.2016 – 16 million) respectively. Information relating to the preference shares is given in Note 15 to the Financial Statements.

INTERESTS REGISTER

The Company, in compliance with the Companies Act No. 07 of 2007, maintains an Interests Register. Shareholders of subsidiary Companies have unanimously agreed to dispense with the requirement to maintain an Interest Register. There were no changes in holdings during the year.

DIRECTORS` INTERESTS IN SHARES

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

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

DIRECTORS’ INTERESTS IN TRANSACTIONS;

The Directors of the Company have made the general disclosures provided for in Section 192(2) of the Companies Act No. 07 of 2007, Note 36 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

INSURANCE & INDEMNITY

The ultimate parent of the Company Hayleys PLC has obtained a Directors and Officers liability insurance from Orient Insurance Ltd, providing worldwide cover to indemnify all past, present and future Directors and Officers (D & O) of the group. The limit on liability of the cover is USD 5 million at a premium of Rs. 5.3 million.

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 31st March 2017 is Rs. 7.02 million (31.03.2016- Rs. 6.3 million), which includes the value of perquisites granted as part of terms of service and is formally approved. The total remuneration of Non-Executive Directors for the year ended 31.03.2017 is Rs. 2.5 million (31.03.2016 – Rs. 2.4 million) determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of remuneration is fair to the Company.

CORPORATE DONATIONS

No donations were made during the year ended 31.03.2017 (31.03.2016- 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 40 to 42.

EXECUTIVE DIRECTORS

Mr. A M Pandithage *(Chairman)*
Mr. W G R Rajadurai *(Managing Director)*
Mr. D S Seneviratne *(CEO –appointed w.e.f.* 01/04/2016)

NON- EXECUTIVE DIRECTORS

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

INDEPENDENT NON- EXECUTIVE DIRECTORS

Dr. S S S B D G Jayawardena
Dr. N T Bogahalande
Mr. S.L. Athukorala *(appointed w.e.f. 18/08/ 2016)*
Mr. M.H. Jamaldeen *(appointed w.e.f. 15/03/2017)*

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. L N De S Wijeyeratne who served as an Independent Non-Executive Director resigned from the Board with effect from 8th July 2016.

Mr. W D N H Perera who served as a Non-Executive Director resigned with effect from 08th March 2017.

Mr. J.M. Kariapperuma (Alternate to Mr. W.D.N.H. Perera) ceased to be the Alternate Director to Mr. W.D.N.H. Perera with effect from 8th March 2017.

Messrs. S.L. Athukorala and M.H. Jamaldeen were appointed to the Board with effect from 18th August 2016 and 15th March 2017 respectively. In terms of Article 28(2) of the Articles of Association of the

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

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

In terms of Article 30(1) of the Articles of Association of the Company, Messrs. Malik J. Fernando, Dr. K.I.M. Ranasoma 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, who is 87 years old, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act No. 07 of 2007.

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 Dr. S S S B D G Jayawardena, who is 74 years old, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act No. 07 of 2007.

Mr. L. Munasinghe (non- board) who served as the Deputy CEO of the company retired on 11th March 2017.

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. The Remuneration Committee, Nomination Committee and Related Party Review Committee have been appointed by the parent company with specific terms of reference and act as committees for the Company. Audit and Related Party Transactions Review Committee Reports are given on pages 179 and 181 of this report.

MANAGEMENT FEES

No management fees has been charged by Hayleys Plantation Services (Pvt) Ltd w.e.f. 01/04/2014 consequent to a board decision to waive off management fee hereafter.

CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance rules laid down under the Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The Corporate Governance section on pages 172 to 191 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. 4.7 million (31.03.2016 -Rs. 4.05 million as audit fees and audit related work of the Company and Rs. 0.446 million (31.03.16-Rs. 0.307 million) as audit fees by the two subsidiaries, TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Ltd.

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

SHARE INFORMATION

Information relating to earnings, dividends, net assets, market value per share and share trading is given on pages 242 and 243.

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 (60) days of the end of each quarter, a quarterly report relating to the performance of the Company during the said quarter in a pre-specified format agreed to by the Golden Shareholder and the Company.

- The Company shall submit to the Golden Shareholder, within ninety (90) days of the end of each fiscal year, information relating to the Company in a pre-specified format agreed to by the Golden Shareholder and the Company.
- Golden shareholder has power to appoint not more than 03 persons as his proxies to attend on the same occasion at the General Meetings.

EVENTS OCCURRING AFTER THE FINANCIAL POSITION DATE

No circumstances have arisen since the Financial Position date that would require adjustment, or disclosure, other than those disclosed in Note 35 to the Financial Statements on page 234.

HUMAN RESOURCE

The number of persons employed by the Company at year end was 7,469 (31.03.2016 -8,287) of which 7,428 (31.03.2016 - 8,242) are engaged in employment outside the District of Colombo.

SHAREHOLDERS

It is the Group's policy to endeavor to ensure equitable treatment to its shareholders.

STATUTORY PAYMENTS

The declaration relating to statutory payments is made in the Statement of Directors' Responsibilities on page 190.

ENVIRONMENTAL PROTECTION

The Group's efforts to conserve scarce and non renewable resources, as well as its environmental objectives and key initiatives, are described in the Sustainability Report on pages 135 to 160.

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 Board of Directors has given the following statement in respect of the related party transactions:

The related party transactions of the Company during the financial year have been reviewed by the Related Party Transactions Review Committee of Hayleys PLC and are in compliance with the Section 09 of the CSE Listing Rules.

The details of related party transactions of the Company and the Group are given in Note 36 into the Financial Statements.

Report of the Related Party Transaction Review Committee appears on page 181.

INTERNAL CONTROLS

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

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

GOING CONCERN

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

RATIOS AND MARKET PRICE INFORMATION

The ratios relating to equity and debt as required by the listing requirement of the Colombo Stock Exchange are given in pages 267 of this report.

DIRECTORS' SHAREHOLDINGS

Directors' holdings of ordinary shares as at 31.03.2017 in the Company are given below.

Mr. Merrill J Fernando -
1,184,700 (01.04.2016 -1,184,700).
These shares are held through Merrill J Fernando & Sons (Private) Limited.
Dr. K I M Ranasoma -
500 (01.04.2016 – 500 shares)
Mr D S Seneviratne -
600 (01.04.2016 – 600 shares)
Mr. W.G.R. Rajadurai -
1000 (01.04.2016 –1000 shares)

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

SHAREHOLDING

As at 31st March, 2017, there were 13,529 (31.03.2016 - 13,607) registered shareholders. The percentage of shares held by the public was 20.27 %(31.03.2016 -20.27%) of the issued shares held by 13,524 shareholders (31.03.2016- 13,602).

The twenty major shareholders as at 31st March, 2017 and the number of shares held and their percentage share holdings are given on page 243 of this report.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Registered Office of the Company, No.400, Deans Road, Colombo 10 at 10.00 a.m. on 28th June, 2017. The Notice of the Annual General Meeting appears on page 270.

For and on behalf of the Board

A M Pandithage
Chairman

W G R Rajadurai
Managing Director

Hayleys Group Services (Pvt) Ltd.
Secretaries

09th May 2017

STATEMENT OF DIRECTORS' RESPONSIBILITY

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The Directors are responsible, under Sections 150 (1), 151, 152 (1), 153 (1) & 153 (2) of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the 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 judgments have been made so that the form and substance of transactions are properly reflected.

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka 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 inquiries that adequate resources exist to support the Company on a going concern basis over the next year. These Financial Statements have been prepared on that basis.

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

The Directors have confirmed that the Company satisfies the solvency test requirement under Section 56 of the Companies Act No. 07 of 2007, for the interim dividend paid. A solvency certificate was obtained from the Auditors in respect of the interim dividend paid.

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 195 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 financial year have been paid or where relevant, provided for.

By Order of the Board,

Hayleys Group Services (Pvt) Ltd.
Secretaries

09th May 2017

MANAGING DIRECTOR'S & CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

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The Financial Statements of Talawakelle Tea Estates PLC and the Consolidated Financial Statements of the Group as at 31st March, 2017 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka;
- Companies Act No 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995;
- Listing rules of the Colombo Stock Exchange; and
- Code of Best Practice on Corporate Governance issued jointly by the institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Significant accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, as described in the Notes to the financial statements. The significant accounting policies estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and our External Auditors.

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees. Our internal auditors also conduct periodic reviews to ensure that the internal controls and procedures are consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and the Independent Auditors to review the effectiveness of the audits, and to discuss auditing, internal control and financial reporting issues. The independent auditors and the internal auditors have full and free access to the Audit Committee to discuss any matter of substance.

The Financial Statements were audited by Messrs.' Ernst & Young, Chartered Accountants, the Independent External Auditors. Their report is presented on page 195 of this Report.

The Audit Committee approves the audit and non-audit services provided by the External Auditor, in order to ensure that the provision of such services does not impair their independence.

We confirm that the company and its subsidiaries have complied with all applicable laws and regulations and guidelines and that there are no material litigations that are pending against the company other than those arising in the normal course of conducting Plantation business.

Roshan Rajadurai
Managing Director

D.S. Seneviratne
Chief Financial Officer

09th May, 2017

FINANCIAL REPORTS

CONSCIOUS CORPORATE CITIZENSHIP

REACHING TARGETS

"We are disciplined and principled in the way we deliver on our corporate targets and goals, ensuring that we follow prescribed best practices and standards in accounting, auditing and management whilst complying with the rules and regulations set out by the relevant statutory and regulatory bodies. The management is well versed and proactive in their decision-making and in actions to be in line with current financial management practices."

FINANCIAL CALENDAR-2016/2017

DIVIDEND CALENDER

	2016/2017
Interim Dividend for the year paid	On March 31, 2017

ANNUAL GENERAL MEETING (AGM) CALENDER

	2016/2017	2017/2018
Annual Report and Accounts for the year signed/to be signed	On May 09, 2017	in May 2018
Annual General Meeting to be held	On June 28, 2017	in June 2018

INTERIM FINANCIAL STATEMENTS CALENDAR-SUBMISSION TO THE COLOMBO STOCK EXCHANGE (CSE)

	2016/2017 Submitted on	2017/2018 To be submitted on or before
For the three months ended/ending June 30 (unaudited)	July 29, 2016	August 15, 2017
For the six months ended/ending September 30 (unaudited)	October 31, 2016	November 15, 2017
For the nine months ended/ending December 31 (unaudited)	January 30, 2017	February 15, 2018
For the year ended/ending March 31 (audited)	May 12, 2017	May 31, 2018

INDEPENDENT AUDITORS' REPORT

Building a better working world

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BW/CSW/SJJC

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 ("the Company") and the Consolidated Financial Statements of the Company and its subsidiaries ("Group") which comprise the Statement of Financial Position as at March 31, 2017 and the Statement of Profit or Loss and Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant Accounting Policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at March 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion, scope and limitations of the audit are as stated above.

b) In our opinion:

- we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
- the financial statements of the Company give a true and fair view of its financial position as at March 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
- the financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Ernst & Young

09 May 2017
Colombo

STATEMENT OF PROFIT OR LOSS

For the year ended 31 March	Notes	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Revenue	6.1	**3,262,361**	3,323,123	**3,334,494**	3,434,579
Cost of Sales		**(2,859,851)**	(3,076,251)	**(2,898,184)**	(3,117,560)
Gross Profit		**402,510**	246,873	**436,310**	317,019
Change in Fair Value of Biological Assets	14 C.1	**16,743**	4,824	**16,743**	4,824
Other Income And Gains	7	**36,865**	85,200	**22,452**	66,849
Administrative Expenses		**(143,953)**	(132,093)	**(153,521)**	(139,886)
Results from Operating Activities		**312,166**	204,804	**321,984**	248,807
Finance Income	8.1	**8,122**	2,356	**8,951**	3,796
Finance Expenses	8.2	**(31,438)**	(31,770)	**(35,758)**	(38,220)
Interest Paid to Government on Finance Lease	8.3	**(28,790)**	(27,837)	**(28,790)**	(27,837)
Net Finance Expense		**(52,106)**	(57,252)	**(55,597)**	(62,261)
Profit/ (Loss) Before Tax	9	**260,061**	147,553	**266,388**	186,546
Income Tax Expense	10	**(17,767)**	(39,958)	**(24,906)**	(42,696)
Profit/ (Loss) For The Year		**242,294**	107,595	**241,482**	143,850
Attributable To:					
Equity holders of the Parent		**242,294**	107,595	**233,769**	115,728
Non- Controlling Interest		**-**	-	**7,713**	28,122
		242,294	107,595	**241,482**	143,850
Basic Earnings/ (Loss) Per Share (Rs.)	11	**10.20**	4.53	**9.84**	4.87

The Accounting Policies and Notes on pages 202 to 240 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March	Notes	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Profit/ (Loss) for the year		**242,294**	107,595	**241,482**	143,850
Other comprehensive income					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial Gain/ (Loss) on Defined Benefit Plans	25	217,671	(29,639)	217,547	(29,531)
Income Tax Effect	10.2	(34,305)	4,670	(34,290)	4,657
Other comprehensive income for the year, net of tax		**183,366**	(24,969)	**183,257**	(24,874)
Total comprehensive income for the year, net of tax		**425,661**	82,626	**424,739**	118,976
Attributable to:					
Equity holders of the Parent		425,661	82,626	417,080	90,808
Non- Controlling Interest		-	-	7,659	28,168
		425,661	82,626	424,739	118,976

The Accounting Policies and Notes on pages 202 to 240 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at	Notes	Company 31.03.2017 Rs.'000	Company 31.03.2016 Rs.'000	Company 31.03.2015 Rs.'000	Group 31.03.2017 Rs.'000	Group 31.03.2016 Rs.'000	Group 31.03.2015 Rs.'000
ASSETS							
Non Current Assets							
Right-to-use of Land	12	166,286	172,377	178,118	166,286	172,377	178,118
Immovable estate assets on finance lease (other than Right to use of Land)	13	66,237	77,221	88,205	66,237	77,221	88,205
Tangible assets other than Immature/Mature Plantations	14A	686,007	705,154	726,340	1,029,356	1,064,321	1,101,385
Immature/Mature Plantations	14B	1,801,915	1,785,554	1,754,130	1,801,915	1,785,554	1,754,130
Consumable Biological Assets	14C	236,837	217,532	202,472	236,837	217,532	202,472
Development Cost		-	-	-	6,239	7,200	8,160
Investments in Subsidiaries	15	134,933	134,933	134,933	-	-	-
Deferred Tax Asset	10.4	-	-		14,822	16,686	14,699
		3,092,215	3,092,771	3,084,197	3,321,692	3,340,891	3,347,168
Current Assets							
Produce on Bearer Biological Assets	16	9,947	2,144	4,871	9,947	2,144	4,871
Inventories	17	372,307	323,428	430,869	374,727	325,771	431,282
Trade and Other Receivables	18	157,227	157,876	209,016	171,249	170,166	237,443
Amounts due from Related Companies	19	2,381	3,137	2,695	2,381	3,137	2,695
ACT Recoverable		-	-	7,473	-	-	7,473
Short Term Investments	20	226,760	43,126	8,861	226,760	53,191	13,861
Cash and Bank Balances		18,915	9,097	5,358	29,849	27,130	20,412
		787,538	538,810	669,143	814,915	581,541	718,037
TOTAL ASSETS		3,879,753	3,631,581	3,753,340	4,136,607	3,922,432	4,065,205
EQUITY AND LIABILITIES							
Equity							
Stated Capital	21	350,000	350,000	350,000	350,000	350,000	350,000
Revenue Reserves		1,685,686	1,283,775	1,298,298	1,723,745	1,330,415	1,336,757
Equity attributable to equity holders of the parent		2,035,686	1,633,775	1,648,298	2,073,745	1,680,415	1,686,757
Non-Controlling Interests	22	-	-	-	173,609	179,798	167,338
Total Equity		2,035,686	1,633,775	1,648,298	2,247,354	1,860,213	1,854,095
Non Current Liabilities & Deferred Income							
Interest Bearing Loans & Borrowings	23	123,414	139,236	192,558	139,538	176,859	251,680
Retirement Benefit Obligations	25	799,699	979,665	921,389	801,101	980,733	922,369
Deferred Tax Liability	10.4	127,898	92,475	63,144	127,898	92,475	63,144
Deferred Income	26	155,426	151,102	166,618	155,426	151,102	166,618
Liability to make Lease Payment after one year	27	187,174	187,718	188,402	187,174	187,718	188,402
		1,393,611	1,550,196	1,532,111	1,411,137	1,588,886	1,592,212
Current Liabilities							
Trade and Other Payables	28	376,969	270,613	346,130	384,487	278,008	362,174
Interest Bearing Loans & Borrowings	23	50,822	61,630	68,628	72,321	83,129	101,719
Liability to make Lease Payment within one year	27	727	643	569	727	643	569
Amounts due to Related Companies	29	8,549	10,510	9,447	7,117	7,338	6,278
Short Term Borrowings	24	-	42,000	45,000	-	42,000	45,000
Bank Overdraft		13,390	62,214	103,157	13,465	62,214	103,157
		450,457	447,610	572,931	478,116	473,333	618,897
TOTAL LIABILITIES		1,844,068	1,997,806	2,105,042	1,889,253	2,062,220	2,211,109
TOTAL EQUITY AND LIABILITIES		3,879,753	3,631,581	3,753,340	4,136,607	3,922,432	4,065,205

The Accounting Policies and Notes on pages 202 to 240 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
Director/ Chief Executive Officer

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

A.M Pandithage
Chairman/ Director

W.G.R.Rajadurai
Managing Director

09 May 2017
Colombo.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March

Company	Stated Capital Rs.'000	Revenue Reserves: Retained Earnings Rs.'000	Biological Crop Reserve Rs.'000	Timber Reserve Rs.'000	Total Rs.'000	Total Equity Rs.'000
Balance as at 31 March 2015	350,000	1,133,734	-	159,693	1,293,427	1,643,427
Impact of LKAS 41 & LKAS 16	-	-	4,871	-	4,871	4,871
Restated balance as at 31 March 2015	350,000	1,133,734	4,871	159,693	1,298,298	1,648,298
Super Gain Tax Charge	-	(25,900)	-	-	(25,900)	(25,900)
Adjusted balance as at 01 April 2015	350,000	1,107,834	4,871	159,693	1,272,398	1,622,398
Profit/ (Loss) for the year	-	107,595	-	-	107,595	107,595
Other comprehensive income	-	(24,969)	-	-	(24,969)	(24,969)
Transferred to the timber reserve	-	(7,551)	-	7,551	-	-
Transferred to biological crop reserve		2,727	(2,727)	-	-	
Realised gain on timber sales	-	2,810	-	(2,810)	-	-
Dividends	-	(71,250)	-	-	(71,250)	(71,250)
Balance as at 31 March 2016	350,000	1,117,196	2,145	164,434	1,283,775	1,633,775
Profit/ (Loss) for the year	-	242,294	-	-	242,294	242,294
Other comprehensive income	-	183,366	-	-	183,366	183,366
Transferred to the timber reserve	-	(8,941)	-	8,941	-	-
Transferred to biological crop reserve		(7,802)	7,802	-	-	
Realised gain on timber sales	-	634	-	(634)	-	-
Dividends	-	(23,750)	-	-	(23,750)	(23,750)
Balance as at 31 March 2017	350,000	1,502,997	9,947	172,741	1,685,686	2,035,686

Attributable to equity holders of the parent

Group	Stated Capital Rs.'000	Revenue Reserves: Retained Earnings Rs.'000	Biological Crop Reserve Rs.'000	Timber Reserve Rs.'000	Total Rs.'000	Non Controlling Interest Rs.'000	Total Equity Rs.'000
Balance as at 31 March 2015	350,000	1,172,193	-	159,693	1,331,886	167,338	1,849,224
Impact of LKAS 41 & LKAS 16	-	-	4,871	-	4,871	-	4,871
Restated balance as at 31 March 2015	350,000	1,172,193	4,871	159,693	1,336,757	167,338	1,854,095
Super Gain Tax Charge		(25,900)			(25,900)	-	(25,900)
Adjusted balance as at 01 April 2015	350,000	1,146,293	4,871	159,693	1,310,857	167,338	1,828,195
Profit/ (Loss) for the year	-	115,728	-	-	115,728	28,122	143,850
Other comprehensive income	-	(24,920)	-	-	(24,920)	46	(24,874)
Transferred to the timber reserve	-	(7,551)	-	7,551	-	-	-
Transferred to biological crop reserve	-	2,727	(2,727)	-	-	-	-
Realised gain on timber sales	-	2,809	-	(2,809)	-	-	-
Dividends	-	(71,250)	-	-	(71,250)	(15,709)	(86,959)
Balance as at 31 March 2016	350,000	1,163,836	2,145	164,435	1,330,415	179,798	1,860,213
Profit/ (Loss) for the year	-	233,769	-	-	233,769	7,713	241,482
Other comprehensive income	-	183,311	-	-	183,311	(54)	183,257
Transferred to the timber reserve	-	(8,941)	-	8,941	-	-	-
Transferred to biological crop reserve	-	(7,802)	7,802	-	-	-	-
Realised gain on timber sales	-	634	-	(634)	-	-	-
Dividends	-	(23,750)	-	-	(23,750)	(13,848)	(37,598)
Balance as at 31 March 2017	350,000	1,541,056	9,947	172,742	1,723,744	173,609	2,247,354

The Timber Reserve relates to change in fair value of managed trees which includes commercial timber plantations cultivated on estates.

The Biological Crop Reserve relates to change in fair value of harvestable produces growing on bearer biological assets.

The Accounting Policies and Notes on pages 202 to 240 form an integral part of the Financial Statements.

STATEMENT OF CASH FLOW

For the year ended 31 March

	Notes	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit/ (Loss) before Taxation		260,061	147,553	266,388	186,546
ADJUSTMENTS FOR					
Provision For Defined Benefit Plan Costs	25	135,911	121,003	136,120	121,200
Depreciation/Amortisation	9	138,226	136,811	155,330	153,856
Amortisation of Grants	26	(5,300)	(20,016)	(5,300)	(20,016)
Dividend Income	7	(14,413)	(18,351)	-	-
Finance Costs	8.2	31,437	31,770	35,758	38,220
Government Lease Interest	8.3	28,790	27,837	28,790	27,837
(Profit)/ Loss on disposal of Assets	7	(7,521)	(16,636)	(7,521)	(16,636)
(Profit)/Loss on Sale of Trees		(8,705)	(22,618)	(8,705)	(22,618)
(Gains)/Losses on Fair Value of Biological Assets	14C	(16,743)	(4,824)	(16,743)	(4,824)
Operating Profit before Working Capital Changes		541,742	382,529	584,115	463,565
(Increase)/Decrease in Inventories		(48,879)	107,440	(48,956)	105,510
(Increase)/Decrease in Trade and Other Receivables		649	51,141	(1,083)	67,277
Increase/(Decrease) in Trade and Other Payables		106,573	(77,555)	105,161	(90,941)
(Increase)/Decrease in amounts due from Related Companies		756	(442)	756	(442)
Increase/(Decrease) in amounts due to Related Companies		(1,962)	1,064	(221)	1,060
Cash Generated from Operations		598,879	464,177	639,773	546,028
Finance Costs Paid	8.2	(31,437)	(31,770)	(35,758)	(38,220)
Payment of ESC / Income Tax / SGT		(16,714)	(21,998)	(20,440)	(21,998)
Defined Benefit Plan Costs paid	25	(98,206)	(92,366)	(98,206)	(92,366)
Net Cash from Operating Activities		452,520	318,043	485,370	393,445
CASH FLOWS FROM INVESTING ACTIVITIES					
Grant Received	26	9,624	4,500	9,624	4,500
Proceeds from Sale of Trees		9,339	25,428	9,339	25,428
Proceeds from Disposal of Property, Plant & Equipment		11,383	16,636	11,383	16,636
Field Development Expenditure (Note A)	14B/14C	(88,645)	(104,897)	(88,645)	(104,897)
Purchase of Property, Plant & Equipment (Note B)		(44,578)	(35,747)	(44,905)	(35,954)
Dividend Income Received	7	14,413	18,351	-	-
Net Cash used in Investing Activities		(88,463)	(75,729)	(103,204)	(94,287)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend Paid		(23,750)	(71,250)	(37,598)	(86,960)
Payment of Government lease rentals		(29,401)	(28,796)	(29,401)	(28,796)
Proceeds from loans		135,000	260,000	135,000	260,000
Repayment of loans		(161,630)	(320,320)	(183,129)	(353,411)
Net Cash from Financing Activities		(79,781)	(160,366)	(115,128)	(209,166)
Net Increase / (Decrease) in Cash & Cash Equivalents		284,275	81,949	267,038	89,991
C. Cash & Cash Equivalents at the beginning of the year		(51,990)	(133,938)	(23,893)	(113,884)
D. Cash & Cash Equivalents at the end of the year		232,285	(51,990)	243,145	(23,893)

The Accounting Policies and Notes on pages 202 to 240 form an integral part of the Financial Statements.

For the year ended 31 March.

	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 2017	84,313	4,332	-	-	88,645
Investment in Immature Plantations 2016	94,780	10,116	-	-	104,897
NOTE B: Investment in Property, Plant & Equipment					
Investment in Property, Plant & Equipment 2017	44,578	-	-	-	44,578
Investment in Property, Plant & Equipment 2016	35,747	-	-	-	35,747

	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 2017	84,313	4,332	-	-	88,645
Investment in Immature Plantations 2016	94,781	10,116	-	-	104,897
NOTE B: Investment in Property, Plant & Equipment					
Investment in Property, Plant & Equipment 2017	44,578	-	-	326	44,905
Investment in Property, Plant & Equipment 2016	35,747	-	-	207	35,954

	Company		Group	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
NOTE C				
Cash & Cash Equivalents at the beginning of the year				
Cash & Bank Balances	9,097	5,358	27,130	20,412
Short term Investments	43,126	8,861	53,191	13,861
Bank Overdrafts	(62,213)	(103,157)	(62,214)	(103,157)
Short term Loans	(42,000)	(45,000)	(42,000)	(45,000)
	(51,990)	(133,938)	(23,893)	(113,884)
NOTE D				
Cash & Cash Equivalents at the end of the year				
Cash & Bank Balances	18,915	9,097	29,850	27,130
Short term Investments	226,760	43,126	226,760	53,191
Bank Overdrafts	(13,390)	(62,213)	(13,465)	(62,214)
Short term Loans	-	(42,000)	-	(42,000)
	232,285	(51,990)	243,145	(23,893)

NOTE

During the Financial year, the Company & the Group acquired Property, Plant & Equipment to the value of Rs. 44,578,449/= and Rs. 44,904,707/= in respectively. (2016 - Company - Rs. 35,747,293/=, Group - Rs. 35,954,340/=).

The Accounting Policies and Notes on pages 202 to 240 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Talawakelle Tea Estates PLC was incorporated on 22 June, 1992 under the Companies Act No. 17 of 1982 (The Company was re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporation and Government-Owned Business Undertakings into Public Companies under Public Companies Act No. 23 of 1987.

The registered office of the Company is located at No. 400, Deans Road, Colombo 10, and Plantations are situated in the planting districts of Talawakelle, Nanuoya, Galle and Deniyaya. All companies in the Group are limited liability companies incorporated and domiciled in Sri Lanka.

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

The Consolidated Financial Statements of Talawakelle Tea Estates PLC comprises the Company and its Subsidiaries namely TTEL Hydro Power Co (Pvt) Ltd and TTEL Somerset Hydro Power (Pvt) Ltd (together referred to as the 'Group').

The Financial Statements of the Company and the Group are prepared for the financial year which ends on 31/03/2017.

1.1 Principle Activities and nature of the operations

During the year, the principal activities of the company were the producing and processing of Tea and Rubber.
Principal activities of other companies in the Group are as follows.

Company	Nature of the business
TTEL Hydro Power Co (Pvt) Ltd	Generating hydropower
TTEL Somerset Hydro Power (Pvt) Ltd	Generating hydropower

1.2 Holding Company

The Company is a subsidiary of Hayleys Plantation Services (Pvt) Ltd which is a subsidiary of Dipped Products PLC whose ultimate parent enterprise is Hayleys PLC.

1.3 Date of Authorization for issue

The financial statements of Talawakelle Tea Estates PLC for the year ended 31st March 2017 were authorized for issue in accordance with a resolution of the Board of Directors on 09th May 2017.

1.4 Responsibility for Financial Statements.

The responsibility of the Directors in relation to the Financial Statements is set out in the Statement of Directors' Responsibility Report in the Annual Report.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company and the Group comprise the Statement of Profit or Loss and Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement together with Accounting Policies and Notes to the Financial Statements (the "Consolidated Financial Statements") have been prepared in accordance with Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, which requires compliance with the Sri Lanka Accounting Standards promulgated by the Institute of Chartered Accountants of Sri Lanka (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 following items in the Financial Statements.

- Right to Use of Land and leased assets of SLSPC have been revalued as described in Note 12 to the Financial Statements.
- Managed Consumable biological assets are measured at fair value.
- Harvestable Agricultural Produce growing on bearer biological assets are measured at fair value.

Where appropriate, the specific policies are explained in the succeeding Notes.

No adjustments have been made for inflationary factors in the Consolidated Financial Statements.

2.3 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 thousand, 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 other than disclosed in Note 31. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

3.1 Going Concern

The Consolidated Financial Statements have been prepared on the assumption that The Company is a going concern. The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future. Furthermore, board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as going concern and they do not intend either to liquidate or to cease operations of Group. Therefore, the Consolidated Financial Statements continue to be prepared on the going concern basis.

3.2 Basis of Consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Group and its subsidiaries as at 31st March 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3.2.1 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any Non-Controlling Interest in the acquiree. For each business combination, the Group elects whether it measures the Non-Controlling Interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition - related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of LKAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised in statement of profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

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

3.3 Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period.

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

3.4 Fair Value Measurement

The Group measures financial instruments and non-financial assets at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Managed Consumable Biological Assets Note 14C
- Agricultural produce growing on bearer biological assets Note 16

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or,
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of significant assets, such as managed biological assets. Involvement of external valuers is decided upon annually by the Management Committee after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Management Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.5 Foreign Currencies

The Group's consolidated financial statements are presented in Sri Lankan Rupees, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

3.6 Cash dividend and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of profit or loss.

3.7 Property, Plant & Equipment

The group applies the requirements of LKAS 16 on 'Property Plant and Equipment' in accounting for its owned assets which are held for and use in the provision of the services, for rental to other or for administration purpose and are expected to be used for more than one year.

3.7.1 Basis of Recognition.

Property Plant and Equipment is recognised if it is probable that future economic benefit associated with the assets will flow to the Group and cost of the asset can be reliably measured.

3.7.2 Measurement

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

3.7.3 Owned Assets

The cost of Property, Plant & Equipment includes expenditures that are directly attributable to the acquisition of the asset. Such costs includes the cost of replacing part of the property, plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. The cost of self-constructed assets includes the cost of materials and direct labour, any other cost directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalized as a part of that equipment.

When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognises such parts as individual assets (major components) with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statements of profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Capital work-in-progress is transferred to the respective asset accounts at the time of first utilisation or at the time the asset is commissioned.

3.7.4 Leased Assets

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

3.7.5 Derecognition

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of profit or loss when the asset is derecognized.

3.7.6 Land Development Cost

Permanent land development costs are those costs incurred in making major infrastructure development and building new access roads on leasehold lands.

These costs have been capitalised and amortised over the remaining lease period.

Permanent impairments to land development costs are charged to the Statement of Profit or Loss in full or reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

3.7.7 Biological assets

Biological assets are classified in to mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specification. Tea, rubber, other plantations and nurseries are classified as biological assets.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological assets includes tea and rubber plants, those that are not intended to be sold or harvested, however used to grow for harvesting agricultural produce from such biological assets. Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.

The entity recognize the biological assets when, and only when, the entity controls the assets as a result of past events, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably.

3.7.7.1 Bearer Biological Asset

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

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

3.7.7.2 Infilling Cost on Bearer Biological Assets

The land development costs incurred in the form of infilling have been capitalised to the relevant mature field, only where the number of plants per hectare exceeded 3,000 plants and, also if it increases the expected future benefits from that field, beyond its pre-infilling performance assessment. Infilling costs so capitalised are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation, or the unexpired lease period, whichever is lower.

Infilling costs that are not capitalised have been charged to the Statement of profit or loss in the year in which they are incurred.

3.7.7.3 Borrowing Cost

Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset, which takes a substantial period of time to get ready for its intended use or sale are capitalised as a part of the asset.

Borrowing costs that are not capitalised are recognised as expenses in the period in which they are incurred and charged to the Statement of profit or loss.

The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with LKAS 23 – 'Borrowing Costs'.

Borrowing costs incurred in respect of specific loans that are utilised for field development activities have been capitalised as a part of the cost of the relevant immature plantation. The capitalisation will cease when the crops are ready for commercial harvest.

The amount so capitalised and the capitalisation rates are disclosed in Notes to the Financial Statements.

3.7.7.4 Consumable Biological Asset

Consumable biological assets includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets. Expenditure incurred on consumable biological assets (managed timber trees) is measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41. The cost is treated as approximation to fair value of young plants as the impact on biological transformation of such plants to price during this period is immaterial. The fair value of timber trees are measured using DCF method taking in to consideration the current market prices of timber, applied to expected timber content of a tree at the maturity by an independent professional valuer. All other assumptions and sensitivity analysis are given in Note 14C.

The gain or loss arising on initial recognition of consumable biological assets at fair value less cost to sell and from a change in fair value less cost to sell of consumable biological assets are included in profit or loss for the period in which it arises.

Permanent impairments to Biological Asset are charged to the Statement of profit or loss in full and reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

3.7.7.5 Nursery Plants

Nursery cost includes the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for overgrown plants.

3.7.8 Depreciation and Amortisation

(a) Depreciation

Depreciation is recognised in the Statement of profit or loss or on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment since this is most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets unless it is reasonably certain that the Group will have ownership by the end of the lease term. Lease period of land acquired from SLSPC will be expired in year 2045. The estimated useful lives for the current and comparative periods are as follows:

	No. of Years
Buildings	29 (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)

Mature Plantations	No. of Years
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:

	No. of Years
Right to Use of Land	53
Improvements to land	30
Mature Plantations (Tea & Rubber)	30
Buildings	25
Machinery	20
Development Cost	15

3.7.9 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the Statement of profit or loss in the year in which the expenditure is incurred.

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

Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

3.7.9.1 Research and Development

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits

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- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

A summary of the policy applied to the Group

Development Cost

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

3.8 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.8.1 Financial Assets

3.8.1.1 Initial Recognition & Measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets.

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 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, and loans and other receivables.

3. 8.1.2 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 net changes in fair value recognised in finance income or finance costs in the statement of profit or loss.

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 Statement of profit or loss. The losses arising from impairment are recognised in the Statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

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

(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 Statement of profit or loss. The losses arising from impairment are recognised in the Statement of profit or loss in finance costs.

(d) Available for sale financial investments

Available for sale financial assets (AFS) include equity investments and debt securities. Equity investments classified as AFS financial assets are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in Other Comprehensive Income and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

3.8.1.3 Derecognition

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

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

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

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

3.8.1.4 Impairment of financial assets

The Group 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.

3.8.1.4.1Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

3.8.1.4.2 Available for sale financial Assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and

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'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from Other Comprehensive Income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in Other Comprehensive Income.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Profit or Loss, the impairment loss is reversed through the Statement of Profit or Loss.

3.8.2 Financial liabilities

3.8.2.1 Initial recognition and measurement

Financial liabilities 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.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

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

3.8.2.2 Subsequent measurement

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

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

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in LKAS 39 are satisfied. The Group has not designated any financial liability 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 statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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 as finance costs in the statement of profit or loss.

3.8.2.3 Derecognition

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

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

3.8.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Financial risk management objectives and policies have been disclosed under Note 37.

3.9 Harvestable agricultural produce on bearer biological assets

In accordance with LKAS 41, company recognise agricultural produce growing on bearer plants at fair value less cost to sell. Change in the fair value of such agricultural produce recognized in profit or loss at the end of each reporting period.

For this purpose, quantities of harvestable agricultural produce ascertained based on harvesting cycle of each crop category by limiting to one harvesting cycle based on last day of the harvest in the immediately preceding cycle. Further 50% of the crop in that harvesting cycle considered for the valuation.

For the valuation of the harvestable agricultural produce, the company uses the following price formulas.

- Tea – Bought Leaf rate (current month) less cost of harvesting & transport
- Rubber – latex Price (95% of current RSS1 Price) less cost of tapping & transport

3.10 Inventories

Finished Goods Manufactured From Agricultural Produce of Biological Assets.
These are valued at the lower of cost and estimated net realisable value. Net realisable value is the estimated selling price at which stocks can be sold in the ordinary course of business after allowing for cost of realisation and/or cost of conversion from their existing state to saleable condition.

Input Material, Spares and Consumables
At actual cost on weighted average basis.

Agricultural produce harvested from biological assets
Agricultural produce harvested from biological asset are measured at their fair value less cost to sell at the point of harvest. The finished and semi-finished inventories from agricultural produce are valued by adding the cost of conversion to the fair value of the agricultural produce.

3.11 Trade and Other Receivables

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

3.12 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.

3.13 Impairment of Non-Financial Assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to Other Comprehensive Income. For such properties, the impairment is recognised in Other Comprehensive Income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31st March and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31st March at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

3.14 Provisions

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

3.15 Employees Benefits

(a) Defined Contribution Plans - Provident Funds and Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

The Company contributes 12% on consolidated salary of the employees to Ceylon Planters' Provident Society (CPPS)/ Estate Staff Provident Society (ESPS)/ Employees' Provident Fund (EPF).

All the employees of the Company are members of the Employees' Trust Fund, to which the Company contributes 3% on the consolidated salary of such employees.

(b) Defined Benefit Plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plan is the present value of the defined benefit obligation at the Reporting date. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as in retained earnings through other comprehensive income. Past service costs are recognised immediately in statement of profit or loss.

The provision has been made for retirement gratuities from the first year of service for all employees, in conformity with LKAS 19, Employee Benefits. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The Liability is not externally funded.

The key assumptions used in determining the retirement benefit obligations are given in Note 25.

3.16 Trade and Other Payables

Trade and other payables are stated at their costs.

3.17 Capital Commitments and Contingencies

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

3.18 Events Occurring after the Reporting Date

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

3.19 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.

3.20 Deferred Income

3.20.1 Grants and Subsidies

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Where the Group receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the Statement of profit or loss over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual installments. Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as additional government grant. Assets are amortised over their useful lives as follows.

Grants related to Property, Plant & Equipment other than grants received for forestry are initially deferred and allocated to income on a systematic basis over the useful life of the related Property, Plant & Equipment as follows: Assets are amortised over their useful lives or unexpired lease period, whichever is less.

Buildings	40 years
Roads	5 Years

Grants received for forestry are initially deferred and credited to income once when the related blocks of trees are harvested.

3.21 Statements of Profit or Loss

For the purpose of presentation of statement of profit or loss, the function of expenses method is adopted, as it represents fairly the elements of the Group's performance.

3.21.1 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 (monitoring Board Request). 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 statement of profit or loss.

c) For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

d) Dividend is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

e) Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

3.21.2 Expenses

All expenditure incurred in the running of the business and in maintaining the Property, Plant & Equipment in a state of efficiency is charged to revenue in arriving at the profit or loss for the period.

3.21.2.1Finance Income and Finance Cost

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

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

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

3.21.2.2Taxes

3.21.2.2.1 Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

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

3.21.2.2.2 Deferred Tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

3.22 Statement of Cash Flows

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

3.23 Segment Reporting

Segmental information is provided for the different business segments of the Group. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components.

Since the individual segments are located close to each other and operate in the same industrial environment, the need for geographical segmentation has no material impact.

The activities of the segments are described on Note 6 in the Notes to the Financial Statements. The group transfers products from one industry segment for use in another. Inter-segment transfers are based on fair market prices.

Revenue and expenses directly attributable to each segment are allocated to the respective segments. Revenue and expenses not directly attributable to a segment are allocated on the basis of their resource utilisation, wherever possible.

Assets and liabilities directly attributable to each segment are allocated to the respective segments. Assets and liabilities, which are not directly attributable to a segment, are allocated on a reasonable basis wherever possible. Unallocated items comprise mainly interest bearing loans, borrowings, and expenses.

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.

3.24 Change in Accounting Policies and Disclosures

Amendment to LKAS 41 & 16 – Harvestable Produce Growing on Bearer Biological Assets

Amendments to LKAS 16 - Property, Plant & Equipment and LKAS 41 – Agriculture, require entity to recognise agricultural produce growing on Bearer Plants at fair value less cost to sell separately from its bearer plants prior to harvest. After initial recognition, changes in the fair value of such agricultural produce growing on Bearer Plants, recognised in profit or loss at the end of each reporting period.

Accordingly, the Group has applied these amendments retrospectively in the Financial Statements. For the details refer Note 31.

4 USE OF ESTIMATES AND JUDGMENTS

The preparation of Financial Statements in conformity with SLFRS/ LKAS requires management to make judgments, estimates and assumptions that influence the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period and any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

4.1 Taxation

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

4.2 Measurement of Retirement Benefit Obligation

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 25. 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 depends on number of factors that are determined on a discounted method using various financial and nonfinancial assumptions. The growth of the trees is determined by various biological factors that are highly unpredictable. Any change to the assumptions will impact to the fair value of biological assets. Key assumptions and sensitivity analysis of the biological assets are given in the note 14C.

4.4 Impairment of non-financial assets.

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the Group.

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 9 -Financial Instruments: Classification and Measurement**
  SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities. This standard was originally effective for annual periods commencing on or after 01st January 2018. However the effective date has been deferred subsequently.
- **SLFRS 15 -Revenue from Contracts with Customers**
  SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. This standard is effective for the annual periods beginning on or after 01st January 2018.
- **SLFRS 16 -Leases**
  SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases, under LKAS 17 except for few exemptions for leases for "low value" assets and short term leases with a lease term of 12 months or less. This standard is effective for the annual periods beginning on or after 01 January 2019.

Pending the detailed review of such standards and interpretations, the extent of the impact has not been determined by the management.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

For the year ended 31 March

6. REVENUE

6.1 *Summary*

	Company		Group	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Sale of Goods				
Tea	3,203,621	3,277,149	3,203,621	3,277,149
Rubber	19,647	10,809	19,647	10,809
Mini Hydro Power	-	-	72,133	111,456
Others	39,094	35,165	39,094	35,165
	3,262,361	3,323,123	3,334,494	3,434,579

6.2 *Segment Information*

a) Segment Revenue

	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Tea				
Revenue	3,203,621	3,277,149	3,203,621	3,277,149
Revenue Expenditure	(2,558,540)	(2,791,663)	(2,558,540)	(2,791,663)
Depreciation	(134,247)	(132,483)	(134,247)	(132,483)
Other Non Cash Expenditure	(135,911)	(121,004)	(135,911)	(121,004)
Segment Results	374,923	231,999	374,923	231,999
Rubber				
Revenue	19,647	10,809	19,647	10,809
Revenue Expenditure	(27,174)	(26,773)	(27,174)	(26,773)
Depreciation	(3,978)	(4,328)	(3,978)	(4,328)
Other Non Cash Expenditure	-	-	-	-
Segment Results	(11,506)	(20,292)	(11,506)	(20,292)
Mini Hydro Power				
Revenue	-	-	72,133	111,456
Revenue Expenditure	-	-	(19,826)	(25,027)
Depreciation	-	-	(17,105)	(16,085)
Other Non Cash Expenditure	-	-	(1,402)	(196)
Segment Results	-	-	33,800	70,148
Unallocated				
Revenue	39,094	35,165	39,094	35,165
Revenue Expenditure	-	-	-	-
Depreciation	-	-	-	-
Other Non Cash Expenditure	-	-	-	-
Segment Results	39,094	35,165	39,094	35,165
Total				
Revenue	3,262,361	3,323,123	3,334,494	3,434,579
Revenue Expenditure	(2,585,714)	(2,818,436)	(2,605,541)	(2,842,503)
Depreciation	(138,226)	(136,811)	(155,330)	(153,856)
Other Non Cash Expenditure	(135,911)	(121,004)	(137,313)	(121,200)
Segment Results	402,510	246,872	436,310	317,020
Gains on fair value of biological assets	16,743	4,824	16,743	4,824
Other Income and Gains	36,865	85,200	22,452	66,849
Administrative Expenses	(143,953)	(132,093)	(153,521)	(139,886)
Finance Income	8,122	2,356	8,951	3,796
Finance Expense	(31,438)	(31,770)	(35,758)	(38,220)
Government Lease Interest	(28,790)	(27,837)	(28,790)	(27,837)
Operating Profit of the Company	260,061	147,553	266,388	186,546

6 REVENUE (Contd..)

6.2 Segment Information (Contd..)

	Company		Group	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
b) Segment Assets				
Non Current Assets				
Tea	2,615,111	2,637,710	2,615,111	2,637,710
Rubber	105,333	102,596	105,333	102,596
Mini Hydro Power	-	-	364,411	383,052
Investment	134,933	134,933	-	-
Consumable Biological Asset	236,838	217,533	236,838	217,533
	3,092,215	3,092,773	3,321,693	3,340,891
Current Assets				
Tea	785,236	537,456	785,236	537,457
Rubber	2,303	1,353	2,303	1,353
Mini Hydro Power	-	-	27,375	42,730
	787,539	538,809	814,914	581,540
Total Assets	3,879,753	3,631,582	4,136,607	3,922,431
c) Segment Liabilities				
Non Current Liabilities and Deferred Income				
Tea	1,393,611	1,550,194	1,393,611	1,550,194
Mini Hydro Power	-	-	17,526	38,691
	1,393,611	1,550,194	1,411,137	1,588,885
Current Liabilities				
Tea	450,456	447,613	450,456	447,613
Mini Hydro Power	-	-	27,660	25,721
	450,456	447,613	478,116	473,334
Total Liabilities	1,844,066	1,997,807	1,889,253	2,062,219
d) Segment Capital Expenditure				
Cost				
Tea	117,893	120,209	117,893	120,209
Rubber	4,332	10,116	4,332	10,116
Consumable Biological Asset	10,998	10,320	10,998	10,320
Mini Hydro Power	-	-	326	207
	133,223	140,644	133,550	140,851

7. OTHER INCOME AND GAINS

	Company		Group	
Period ended	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Profit on Sale of Trees	8,790	22,738	8,790	22,738
Amortisation of Capital Grants	5,300	20,016	5,300	20,016
Profit on Disposal of Assets	7,521	16,636	7,521	16,636
Dividend Income	14,413	18,351	-	-
Lease of land for towers	719	7,321	719	7,321
Sale of Cinnamon	122	138	122	138
	36,865	85,200	22,452	66,849

NOTES TO THE FINANCIAL STATEMENTS CONTD.

8. FINANCE INCOME/ EXPENSE

8.1 FINANCE INCOME

	Company		Group	
Period ended	**2017 Rs.'000**	**2016 Rs.'000**	**2017 Rs.'000**	**2016 Rs.'000**
Interest Income	8,122	2,356	8,951	3,796
	8,122	2,356	8,951	3,796

8.2 FINANCE EXPENSES

	Company		Group	
Period ended	**2017 Rs.'000**	**2016 Rs.'000**	**2017 Rs.'000**	**2016 Rs.'000**
Guarantee Chargers	-	-	-	(3)
Overdraft Interest	(2,777)	(7,046)	(2,779)	(7,047)
Short Term Loan Interest	(1,590)	(4,408)	(1,590)	(4,408)
Term Loan Interest	(27,071)	(20,317)	(31,389)	(26,762)
	(31,438)	(31,771)	(35,758)	(38,220)
8.3 INTEREST PAID TO GOVERNMENT ON FINANCE LEASE	(28,790)	(27,837)	(28,790)	(27,837)
Net Finance Expense	(52,106)	(57,252)	(55,597)	(62,261)

9. PROFIT BEFORE TAX IS STATED AFTER CHARGING

	Company		Group	
Period ended	**2017 Rs.'000**	**2016 Rs.'000**	**2017 Rs.'000**	**2016 Rs.'000**
Directors Emoluments	7,020	6,384	7,020	6,384
Key Management Compensation	7,841	8,772	7,841	8,772
Auditors Fees	3,034	2,809	3,318	3,066
Depreciation/Amortisation	138,226	136,811	155,330	153,856
Defined Benefit Plan Costs	135,911	121,004	136,120	121,200
Defined Contributions Plan Costs - EPF & ETF	162,086	175,581	162,962	176,109
Others - Staff Costs	1,575,751	1,806,469	1,585,111	1,815,175

10. INCOME TAX EXPENSE

The major component of income tax expenses for the period are as follows :

10.1 INCOME STATEMENT

	Company		Group	
Period ended	**2017 Rs.'000**	**2016 Rs.'000**	**2017 Rs.'000**	**2016 Rs.'000**
Current Tax Expenses				
Current Income Tax Charges	16,649	5,957	21,910	10,695
	16,649	5,957	21,910	10,695
Deferred Tax Expense				
Deferred Taxation Charge /(Reversal)	1,118	34,001	2,996	32,001
	1,118	34,001	2,996	32,001
Total Tax Expense	17,767	39,958	24,906	42,696

10.2 STATEMENT OF COMPREHENSIVE INCOME

Period ended	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Deferred tax related to items charged or credited directly to OCI during the year;				
Net (gain)/ loss on actuarial gains and (losses)	34,305	(4,670)	34,290	(4,657)
Income tax charged directly to other comprehensive income	34,305	(4,670)	34,290	(4,657)

10.3 RECONCILIATION BETWEEN TAX EXPENSES AND THE PRODUCT OF ACCOUNTING

PROFIT MULTIPLIED BY THE STATUTORY EFFECTIVE TAX RATES ARE AS FOLLOWS:

Period ended	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Profit before Tax	260,061	147,553	266,388	186,546
Effective Rate	10.00%	10.00%	10.08%	10.08%
Tax effect on Accounting Profit / (Loss) Before Tax	26,006	14,755	26,848	18,801
Tax effect on Aggregate disallowed items	31,526	30,952	34,616	32,037
Tax effect on Aggregate allowable items	(32,688)	(30,568)	(33,263)	(33,445)
	24,844	15,139	28,201	17,393
Tax effect on Non Tax Receipt	-	(5,975)	-	(6,761)
Tax effect on Tax Loss B/F & Utilised	(8,695)	(3,207)	(9,930)	(3,721)
	16,149	5,957	18,271	6,910
Dividend Tax @ 10%	-	-	3,140	3,784
Income Tax Charge/(Reversal)	16,149	5,957	21,411	10,695
Income Tax Provided in Accounts	16,649	5,957	21,910	10,695

10.4 DEFERRED TAX (ASSETS) AND LIABILITIES

Company	2017 Temporary Difference Rs.'000	2017 Tax Effect Rs.'000	2016 Temporary Difference Rs.'000	2016 Tax Effect Rs.'000
As at 1 April	611,052	92,475	474,663	63,144
Amount originating during the year	233,874	35,423	136,389	29,331
As at 31 March	844,926	127,898	611,052	92,475
Temporary difference of property, plant and equipment	478,525	75,416	462,772	72,933
Temporary difference Immature/Mature	1,801,915	283,982	1,785,555	281,403
Temporary difference of biological asset	246,784	24,678	217,533	21,753
Temporary difference of retirement benefit obligation	(799,699)	(126,033)	(979,665)	(154,395)
Temporary difference Deferred Income	(155,426)	(15,543)	(151,102)	(15,110)
Carried forward tax losses	(727,173)	(114,602)	(724,041)	(114,109)
As at 31 March	844,926	127,898	611,052	92,475

NOTES TO THE FINANCIAL STATEMENTS CONTD.

10.4 DEFERRED TAX (ASSETS) AND LIABILITIES (contd.)

Group	2017 Temporary Difference Rs.'000	2017 Tax Effect Rs.'000	2016 Temporary Difference Rs.'000	2016 Tax Effect Rs.'000
As at 1 April	472,005	75,790	352,173	48,446
Amount originating during the year	245,835	37,286	119,832	27,344
As at 31 March	717,840	113,076	472,005	75,790
Temporary difference of property, plant and equipment	476,742	75,630	460,270	72,633
Temporary difference Immature/Mature	1,801,915	283,982	1,785,555	281,403
Temporary difference of biological asset	246,784	24,678	217,533	21,753
Temporary difference of retirement benefit obligation	(801,101)	(126,201)	(980,733)	(154,523)
Temporary difference Deferred Income	(155,426)	(15,543)	(151,102)	(15,110)
Carried forward tax losses	(851,074)	(129,470)	(859,518)	(130,366)
As at 31 March	717,840	113,076	472,005	75,790

	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Deferred Tax Assets	-	-	(14,822)	(16,686)
Deferred Tax Liabilities	127,898	92,475	127,898	92,475
	127,898	92,475	113,076	75,789

11. EARNINGS PER SHARE

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

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

	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Amounts used as the Numerator :				
Net profit/ (loss) applicable to ordinary shareholders for basic earnings per share	242,294	107,595	233,769	115,728
	242,294	107,595	233,769	115,728
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.)	10.20	4.53	9.84	4.87

12. RIGHT-TO-USE OF LAND

"Right-To-Use of Land on Lease" as above was previously titled "Leasehold Right to Bare land". The change is in order to comply with Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka dated 21 August 2013. Such leases have been executed for all estates for a period of 53 years.

This right-to-use of land is amortized over the remaining lease term or useful life of the right whichever is shorter and is disclosed under non-current assets. The Statement of Alternative Treatment (SoAT) for right-to-use of land does not permit further revaluation of right-to-use of land. However, an adjustment to the "Right-To-Use of Land" could be made to the extent that the change relate to the future period on the reassessment of liability to make the lease payment. The values taken into the 18th June 1992 Statement of Financial Position Date and amortization of the right to use of land up to 31 March 2017 are as follows.

	Company		Group	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Capitalised Value				
As at 1st April	**200,927**	200,927	**200,927**	200,927
As at 31st March	**200,927**	200,927	**200,927**	200,927
Amortization				
As at 1st April	**28,550**	22,809	**28,550**	22,809
Amortization charge for the year	**6,091**	5,741	**6,091**	5,741
As at 31st March	**34,641**	28,550	**34,641**	28,550
Carrying amount	**166,286**	172,377	**166,286**	172,377

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 March 2017 as follows.

	Company					Group				
	Improvement to Land	Mature Plantations	Buildings	Plant & Machinery	Total	Improvement to Land	Mature Plantations	Buildings	Plant & Machinery	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	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 31 March 2017	9,084	243,838	63,826	12,007	328,755	9,084	243,838	63,826	12,007	328,755
As at 31 March 2016	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 April 2016	7,038	173,129	59,360	12,007	251,534	7,038	173,129	59,360	12,007	251,534
Amortization charge for the year	303	8,128	2,553	-	10,984	303	8,128	2,553	-	10,984
As at 31 March 2017	7,341	181,257	61,913	12,007	262,518	7,341	181,257	61,913	12,007	262,518
Written down value										
As at 31 March 2017	1,743	62,581	1,913	-	66,237	1,743	62,581	1,913	-	66,237
As at 31 March 2016	2,046	70,709	4,466	-	77,221	2,046	70,709	4,466	-	77,221

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTD.

14. A TANGIBLE ASSETS OTHER THAN IMMATURE/MATURE PLANTATIONS

	Company				Group			
	Balance as at 01.04.2016 Rs.'000	Additions for the Year Rs.'000	Disposals during the Year Rs.'000	Balance as at 31.03.2017 Rs.'000	Balance as at 01.04.2016 Rs.'000	Additions for the Year Rs.'000	Disposals during the Year Rs.'000	Balance as at 31.03.2017 Rs.'000
Cost								
Buildings	485,905	16,147	-	**502,052**	485,905	16,147	-	**502,052**
Motor Vehicles	181,964	7,610	(18,300)	**171,274**	181,964	7,610	(18,300)	**171,274**
Plant & Machinery	609,715	4,296	-	**614,011**	1,091,122	4,296	-	**1,095,417**
Furniture & Fittings	9,977	303	-	**10,280**	9,977	303	-	**10,280**
Equipment & Tools	88,858	9,257	-	**98,114**	89,113	9,583	-	**98,696**
	1,376,418	37,613	(18,300)	**1,395,731**	1,858,081	37,939	(18,300)	**1,877,719**

	Balance as at 01.04.2016 Rs.'000	Additions for the Year Rs.'000	Accumulated depreciation on disposals Rs.'000	Balance as at 31.03.2017 Rs.'000	Balance as at 01.04.2016 Rs.'000	Additions for the Year Rs.'000	Accumulated depreciation on disposals Rs.'000	Balance as at 31.03.2017 Rs.'000
Accumulated Depreciation								
Buildings	115,695	13,613	-	**129,309**	115,695	13,613	-	**129,309**
Motor Vehicles	120,843	17,633	(14,438)	**124,037**	120,843	17,633	(14,438)	**124,037**
Plant & Machinery	357,561	21,084	-	**378,645**	479,983	37,131	-	**517,114**
Furniture & Fittings	7,607	485	-	**8,092**	7,607	485	-	**8,092**
Equipment & Tools	71,906	7,049	-	**78,955**	71,979	7,147	-	**79,125**
	673,612	59,864	(14,438)	**719,038**	796,107	76,009	(14,438)	**857,677**
Written Down Value	702,807			**676,693**	1,061,974			**1,020,042**

	Balance as at 01.04.2016 Rs.'000	Additions for the Year Rs.'000	Capitalised/ Disposed during the Year Rs.'000	Balance as at 31.03.2017 Rs.'000	Balance as at 01.04.2016 Rs.'000	Additions for the Year Rs.'000	Capitalised/ Disposed during the Year Rs.'000	Balance as at 31.03.2017 Rs.'000
Capital Work-in-Progress	2,347	11,756	(4,789)	**9,314**	2,347	11,756	(4,789)	**9,314**
TOTAL WRITTEN DOWN VALUE	705,154			**686,007**	1,064,321			**1,029,356**

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. 422.9 Million (2016 Rs. 411.7 Million).

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 April 2016	23,172	81,549	330,339	1,935,425	2,370,485	23,172	81,549	330,339	1,935,425	2,370,485
Additions	-	1,476	77,915	-	79,391	-	1,476	77,915	-	79,391
Transfer to consumable biological	-	-	(1,744)	-	(1,744)	-	-	(1,744)	-	(1,744)
Transfers	-	-	(77,340)	77,340	-	-	-	(77,340)	77,340	-
As at 31st March 2017	23,172	83,025	329,170	2,012,765	2,448,132	23,172	83,025	329,170	2,012,765	2,448,132
Accumulated Depreciation										
As at 1st April 2016	10,526	81,290	-	493,115	584,930	10,526	81,290	-	493,115	584,930
Amortization charge for the year	772	65	-	60,450	61,287	772	65	-	60,450	61,287
As at 31st March 2017	11,298	81,355	-	553,565	646,217	11,298	81,355	-	553,565	646,217
Written Down Value										
As at 31st March 2017	11,874	1,670	329,170	1,459,200	1,801,915	11,874	1,670	329,170	1,459,200	1,801,915
As at 31st March 2016	12,646	259	330,339	1,442,310	1,785,554	12,646	259	330,339	1,442,310	1,785,554

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

These are investments in immature/ mature plantations since the formation of the Company. The assets (including plantation assets) taken over by way of estate leases are set out in Notes 12 and 13. Further investment in immature plantations taken over by way of these leases are shown in the above note. When such plantations become mature, the additional investments, since initial investment to bring them to maturity, will be moved from immature to mature under this note.

The Company has 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 period under Immature Plantations (2016 - Nil).

14 C CONSUMABLE BIOLOGICAL ASSETS

TIMBER PLANTATIONS - MANAGED TREES	Company		Group	
As at 31 March	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 1 April	217,532	202,471	217,532	202,471
Increase due to development	9,254	10,320	9,254	10,320
Transfer from immature plantations	1,744	-	1,744	-
Gain/(loss) arising from changes in fair value less cost to sell attributable to physical change	8,941	7,551	8,941	7,551
Decrease due to harvest	(634)	(2,810)	(634)	(2,810)
As at 31 March	236,837	217,532	236,837	217,532

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 manage trees was ascertained in accordance with LKAS 41. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

14.C.1 CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS

	Company		Group	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Change in fair value of consumable biological assets (Note 14 C)	8,941	7,551	8,941	7,551
Change in fair value of produce on bearer biological assets (Note 16)	7,802	(2,727)	7,802	(2,727)
	16,743	4,824	16,743	4,824

14.C.2 INFORMATION ABOUT FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

Non Financial Asset	Valuation Technique	Unobservable Inputs	Range of Unobservable Inputs (Probability weighted average.)	Relationship of Unobservable Inputs to Fair Value
Consumable Managed Biological Assets	DCF	Discounting Rate	17.5%	The higher the discount rate, the lesser the fair value
		Optimum rotation (Maturity)	25-35 Years	Lower the rotation period, the higher the fair value
		Volume at rotation	25-85 cu.ft	The higher the volume, the higher the fair value
		Price per cu.ft.	Rs.450/- to Rs.1,800/-	The higher the price per cu. ft., the higher the fair value

Other key assumptions used in valuation

1. The harvesting is approved by the PMMD and the Forest Department based on the Forestry Development Plan.
2. The prices adopted are net of expenditure
3. Though the replanting is a condition precedent for harvesting' yet the costs are not taken in to consideration.

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

The carrying amount of biological assets pledged as securities for liabilities as at the date of the statement of financial position is nil. (2016 - nil).

There are no commitments for the development or acquisition of biological assets.

14.C.3 SENSITIVITY ANALYSIS

Sensitivity variation sales price

Values as appearing in the Statement of Financial Position are very sensitive to price changes with regard to the average sales prices applied. Simulations made for timber show that a rise or decrease by 10% of the estimated future selling price has the following effect on the net present value of biological assets:

	Rs.'000	Rs.'000
Managed Timber	+10%	-10%
As at 31 March 2017	18,755	(18,755)
As at 31 March 2016	17,479	(17,479)

14.C.3 Sensitivity Analysis (Contd.)

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 +1.5%	Rs.'000 -1.5%
As at 31 March 2017	(6,472)	10,534
As at 31 March 2016	(3,837)	2,248

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 2018.

	Company	
As at 31 March	**2017 Rs.'000**	**2016 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	16,035	16,035
	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. PRODUCE ON BEARER BIOLOGICAL ASSETS

	Company		Group	
As at 31 March	**2017 Rs.'000**	**2016 Rs.'000**	**2017 Rs.'000**	**2016 Rs.'000**
At the beginning of the year/ as previously reported	2,145	-	2,145	-
Impact of the amendments of LKAS 16 and LKAS 41	-	4,871	-	4,871
Restated balance as at 1 April	2,145	4,871	2,145	4,871
Change in fair value less cost to sell	7,802	(2,727)	7,802	(2,727)
	9,947	2,144	9,947	2,144

NOTES TO THE FINANCIAL STATEMENTS CONTD.

17. INVENTORIES

As at 31 March	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Biological Assets - Nurseries	12,536	19,446	12,536	19,446
Biological Assets -Harvested Crop	291,321	244,713	291,321	244,713
Input Stocks, Consumables & spares	68,450	59,269	70,870	61,612
	372,307	323,428	374,727	325,771

18. TRADE AND OTHER RECEIVABLES

As at 31 March	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Produce Debtors	83,711	63,505	89,439	67,724
Advances & Prepayments	49,215	54,444	57,509	56,927
Other debtors	24,301	39,927	24,301	45,515
	157,227	157,876	171,249	170,166

19. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 March	Relationship	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Dipped Products PLC	Related Company	2,303	1,354	2,303	1,354
Hayleys Global Beverages (Pvt) Ltd	Related Company	78	81	78	81
Mabroc Teas (Pvt) Ltd	Related Company	-	1,702	-	1,702
		2,381	3,137	2,381	3,137

20. SHORT TERM INVESTMENT

As at 31 March	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Saving Accounts	12,791	43,126	12,791	43,126
Fixed Deposits	213,969	-	213,969	10,065
	226,760	43,126	226,760	53,191

21. STATED CAPITAL

As at 31 March	Company 2017	Company 2016	Group 2017	Group 2016
	Number	Number	Number	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.

22. NON-CONTROLLING INTEREST

	2017 Rs.'000	2016 Rs.'000
TTEL Hydro Power Company (Pvt) Ltd	92,388	91,608
TTEL Somerset Hydro Power (Pvt) Ltd	81,221	88,190
	173,609	179,798

22.1 MATERIAL PARTLY OWNED SUBSIDIARIES

Summarised financial information of subsidiaries that have material non-controlling interest, reflecting amounts before inter-company eliminations, is set out below.

	TTEL Hydro Power Company (Pvt) Ltd	TTEL Somerset Hydro Power (Pvt) Ltd
Non controlling Interests in %	49	49
	Rs.'000	**Rs.'000**
Accumulated Balance of Non Controlling Interest	92,388	81,221
Summarised statement of profit or loss for the year ended 31 March 2017		
	Rs.'000	**Rs.'000**
Revenue	33,273	38,860
Cost of sales	(22,734)	(16,598)
Administrative expenses	(3,270)	(6,298)
Finance cost	(4,320)	-
Finance Income	60	769
Profit/(loss) before tax	3,009	16,733
Income Tax	(1,346)	(2,654)
Profit/(loss) after tax	1,663	14,079
Attributable to owners	848	7,180
Attributable to non controlling interests	815	6,899
Total Comprehensive income	1,593	14,039
Dividend paid to non controlling interest	-	13,848
Summarised statement of financial position as at 31 March 2017		
Current Assets	12,946	15,863
Non Current Assets	219,264	151,030
Current Liabilities	26,352	2,740
Non current Liabilities	16,827	698
Total Equity	189,029	163,454
Attributable to :		
Equity holders of parent	96,405	83,361
Non controlling interests	92,624	80,092
Summarised statements of cash flows for the year ended 31 March 2017		
Operating cash flows	14,187	21,801
Investing Cash flows	(165)	(163)
Financing cash flows	(21,498)	(31,402)
Net increase/(decrease) in cash & cash equivalents	(7,476)	(9,764)

NOTES TO THE FINANCIAL STATEMENTS CONTD.

23. INTEREST BEARING LOANS AND BORROWINGS

Company	2017 Repayable within one year Rs.'000	2017 Repayable after one year less than five years Rs.'000	2017 Repayable after five years Rs.'000	2017 Sub Total Rs.'000	2017 Total as at 31.03.2017 Rs.'000	2016 Repayable within one year Rs.'000	2016 Repayable after one year less than five years Rs.'000	2016 Repayable after five years Rs.'000	2016 Sub Total Rs.'000	2016 Total as at 31.03.2016 Rs.'000
23.1 National Development Bank PLC	**30,000**	**87,500**	**-**	**87,500**	**117,500**	48,586	117,500	-	117,500	166,086
23.2 Sampath Bank PLC	**13,044**	**8,692**	**-**	**8,692**	**21,736**	13,044	21,736	-	21,736	34,780
23.3 Tea Board Loan	**7,778**	**27,222**	**-**	**27,222**	**35,000**	-	-	-	-	-
	50,822	**123,414**	**-**	**123,414**	**174,236**	61,630	139,236	-	139,236	200,866

Group	2017 Repayable within one year Rs.'000	2017 Repayable after one year less than five years Rs.'000	2017 Repayable after five years Rs.'000	2017 Sub Total Rs.'000	2017 Total as at 31.03.2017 Rs.'000	2016 Repayable within one year Rs.'000	2016 Repayable after one year less than five years Rs.'000	2016 Repayable after five years Rs.'000	2016 Sub Total Rs.'000	2016 Total as at 31.03.2016 Rs.'000
23.1 National Development Bank PLC	**30,000**	**87,500**	**-**	**87,500**	**117,500**	48,586	117,500	-	117,500	166,086
23.2 Sampath Bank PLC	**34,543**	**24,816**	**-**	**24,816**	**59,359**	34,543	59,359	-	59,359	93,902
23.3 Tea Board Loan	**7,778**	**27,222**	**-**	**27,222**	**35,000**	-	-	-	-	-
	72,321	**139,538**	**-**	**139,538**	**211,859**	83,129	176,859	-	176,859	259,988

23. INTEREST BEARING LOANS AND BORROWINGS

Company	Repayable within one year Rs.'000	Repayable after one year less than five years Rs.'000	Repayable after five years Rs.'000	Sub Total Rs.'000	Total as at 2017 Rs.'000	Total as at 2016 Rs.'000	Rate of Interest	Terms of Repayment
23.1 NATIONAL DEVELOPMENT BANK PLC								
Field Development								
4th Disbursement	-	-	-	-	-	18,586	9.42%	Fully settled on June 2016.
Relief Package - Tea Sector	30,000	87,500	-	87,500	117,500	147,500	AWPLR-0.5% upto Aug 17 AWPLR +1.5% from Aug 17	60 monthly installments commencing from March 2016.
	30,000	87,500	-	87,500	117,500	166,086		

Group	Repayable within one year Rs.'000	Repayable after one year less than five years Rs.'000	Repayable after five years Rs.'000	Sub Total Rs.'000	Total as at 2017 Rs.'000	Total as at 2016 Rs.'000	Rate of Interest	Terms of Repayment
National Development Bank PLC								
Field Development								
4th Disbursement	-	-	-	-	-	18,586	9.42%	Fully settled on June 2016.
Relief Package - Tea Sector	30,000	87,500	-	87,500	117,500	147,500	AWPLR-0.5% upto Aug 17 AWPLR +1.5% from Aug 17	60 monthly installments commencing from March 2016.
	30,000	87,500	-	87,500	117,500	166,086		

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

23.2 SAMPATH BANK PLC

Company	Repayable within one year Rs.'000	Repayable after one year less than five years Rs.'000	Repayable after five years Rs.'000	Sub Total Rs.'000	Total as at 2017 Rs.'000	Total as at 2016 Rs.'000	Rate of Interest	Terms of Repayment
Replanting Loan	13,044	8,692	-	8,692	**21,736**	34,780	8.00%	92 monthly installments commencing from April 2011.
	13,044	8,692	-	8,692	**21,736**	34,780		
Group								
Replanting Loan	13,044	8,692	-	8,692	**21,736**	34,780	8.00%	92 monthly installments commencing from April 2011.
Mini Hydro - TTE Hydro	21,499	16,124	-	16,124	**37,623**	59,122	8.75%	108 monthly installments commencing from January 2010.
	34,543	24,816	-	24,816	**59,359**	93,902		

23.3 TEA BOARD LOAN

Company								
Factory Loan	7,778	27,222	-	27,222	**35,000**	-	6 months AWPLR + 1%	36 monthly installments commencing from August 2017
	7,778	27,222	-	27,222	**35,000**	-		
Group								
Factory Loan	7,778	27,222	-	27,222	**35,000**	-	6 months AWPLR + 1%	36 monthly installments commencing from August 2017
	7,778	27,222	-	27,222	**35,000**	-		

24. SHORT TERM BORROWINGS

As at 31st March Company	2017 Rs.'000	2016 Rs.'000	Rate of Interest	Terms of Repayment
The Hongkong and Shanghai Banking Co.	-	42,000	Prevailing money market rates	
	-	42,000		
Group				
The Hongkong and Shanghai Banking Co.	-	42,000	Prevailing money market rates	
	-	42,000		

NOTES TO THE FINANCIAL STATEMENTS CONTD.

25. RETIRING BENEFIT OBLIGATIONS

	Company		Group	
As at 31 March	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Provision for retiring gratuity				
At the beginning of the year	**979,665**	921,389	**980,733**	922,369
Interest Cost	**33,549**	88,635	**33,666**	88,733
Current Service Cost	**102,362**	32,369	**102,453**	32,467
Gratuity Payments for the year	**(98,206)**	(92,367)	**(98,206)**	(92,366)
Actuarial (Gain) / Loss due to changes in financial assumptions	**(64,173)**	(100,965)	**(64,173)**	(100,965)
Actuarial (Gain) / Loss due to changes in experience	**(153,498)**	130,603	**(153,374)**	130,495
At the end of the year	**799,699**	979,665	**801,101**	980,733

According to the actuarial valuation report issued by the actuarial valuer As at 31 March 2017, the actuarial present value of promised retirement benefits amounted to Rs. 799,698,920/=. 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. 875,021,715/=. Hence, there is a contingent liability of Rs. 75,322,795/= , which would crystallise only if the company ceases to be a going concern.

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

The key assumptions used by actuary include the following.

	2017	2016
(i) Rate of Discount	**12%** (per annum)	11% (per annum)
(ii) Rate of Salary Increase		
Workers	**20%** (every two years)	20% (every two years)
Staff	**10%** (per annum)	10% (per annum)
(iii) Retirement Age		
Workers	60 years	60 years
Staff	60 years	60 years

The acturial 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.

Company	2017 Rs.'000
Within the next 12 months	**95,660**
Between 1-5years	**272,930**
Between 5-10 years	**200,416**
Beyond 10 years	**230,693**
Total	**799,699**

The weighted average duration of the Defined Benefit plan obligation at the end of the reporting period is 6.1 years and 6.9 Years for staff and workers respectively.

25. RETIRING BENEFIT OBLIGATIONS (Cont.)

Sensitivity Analysis - Salary/ Wage Escalation Rate

Values appearing in the financial statements are very sensitive to the changes of financial and non financial assumptions used. The sensitivity was carried for both the rate of wage increment and the salary increment. Simulation made for retirement benefit obligation show that a rise or decrease by 1% of the rate of wage and salary has the following effect on the retirement benefit obligation.

Company	Workers		Staff	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rate of wage/salary increment in every two years / per annum	-1%	+1%	-1%	+1%
As at 31 March 2017	**(15,550)**	**16,181**	**(5,339)**	**5,842**
As at 31 March 2016	(34,163)	36,183	(8,498)	9,672

Sensitivity Analysis - Discount Rate

Values appearing in the financial statements are very sensitive to the changes of financial and non financial assumptions used. The sensitivity was carried for the discount rate. Simulation made for retirement benefit obligation show that a rise or decrease by 1% of the rate of the discount rate has the following effect on the retirement benefit obligation.

Company	Workers		Staff	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rate of discount	-1%	+1%	-1%	+1%
As at 31 March 2017	**39,786**	**(35,583)**	**5,787**	**(5,203)**
As at 31 March 2016	89,053	(76,407)	9,666	(8,351)

26. DEFERRED INCOME

	Company		Group	
As at 31st March	**2017**	**2016**	**2017**	**2016**
	Rs.'000	**Rs.'000**	**Rs.'000**	**Rs.'000**
Deferred Grants and Subsidies				
Balance at the beginning of the year	**151,102**	166,618	**151,102**	166,618
Add : Grants received / (refunded) during the year	**9,624**	4,500	**9,624**	4,500
Less : Amortisation for the year	**(5,300)**	(20,016)	**(5,300)**	(20,016)
Balance at the end of the year	**155,426**	151,102	**155,426**	151,102

The Company has received funding from the Save the Children (in Sri lanka) during the year for the sanitary project. The amounts spent are included under the relevant classification of property, plant & equipment and the grant component is reflected under Deferred Grants and Subsidies. Grants are amortised over the life of the assets for which they are being deployed.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

27. LIABILITY TO MAKE LEASE PAYMENT

	Company		Group	
As at 31 March	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Liability				
As at 31st March	729,459	746,510	729,459	746,510
Finance cost allocated to future periods	(541,558)	(558,149)	(541,558)	(558,149)
Net Liability	187,901	188,361	187,901	188,361
Payable within one year				
Gross liability	25,154	25,154	25,154	25,154
Finance cost allocated to future periods	(24,427)	(24,511)	(24,427)	(24,511)
Net liability transferred to current liabilities	727	643	727	643
Payable within two to five years				
Gross liability	100,615	100,615	100,615	100,615
Finance cost allocated to future periods	(96,633)	(97,413)	(96,633)	(97,413)
Net liability	3,982	3,202	3,982	3,202
Payable after five years				
Gross liability	603,690	620,741	603,690	620,741
Finance cost allocated to future periods	(420,498)	(436,225)	(420,498)	(436,225)
Net liability	183,192	184,515	183,192	184,515
Net liability payable after one year	187,174	187,718	187,174	187,718

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.

According to the reassessment, the base rental payable per year has increased from Rs.7,225,074/= to Rs.29,400,936/=.

The Statement of Recommended Practice (SoRP) for Right-to-use of Land on Lease was approved by the Council of the Institute of Chartered Accountants of Sri Lanka on 19th December 2012. Subsequently, the amendments to the SoRP along with the modification to the title as Statement fo Alternative Treatment (SoAT) were approved by the Council on 21st August 2013. The Company has reassessed the liability up to Financial Year 2013 and not reassessed after that as this was not mandatory requirement. However, if the liability is reassessed according to the alternative treatment (SoAT) on the assumption that the lease rent is increased constantly by GDP Deflator of 4% and discounted at a rate of 13%, liability would be as follows.

	Rs.'000
Gross Liability	1,557,258
Finance Charge	(1,038,754)
Net Liability	518,504

28. TRADE AND OTHER PAYABLES

	Company		Group	
As at 31st March	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade creditors	41,208	18,103	41,208	18,103
Others	171,560	147,983	171,771	148,294
Accrued expenses	164,202	104,527	171,508	111,611
	376,969	270,613	384,487	278,008

29. AMOUNTS DUE TO RELATED COMPANIES

As at 31 March	Relationship	Company 2017 Rs.'000	Company 2016 Rs.'000	Group 2017 Rs.'000	Group 2016 Rs.'000
Hayleys PLC.	Ultimate Parent	6,803	6,391	6,803	6,391
TTEL Hydro Power Co (Pvt) Ltd	Subsidiary Company	1,433	3,172	-	-
Kelani Valley Plantations PLC	Related Company	232	869	232	869
Hayleys Business Solutions International (Pvt) Ltd	Related Company	81	78	81	78
		8,549	10,510	7,117	7,338

30. DIVIDENDS PER SHARE

	Company 2017 Rs.'000	Company 2016 Rs.'000
Interim dividend - paid Rs. 1/- per share	23,750	Nil
Number of ordinary shares	23,750	
Dividend per share (Rs.)	1.00	-

31. IMPACT OF AMENDMENTS TO LKAS 16 AND LKAS 41

The Group applied above amendment for the first time, which is effective for annual periods beginning on or after 1 January 2016. The nature and the effect of the changes are disclosed below.

Amendment to LKAS 16 and LKAS 41, on bearer plants, harvestable biological assets growing on the bearer plants are measured at their fair value less cost to sell and accounted retrospectively

	Company 2016 Rs.'000 As reported Previously	Company 2016 Rs.'000 Effect from Amendment	Company 2016 Rs.'000 Restated Balance	Group 2016 Rs.'000 As reported Previously	Group 2016 Rs.'000 Effect from Amendment	Group 2016 Rs.'000 Restated Balance
Statement of Financial Position						
Produce on Bearer Plant						
As at the beginning of the year		4,871	4,871		4,871	4,871
As at the end of the year		2,144	2,144		2,144	2,144
Retained Earnings						
As at the beginning of the year	1,293,428	4,871	1,298,299	1,331,886	4,871	1,336,757
As at the end of the year	1,281,631	2,144	1,283,775	1,328,271	2,144	1,330,415
Statement of Profit or Loss						
Gain on change in fair value of biological assets	7,551	(2,727)	4,824	7,551	(2,727)	4,824

NOTES TO THE FINANCIAL STATEMENTS CONTD.

32. ASSETS PLEDGED

Following assets have been pledged as security for liabilities.

Bank	Nature of Assets	Nature of Liability	2016/17 Facility Amount Rs.Mn	2016/17 Outstanding Amount Rs.Mn
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	40	6.2
	Primary mortgage over lease hold rights to the value of Rs. 30 Mn of Clarendon Estate.	Term Loan	100	21.7
	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.			
National Development Bank PLC	Primary mortgage over lease hold rights of Somerset, Great Western, Holyrood, and Dessford Estates.	Term Loan	150	117.5
The HongKong & Shanghai Banking Co.Ltd	Concurrent mortgage over stocks and debtors for Rs. 65 Mn.	Over Draft	50	1.9
Sri Lanka Tea Board	Tea Sales Proceeds	Term Loan	35	35.0

33. CAPITAL COMMITMENTS

Followings are the capital commitments as at the Statement of Financial Position date.

	Company 2017 Rs. (Mn)	Company 2016 Rs. (Mn)
Approved by the Board & Contracted for	7	-
Approved by the Board & not Contracted for	163	173
	170	173

34. COMMITMENTS AND CONTINGENCIES

Contingent liabilities that may result, depending on the timing of the taxability of certain fair value adjustments amount to approximately Rs. 1.67 Mn (2016 - Rs. 0.48Mn).

35. 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.

36. RELATED PARTY DISCLOSURES

All the below related party transactions have been conducted on relevant commercial terms with the respective parties. Details of Significant Related Party Disclosures are as follows.

36.1 Recurrent Transactions with the parent and ultimate parent company

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000) 2017	2016
Hayleys PLC	Ultimate Parent	Mr. A.M. Pandithage Dr. K.I.M. Ranasoma	Data Processing Services Secretarial Services , Office Rent & Management Salaries	39,970	37,902
Hayleys Plantation Services (Pvt) Limited	Parent	Mr. A.M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Mr. W. G. R. Rajadurai Mr. D.S.Senaviratne Dr. K.I.M. Ranasoma	Managing Agent's Fee (5% from Earnings before Interest, Tax, Depreciation and Amortization.)	-	-

The managing agent Hayleys Plantation Services (Pvt) Limited has waived the management fee hereafter with effect from 01/04/2014.

36.2 Transactions with the subsidiaries

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000) 2017	2016
TTEL Hydro Power (Pvt) Company Limited	Subsidiary	Mr. A.M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Mr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma	Preference Share Dividends	-	6,691
TTEL Somerset Hydro Power (Pvt) Limited	Subsidiary	Mr.A M Pandithage Mr. Merrill J. Fernando Mr. Malik J. Fernando Mr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma	Preference and Ordinary Share Dividends	14,413 -	11,659 -

NOTES TO THE FINANCIAL STATEMENTS CONTD.

36. RELATED PARTY DISCLOSURES (Cont.)

36.3 Recurrent Transactions with other related companies

Nature of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000) 2017	2016
Dipped Products PLC	Intermediary Ultimate Parent	Mr. A.M. Pandithage Dr. K.I.M. Ranasoma	Proceeds on latex suppliers	20,472	10,759
Hayleys Travels & Tours (Pvt) Ltd	Common Directors	Mr. A.M. Pandithage	Providing of Air Ticketing Services	788	80
Hayleys Agriculture Holdings Limited.	Common Directors	Mr. A.M. Pandithage	Purchase of Equipments & Chemicals	35,300	20,382
Hayleys Agro Fertilizers (Pvt) Limited.	Common Directors	Mr. A.M. Pandithage	Purchase of Fertilizer	124,947	97,727
Mabroc Teas (Pvt) Ltd.	Common Directors	Mr. Merrill J Fernando Mr. W. G. R. Rajadurai Dr. K.I.M. Ranasoma	Sale of Teas (Through the Brokers)	101,749	16,715
Kelani Valley Plantations PLC	Common Directors	Mr. A.M. Pandithage Mr. W. G. R. Rajadurai Dr. K.I.M. Ranasoma	Share of Regional Office and Head office maintenance cost		
			- Payments	3,912	2,245
			- Receipts	1,628	1,628
			Green Leaf Supplies		
			- Payments	29,800	53,462
			- Receipts	-	-
Hayleys Business Solutions International (Pvt) Ltd.	Common Directors	Mr. A.M. Pandithage	Payroll processing cost and use of Hardware	468	491
Hayleys Agro Technica Ltd	Common Directors	Mr. A.M. Pandithage	Purchase of Chemicals	-	2,868
Logiwiz Ltd	Common Directors	Mr. A.M. Pandithage	Providing of document Storing Service	523	563
Ceylon Tea Service (MJF)	Common Directors	Mr. Merrill J. Fernando Mr. Malik J. Fernando Ms. M. D. A. Perera	Sale of Teas (Through the Brokers)	131,974	-
Hayleys Agro Farms (Pvt) Ltd	Common Directors	Mr. A.M. Pandithage	Purchase of Chemicals	2,662	4,242
Hayleys Consumer Products(Pvt) Ltd	Common Directors	Mr. A.M. Pandithage	Purchase of Accessories	22	-
Hayleys Global Beverages (Pvt) Ltd	Common Directors	Mr. A.M. Pandithage Mr. W. G. R. Rajadurai Dr. K.I.M. Ranasoma	Reimbursement of Administration Expenses	3,779	7,276

36.4 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 & 36.1 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.

37. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 9, 15, 19, 29, & 36 to the financial statements.

There are no Non-recurrent Related Party Transactions where aggregate value exceeds 10% of the equity or 5% of the Total Assets and Recurrent Related Party Transactions where aggregate value exceeds 10% Gross revenue/income.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arise directly from its operations. Accordingly the Group has exposure to namely Credit Risk, Liquidity Risk, Currency Risk and Market Risks from its use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk.

38.1 FINANCIAL RISK MANAGEMENT FRAMEWORK

The Board of Directors has the overall responsibility for the establishment and oversight of the group's financial risk management framework which includes developing and monitoring the Group's financial risk management policies.

The Group financial risk management policies are established to identify, quantify and analyse the financial risks faced by the Group, to set appropriate risk limits and controls and to monitor financial risks and adherence to limits. Financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The TTE PLC Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group.

38.2 CREDIT RISK

Credit Risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally from the Group's receivable from customers and from its financing activities including deposits with banks and financial institutions foreign exchange transactions and other financial instruments.

38.2.1 Trade and Other Receivables

The Group's exposure to credit risk is influenced by the individual characteristics of each customer. The Group's credit policy is monitored at the Board level. The new customers are analysed individually for credit worthiness before Group's standard payment and delivery terms and conditions are offered. Group review includes external ratings, when available and in some cases, bank references, purchases limit etc. which also subject to under review on quarterly basis. The past experience of the Management is considered when revisions are made to terms and conditions.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The maximum exposure to credit risk for trade and other receivables at the reporting date is Rs. 89.4 Mn (2016 – Rs. 67.7 Mn).

TTE PLC has a minimal credit risk of its trade receivables as the repayment is guaranteed within seven days by the Tea and Rubber auction systems.

38.2.2 Investments

Credit risks from invested balance with the financial institutions are managed by the Board of Directors. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to them. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure.

The Group held short term investments of Rs. 226.7 Mn as at 31st March 2017 (2016 – Rs. 53.1 Mn) which represents the maximum credit exposure on these assets.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

38.2.3 Cash and Cash Equivalents

The Group held cash at bank and in hand of Rs. 29.8 Mn as at 31st March 2017 (2016 – Rs. 27.1 Mn) which represents its maximum credit exposure on these assets.

- Sampath Bank PLC – A+(lka)
- Hatton National Bank PLC –AA – (lka)
- Bank of Ceylon – AA+ (lka)
- HongKong and Shanghai Banking Corporation Ltd – AAA(lka)
- Union Bank of Colombo PLC – BB+ (lka)
- Seylan Bank PLC – A- (lka)

38.3 LIQUIDITY RISK

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group does not concentrate on a single financial institution, thereby minimizing the exposure to liquidity risk through diversification of funding sources. The Group aims to fund investment activities of the individual and Group level by funding the long-term investment with long term financial sources and short term investment with short term financing. Where necessary the Group consults the Treasury Department and Strategic Business Development Unit in Parent Company for scrutinizing the funding decisions.

The Table below summarizes the maturity profile of the Groups financial liabilities based on contractual undiscounted payments.

As at 31st March 2017	On Demand Rs.'000	Less than 3 Months Rs.'000	3 to 12 Months Rs.'000	2 to 5 years Rs.'000	>5 years Rs.'000	Total Rs.'000
Group						
Interest bearing loans & borrowing	-	20,721	68,047	157,988	-	246,756
Short term Interest bearing borrowings	13,465	-	-	-	-	13,465
Trade & other payables	-	324,172	60,315	-	-	384,487
	13,465	344,893	128,362	157,988	-	644,708
Company						
Interest bearing loans & borrowing	-	15,346	51,923	141,864	-	209,133
Short term Interest bearing borrowings	13,389	-	-	-	-	13,389
Trade & other payables	-	316,654	60,315	-	-	376,969
	13,389	332,000	112,238	141,864	-	599,491

As at 31st March 2016	On Demand Rs.'000	Less than 3 Months Rs.'000	3 to 12 Months Rs.'000	2 to 5 years Rs.'000	>5 years Rs.'000	Total Rs.'000
Group						
Interest bearing loans & borrowing	-	32,135	62,391	199,893	-	294,419
Short term Interest bearing borrowings	62,214	42,000	-	-	-	104,214
Trade & other payables	-	234,846	43,162	-	-	278,008
	62,214	308,981	105,553	199,893	-	676,641
Company						
Interest bearing loans & borrowing	-	28,552	46,267	162,270	-	237,089
Short term Interest bearing borrowings	62,214	42,000	-	-	-	104,214
Trade & other payables	-	227,451	43,162	-	-	270,613
	62,214	298,003	89,429	162,270	-	611,916

38.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk & other price risk such as equity price risk. Financial instrument affected by market risk include loans & borrowings, deposits, available for sale investment & derivative financial instruments.

38.4.1 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group has not engaged in any interest rate swap agreements.

The Group held long term borrowings with floating interest rate of Rs. 35 Mn (2016 – Rs. 207 Mn) which represents its maximum credit exposure on these liabilities.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the group's Profit Before Tax is affected through the impact on floating rate borrowings as follows:

	Increase/ decrease in Interest rate	Effect on profit before tax Rs.'000
Group		
2017	**+1%**	**(77)**
	-1%	**77**
2016	+1%	(996)
	-1%	996
Company		
2017	**+1%**	**(77)**
	-1%	**77**
2016	+1%	(996)
	-1%	996

38.4.2 Equity Price Risk

The Group's listed & unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments. Management of the Group monitors the mix of debt & equity securities in its investment portfolio based on market indices. Material investment within the portfolio are Managed on an individual basis and all buy and sell decision are approved by the Board. Equity price risk is not material to the financial statements. However, company does not hold any quoted shares as at the reporting date.

38.4.3 Capital Management

The Group's policy is to retain a strong capital base so as to maintain investor, creditor & market confidence and to sustain future development of the business. Capital consists of share capital, reserves, retain earning & non-controlling interest of the Group. The Board of Directors monitors the return on capital, interest covering ratio, dividend to ordinary shareholders.

The gearing ratio at the reporting date is as follows.

	Consolidated		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest bearing borrowing				
Current portion of long term interest bearing borrowings	72,321	83,129	50,822	61,630
Payable After one year	139,538	176,859	123,414	139,236
Short term Interest bearing borrowings	13,465	104,214	13,389	104,214
	225,324	364,202	187,625	305,080
Equity	2,073,745	1,680,415	2,035,686	1,633,775
Equity & debts	2,299,069	2,044,617	2,223,311	1,938,855
Gearing ratio	10%	18%	8%	16%

INVESTOR INFORMATION

APPENDICES I

1. STOCK EXCHANGE

Interim Financial Statements of the 4th Quarter, for the year ended 31st March 2017, have been submitted to the Colombo Stock Exchange on 12th May 2017 as required by the Listing Rules.

2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST MARCH 2017

Number of shareholders as at 31st March 2017 is 13,529 (31st March 2016-13,607)

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	13,350	2,113,822	8.9003	7	1,933	0.0081	13,357	2,115,755	8.9084
1,001-10,000	141	417,013	1.7559	2	5,573	0.0235	143	422,586	1.7794
10,001-100,000	19	409,793	1.7254	2	54,537	0.2296	21	464,330	1.9550
100,001-1,000,000	6	1,812,629	7.6321				6	1,812,629	7.6321
Over 1,000,000	2	18,934,700	79.7251				2	18,934,700	79.7251
	13,518	23,687,957	99.7388	11	62,043	0.2612	13,529	23,750,000	100.0000
CATEGORY									
Individuals	13,458	2,946,069	12.4045	10	47,043	0.1980	13,468	2,993,112	12.6026
Institutions	60	20,741,888	87.3343	1	15,000	0.0632	61	20,756,888	87.3974
	13,518	23,687,957	99.7388	11	62,043	0.2612	13,529	23,750,000	100.0000

of the issued ordinary share capital 99.74%, is held by residents of Sri Lanka.

3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27 % (2016-20.27%) held by 13,524 ordinary shareholders (2016-13,602)

4. MARKET VALUE

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

	12 months ended 31.03.2017 Rs.	12 months ended 31.03.2016 Rs.	15 months ended 31.03.2015 Rs.
Highest	39.30 (12th April 2016)	44.00 (20th May 2015)	38.90 (23rd February 2015)
Lowest	29.50 (18th January 2017)	26.10 (10th March 2016)	24.00 (04th January 2014)
Year end	32.00	32.50	35.10

5. DIVIDEND PAYMENT

Interim dividend 2016/17 - Rs 1/- per share was paid on 31st March 2017.

6. SHARE TRADING

	12 months ended 2017	12 months ended 2016	15 months ended 2015
No. of transactions	479	2,253	2,849
No. of shares traded	363,435	1,416,648	2,707,295
Value of shares traded (Rs.)	13,011,990.	34,557,181	86,399,315

7. TWENTY MAJOR SHAREHOLDERS

	Name of the Shareholder	No.of Shares as at 31.03.2017	%	No.of Shares as at 31.03.2016	%
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	SAMPATH BANK PLC/DR. T. SENTHILVERL	560,554	2.36	-	-
	SEYLAN BANK PLC/DR. T. SENTHILVERL	243,868	1.02	185,278	0.78
5	WALDOCK MACKENZIE LTD/CEYLINCO SHRIRAM CAPITAL MANAGEMENT SERVICES CO. (PVT) LTD	181,900	0.77	181,900	0.77
6	MR. N.A. WITHANA	112,100	0.47	112,100	0.47
7	COCOSHELL ACTIVATED CARBON COMPANY LIMITED	101,007	0.42	101,007	0.42
8	MR. P.A.D. SAMARASEKERA	53,400	0.22	53,400	0.22
9	MR. K.C. VIGNARAJAH	48,800	0.21	48,800	0.20
10	MR. K.S.D. SENAWEERA	47,500	0.20	47,500	0.20
11	MRS. J.K.P. SINGH	39,537	0.16	39,537	0.16
12	MR. G.M. WEERAKOON	27,283	0.11	26,290	0.11
13	MRS. F.H. ZAHEEN	24,000	0.10	24,000	0.10
14	MR. E.A. DEEN	20,000	0.08	20,000	0.08
	PACKAGE CARE LIMITED	20,000	0.08	20,000	0.08
15	MS. M.J. NIHARA	15,518	0.07	33,000	0.14
16	MR. M. DURAISINGAM	15,382	0.06	44,231	0.19
17	HARNAM HOLDINGS SDN BHD	15,000	0.06	15,000	0.06
18	MR. P. KUMARAN	13,531	0.05	13,531	0.05
19	MR. R. MAHESWARAN	13,334	0.05	-	-
20	MISS. A. RADHAKRISHNAN	13,333	0.05	-	-
	MISS. M. P.RADHAKRISHAN	13,333	0.05	-	-

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE AND LISTING RULES

APPENDICES II

Section 1: Level of Compliance with the Code of Best Practice on Corporate Governance 2013, issued jointly by the SEC of Sri Lanka and CA Sri Lanka

Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
1: THE COMPANY			
A. Directors			
A.1. The Board TTE PLC is headed by an effective Board of Directors with professionals and business leaders drawn from diverse fields; their profiles are given on pages 40 to 42 of this Report. As at 31.03.2017, the Board comprised 11 directors including the Chairman, Managing Director and 04 Non-Executive Directors, 04 Independent Non-Executive Directors. The Board with their multi disciplinary 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 Company. Special meetings are also being held as necessary. These meetings enhance shareholder value and all stakeholder interests are considered in corporate decisions. Details of meetings of the Board and attendance of the members are set out on page 177 of this Report.
Responsibilities of the Board	A 1.2	Compliant	The responsibilities and duties of the Board are documented and communicated to the Directors at the time of appointment. Refer: Responsibilities and Duties of the Board, Page 178.
Compliance with laws and access to independent professional advice	A.1.3	Compliant	The Board collectively and the 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 if and when required at the expense of the Company.
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 the standards of business conduct.
Dedication of adequate time and effort by the Directors	A.l.6	Compliant	The Chairman and Directors dedicate adequate time and effort to address matters of the Board and the Company and ensure that their duties and responsibilities are satisfactorily discharged. The 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.l.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.

Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
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.
A.3. Chairman's Role The Chairman is responsible for preserving good corporate governance and for running the Board, maintaining order and facilitating an enabling platform for the effective discharge of the Board's functions.			
Role of the Chairman	A.3.1	Compliant	The Chairman is responsible for the efficient conduct of the 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 ➲ 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 comprises members with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
Availability of sufficient financial acumen	A.4	Compliant	Three Directors of the Board are Fellow Members of the CA 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	Eight out of eleven 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 the 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 2016 Annual General Meeting which is as per the requirement of the Code. Throughout the year, the balance has been maintained between the Executive and Non-Executive Directors of the Board.

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Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
Independent Non-Executive Directors	A.5.2	Compliant	Four out of eight 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.
Independence of Non-Executive Directors	A.5.3	Compliant	All Independent Non-Executive Directors are independent of management and free of any business or other relationships that could 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* Dr. S S S B D G Jayawardena Mr. L N De S Wijeyeratne(Resigned from the Board on 08.07.2016) Dr. N T Bogahalande Mr. S L Athukorala (Appointed from 18.08.2016) Mr. M H Jamaldeen (Appointed from 15.03.2017)
Alternate Director	A.5.6	Compliant	Alternate Directors appointed by Non- Executive Directors are not Executives of the Company. Alternate Directors have not been appointed by Independent Directors as at the reporting date.
Senior Independent Director	A.5.7 & 5.8	Compliant	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, 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.
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.

Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
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 Nomination Committee of the parent Company, Hayleys PLC acts as the Nomination Committee for the Company and makes recommendations to the Board on all new board appointments. Refer page 177 for the composition of Nomination Committee.
Assessment of Board-composition by the Nomination Committee /Board as a whole	A.7.2	Compliant	Annually, the Board collectively assesses its 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 CSE; ➲ 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 is not arbitrary. All Directors including the Chairman of the Board are subject to election by the shareholders at the first opportunity after their appointment and to re-election thereafter at intervals of no more than three years. The Managing Director does not retire by rotation. The names of directors submitted for election or re-election are accompanied by a resume as set out in A.7.3 above, to enable shareholders to make informed decisions on their election.
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.			
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 is done by the Hayleys PLC's remuneration committee and other subcommittees. Duties and responsibilities of such committees are given on page 177.

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Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
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	Information in relation to Directors is disclosed as given below. ➲ Name, qualifications and brief profile - (Refer pages 40 - 42 of this Report) ➲ Nature of expertise (Refer pages 40 - 42 of this Report) ➲ Directors' interest in contracts (Refer page 187 of the Annual Report) ➲ Number of meetings of the Board and Committees held and attendance (Refer page 177 of this Report) ➲ Names of Committees in which the Director serves as the Chairman or member (Refer pages 186 - 189 and 75 of this Report)
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 of Hayleys PLC, parent company, is responsible to act as the committee and overlook the aspects of remuneration of the Company. The 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 comprises four Non-Executive Directors of whom three including the Chairman are independent Directors.
Chairman and the members of the Remuneration Committee	B.1.3	Compliant	Refer page 177 for the composition of Remuneration Committee.
Determination of remuneration of Non-Executive Directors	B.1.4	Compliant	The Board of the parent company 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.
Consultation of the Chairman and access to professional advice	B.1.5	Compliant	Remuneration Committee consults the Chairman about its proposals relating to the remuneration of other Executive Directors and has access to professional advice from within and outside the Company in discharging their responsibilities.

Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
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.			
Executive Director's remuneration package	B .2.1	Compliant	The Remuneration Committee structures the packages needed to attract retain and motivate Executive Directors of the required calibre within reasonable limits.
Comparison of remuneration with other companies	B.2.2	Compliant	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.
Comparison of remuneration with other companies in the Group	B.2.3	Compliant	The Remuneration Committee is sensitive to remuneration and employment conditions of other companies within the Hayleys Group.
Performance related elements of remuneration of Executive Directors	B.2.4	Compliant	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.
Executive share options	B.2.5	Not Applicable	The Company does not have executive share option schemes.
Executive Directors' remuneration	B.2.6	Compliant	The Remuneration Committee follows the provisions set out in Schedule E of the Code as required.
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 of this table for the names of Directors in the Remuneration Committee and page 177 of this report for the aggregate remuneration paid to Executive and Non-Executives. Refer below for the Remuneration Committee Report for the remuneration policy.
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	The Company 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	The Company 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.

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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 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	The Company reaches its shareholders through its website and the CSE 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 raised by the shareholders at the AGM. The Company Secretary maintains a dialogue with the shareholders to answer and to attend to all the correspondences.
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.

Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
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 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 CA 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 186 to 189 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 172); ➲ Declaration by the Directors on all material interests in contracts involving the Company and has refrained from voting on matters in which they were materially interested (Refer pages 186 - 189). ➲ Equitable treatment to shareholders (Refer page 189). ➲ Going concern of the business (Refer page 189, 195); and ➲ Review of internal controls, risk management and reasonable assurance of effectiveness and adherence (Refer pages 186 - 189).
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 190 of this Annual Report and the Auditor's responsibilities are set out on the 'Independent Auditors' Report' on page 195 of the Annual Report. Statement on internal controls is given on page 189 of the Annual Report.
Management Discussion and Analysis	D.1.4	Compliant	Refer 'Management Discussion and Analysis' on pages 46 to 160 of this Report.
Declaration by the Board on the going concern of the business	D.1.5	Compliant	Refer 'Annual Report of the Board of Directors' and the 'Statement of Directors' Responsibility' on page 186 to 189 and 190 of this Report for the required declarations.
Summon an Extraordinary General Meeting to notify serious loss of capital	D.1.6	Compliant	Reason for such an Extraordinary General Meeting has not arisen as yet but would be complied with if such situation arises.

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Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
Disclosure of Related Party transactions	D.1.7	Compliant	The Annual Report contains disclosures on the following with respect to the Board; ➲ Each related party has submitted signed and dated declarations annually (Refer page 189). ➲ 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.
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 the Company's system of internal controls.
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 190 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, and internal control principles and maintain an appropriate relationship with the external auditors.			
Composition of the Audit Committee	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 CFO attend meetings. The Chairman and other Executive Directors are invited to attend meetings. The input of the Statutory Auditors is obtained, where necessary. The Audit Committee 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 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 179) 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	Composition of the Audit Committee are given in this table under reference D.3.1.The independence of the Auditors is disclosed on page 179 of this Report 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' on page 172 of the Annual Report.
D.5 Corporate Governance Disclosures The Code requires the Directors to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.			
Disclosure of Corporate Governance	D.5.1	Compliant	This Report from pages 172 to 191 sets out the manner and extent to which TTE PLC has complied with the principles and provisions of relevant Codes.
02 Shareholder **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.			
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 Company's official website and are provided to the CSE. Any information that the Board considers as price sensitive is disseminated to the shareholders, with due diligence. 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 consideration 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.

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Corporate Governance Principle	Reference to Code	Compliance Status	Details of Compliance
F.2 Shareholder Voting			
Individual shareholders voting	F.2.1	Compliant	Individual shareholders are encouraged to actively participate at 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.
G. Sustainability Reporting			
G.1 Principles of Sustainability Reporting The Code requires the Company 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.
Labour practice	G.1.3.	Compliant	The Company encompasses all policies and practices in relation to work performed by employees 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 are formalised as part of the Company's reporting process on a regular basis. Company's sustainability reporting is done based on the GRI standards G4 version.

Section 2: Level of Compliance to the Continuing Listing Requirements -Section 7.10 on Corporate Governance Rules issued by the CSE.

Rule No.	Corporate Governance Principles	Compliance Status	Extent of Adoption
7.10.1 (a)	Non-Executive Directors	Compliant	Eight out of eleven Directors were Non-Executive Directors
7.10.2(a)	Independent Directors	Compliant	Four out of eight Non-Executive Directors were independent as at 31st March 2016.
7.10.2 (b)	Independent Directors	Compliant	Non-Executive Directors have submitted the declaration in line with the regulatory requirements.

Rule No.	Corporate Governance Principles	Compliance Status	Extent of Adoption
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 CA Sri Lanka with reference to A.5.5 on page 246 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 (Resigned on 08.03.2017) 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 40 to 42 of 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 of the parent Company comprised two Non-Executive Independent Directors as at 31 March 2017.
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 CA Sri Lanka with reference to B.1.1 on page 178 for the details of the functions of the Remuneration Committee
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	Compliant	Names of the Committee members are given in the above table in relation to the Code of Corporate Governance issued by the SEC and CA Sri Lanka as given under B.1.3 on page 248. Report of the Remuneration Committee is given on page 248 above under the B.3.1 of the code. The remuneration paid to the Directors is given in page 218 of this 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 March 2016. 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 /CA Sri Lanka. Please refer page 42 of this 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 CA Sri Lanka with reference to D.3.2 on page 178 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 CA Sri Lanka with reference D.3.1 on page 179 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 179 under section D.3.4 of the Code.

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE AND LISTING RULES

APPENDICES II

Rule No.	Corporate Governance Principles	Compliance Status	Extent of Adoption
9.2.3	Related Party Transactions Review Committee	Compliant	Mandatory from 01/01/2016. If the parent Company and the subsidiary Company both are listed entities, the Related Party Transactions review Committee of the parent Company may be permitted to function as such Committee of the subsidiary. The Committee of the Parent Company which was formed on 10th February 2015 functions as the committee of the Company.
9.2.2	Composition	Complaint	02 Independent Non-Executive Directors and 01 Executive Director
9.2	Related Party Transactions Review Committee Functions	Complaint	• To review in advance all proposed related party transactions of the group either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction. • Seek any information the Committee requires from management, employees or external parties to with regard to any transaction entered into with a related party. • Obtain knowledge or expertise to assess all aspects of proposed related party transactions where necessary including obtaining appropriate professional and expert advice from suitably qualified persons. • To recommend, where necessary, to the Board and obtain their approval prior to the execution of any related party transaction. • To monitor that all related party transactions of the entity are transacted on normal commercial terms and are not prejudicial to the interests of the entity and its minority shareholders. • Meet with the management, Internal Auditors/External Auditors as necessary to carry out the assigned duties. • To review the transfer of resources, services or obligations between related parties regardless of whether a price is charged. • To review the economic and commercial substance of both recurrent/ non recurrent related party transactions • To monitor and recommend the acquisition or disposal of substantial assets between related parties, including obtaining 'competent independent advice' from independent professional experts with regard to the value of the substantial asset of the related party transaction.
9.2.4	Related Party Transactions Review Committee-Meetings	Complaint	• Shall meet once a calendar Quarter
9.3.1	Immediate disclosures	Complaint	Company has made all relevant immediate disclosures as set out below 9.3.2
9.3.2 (a,b,c,d)	Related Party Transactions Review Committee-Disclosure in the Annual Report	Compliant	• Non-recurrent related party transactions - if aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower. • Recurrent related party transactions - if aggregate value exceeds 10% gross revenue/income as per the latest audited accounts. • Report by the Related Party Transactions Review Committee (Refer page 181). • A declaration by the Board of Directors • Pages 186 - 189 • Page 190 • Page 178 • Page 244

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APPENDICES III

External Assurance has not been obtained for standard and specific disclosures

Standard Disclosure	Description	Report Section	Page
STRATEGY AND ANALYSIS			
G4-1	Statement from the most senior decision-maker	Chairman's Statement & Managing Director's Review	8,11
G4-2	Description of key impacts, risks and opportunities	Business Review & Capitals - Financial, Natural, Human, Relationship, Manufacturing & Intellectual	46,74,82, 86,101, 119,135
ORGANIZATIONAL PROFILE			
G4-3	Name of the organisation	Corporate Information	270
G4-4	Primary brands, products, and services	About Us	15
G4-5	Location of the organization’s headquarters	Corporate Information	270
G4-6	Number of countries where the organization operates	Corporate Information, Map of Estates	270, 17
G4-7	Nature of ownership and legal form	Corporate Information	270
G4-8	Markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	Operational Performance	95
G4-9	Scale of the organization - employees, operations, net sales, capitalization, products	Operation Performance and Financial Capital	62,75
G4-10	Total number of employees by contract and gender, permanent employees, supervised workers, region	Human Capital	119,124
G4-11	Percentage of total employees covered by collective bargaining agreements	Human Capital	134
G4-12	Describe the organization’s supply chain	Relationship Capital - Suppliers	101
G4-13	Any significant changes during the reporting period regarding the organisation’s size, structure, ownership, or its supply chain	Financial Capital	74
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	Natural Capital & Risk Management	137
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	Intellectual Capital	86
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations	Stakeholder Engagement & Social Capital	118, 26-27

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Standard Disclosure	Description	Report Section	Page
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	List all entities included in the organization's consolidated financial statements or equivalent documents.	About this Report & Materiality Analysis	15,30
G4-18	Process for defining the report content and the aspect boundaries, reporting Principles for defining report content	Materiality Assessment, Aspects & Boundaries	30
G4-19	List all the material aspects identified in the process for defining report content		
G4-20	For each material aspect, report the aspect boundary within the organization		
G4-21	For each material aspect, report the aspect boundary outside the organization, as follows:		
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Financial Capital	74
G4-23	Report significant changes from previous reporting periods in the scope and aspect boundaries	Materiality Assessment, Aspects & Boundaries	30
STAKEHOLDER ENGAGEMENT			
G4-24	List of stakeholder groups engaged by the organization.	Stakeholder Engagement	26-29
G4-25	The basis for identification and selection of stakeholders with whom to engage		26-29
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement and an indication if the engagement was specifically a part of the report preparation process		26-29
G4-27	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns.		26-29
REPORT PROFILE			
G4-28	Reporting period (such as fiscal or calendar year) for information provided	About this Report & About us	3,15
G4-29	Date of most recent previous report		
G4-30	Reporting cycle (such as annual, biennial)		
G4-31	Provide the contact point for questions regarding the report or its contents		
G4-32	Report the 'in accordance' option the organization has chosen.		
G4-33	Organization's policy and current practice with regard to seeking external assurance for the report.		

Standard Disclosure	Description	Report Section	Page
GOVERNANCE			
G4-34	Governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts	Corporate Governance	162,172
G4-35	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees.	Corporate Governance	162,174, 184
G4-36	Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body.	Corporate Governance	175,181, 191,186
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body.	Corporate Governance	175,190
G4-38	Report the composition of the highest governance body and its committees	Corporate Governance	177,175
G4-39	Report whether the Chair of the highest governance body is also an executive officer	Corporate Governance	177
G4-40	Nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members	Corporate Governance	178
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	Corporate Governance	176,179, 181
G4-42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts.	Corporate Governance	177,183, 185
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics.	Corporate Governance	178
G4-44	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics. Report whether such evaluation is independent or not, and its frequency. Report whether such evaluation is a self-assessment.	Corporate Governance	178
G4-45	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities	Corporate Governance	176,182
G4-46	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics.	Corporate Governance	176
G4-47	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities.	Corporate Governance	177
G4-48	Highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered.	Corporate Governance	178,183

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Standard Disclosure	Description	Report Section	Page
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G4-50	Nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them.	Corporate Governance	183
G4-51	Remuneration policies for the highest governance body and senior executives	Corporate Governance	178
G4-52	Process for determining remuneration	Corporate Governance	178
G4-53	Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable.	Corporate Governance	178
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G4-55	Ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees in the same country.	Corporate Governance	176
ETHICS AND INTEGRITY			
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G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity	Corporate Governance	182
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity	Corporate Governance	183
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G4-DMA	Generic Disclosures on Management Approach	Natural Capital	22
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G4-DMA	Generic Disclosures on Management Approach	Human Capital	22
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees		127
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G4-LA7	Workers with high incidence or high risk of diseases related to their occupation		127-128
G4-LA8	Health and safety topics covered in formal agreements with trade unions		127
ASPECT: TRAINING AND EDUCATION			
G4-DMA	Generic Disclosures on Management Approach	Human Capital	22
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G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings		129-130
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category		133-134

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G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity		123-124
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G4-DMA	Generic Disclosures on Management Approach	Human Capital	22
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation		123-124,127
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G4-DMA	Generic Disclosures on Management Approach	Human Capital & Relationship Capital - Suppliers	22
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria		104
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken		104
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G4-DMA	Generic Disclosures on Management Approach	Human Capital	22
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms		134
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G4-DMA	Generic Disclosures on Management Approach	Human Capital	22
G4-HR1	Total Number and Percentage of Significant Investment Agreements and Contracts that Include Human Rights Clauses or that Underwent Human Rights Screening		131-133
G4-HR2	Total Hours of Employee Training on Human Rights Policies or Procedures Concerning Aspects of Human Rights that are Relevant to Operations, Including the Percentage of Employees Trained		131-133
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G4-DMA	Generic Disclosures on Management Approach	Human Capital	22
G4-HR3	Total number of incidents of discrimination and corrective actions taken		123-124
ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING			
G4-DMA	Generic Disclosures on Management Approach	Human Capital & Relationship Capital - Suppliers	
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights		134,104
ASPECT: CHILD LABOR			
G4-DMA	Generic Disclosures on Management Approach	Human Capital & Relationship Capital - Suppliers	22
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour		125,104

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G4-DMA	Generic Disclosures on Management Approach	Human Capital & Relationship Capital - Suppliers	22
G4-HR6	Operations and 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		125,104
ASPECT: HUMAN RIGHTS GRIEVANCE MECHANISMS			
G4-DMA	Generic Disclosures on Management Approach	Human Capital	22
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms		134
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ASPECT: LOCAL COMMUNITIES			
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G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs		114-117
G4-SO2	Operations with significant actual and potential negative impacts on local communities		118
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G4-DMA	Generic Disclosures on Management Approach	Social Capital	22
G4-SO6	Total value of political contributions by country and recipient/ beneficiary		118
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G4-DMA	Generic Disclosures on Management Approach	Social Capital	22
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		118
G4-SO11	Number of Grievances about Impacts on Society Filed, Addressed, and Resolved Through Formal Grievance Mechanisms		118
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ASPECT: CUSTOMER HEALTH AND SAFETY			
G4-DMA	Generic Disclosures on Management Approach	Relationship Capital - Buyers, Brokers & Customers	22,94
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G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes		98-99
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G4-DMA	Generic Disclosures on Management Approach	Relationship Capital - Buyers, Brokers & Customers	22
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements		100
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G4-PR5	Results of surveys measuring customer satisfaction		100

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G4-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		100
ASPECT: COMPLIANCE			
G4-DMA	Generic Disclosures on Management Approach	Relationship Capital - Buyers, Brokers & Customers	22
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10 YEAR SUMMARY

APPENDICES IV

	2017 Rs.'000	**2016 Rs.'000	*2015 Rs.'000	2013 Rs.'000	2012 Rs.'000	**2011 Rs.'000	***2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000
Group revenue	3,334,494	3,434,579	4,761,101	3,646,837	3,318,149	2,744,505	3,002,624	2,772,125	2,264,085	1,924,383
Profit before Taxation	266,388	186,546	286,380	236,786	231,283	(22,198)	169,200	(27,887)	111,958	113,017
Taxation	(24,906)	(42,696)	(18,919)	(37,215)	(4,585)	(10,532)	(4,691)	(2,514)	(3,952)	(14,700)
Profit after taxation	241,482	143,850	267,461	199,571	226,698	(32,730)	164,509	(30,401)	108,006	98,317
Minority interest	(7,713)	(28,122)	(28,165)	(26,038)	(10,748)	18,690	(17,071)	(8,118)	(1,273)	(1,288)
Profit attributable to equity holders	233,769	115,728	239,296	173,533	215,950	(51,420)	147,438	(22,283)	109,279	99,605
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Capital reserve	182,689	166,580	164,564	152,863	139,743	117,267	100,630			
Revenue reserve	1,541,056	1,163,836	1,172,193	995,500	865,662	664,848	792,279	660,904	712,875	669,094
shareholders' fund	2,073,745	1,680,415	1,686,757	1,498,363	1,355,405	1,132,115	1,242,909	1,010,904	1,062,875	1,019,094
Minority interest	173,609	179,798	167,338	152,855	136,921	128,329	122,623	54,376	62,494	63,595
Borrowings (both short and long-term)	413,225	552,563	690,527	855,623	895,920	1,092,427	936,576	1,257,480	1,160,182	911,210
	2,660,579	2,412,776	2,544,622	2,506,841	2,388,246	2,352,871	2,302,108	2,322,760	2,285,551	1,993,899
Non -current assets	3,321,692	3,340,891	3,347,168	3,248,131	3,237,928	3,197,861	3,138,780	2,923,602	2,782,252	2,285,360
Current assets	814,915	581,541	718,037	798,662	620,040	532,418	482,681	717,923	538,701	550,554
Current liabilities net of borrowings	391,603	285,347	368,452	(394,373)	(358,488)	(297,388)	(317,746)	(411,043)	(320,697)	(307,733)
Provisions	(928,999)	(1,073,208)	(985,513)	(954,621)	(900,942)	(853,488)	(751,133)	(685,786)	(516,788)	(403,161)
Deferred income	(155,426)	(151,102)	(166,618)	(190,958)	(210,292)	(226,532)	(250,474)	(221,936)	(197,917)	(131,121)
Capital employed	2,660,579	2,412,776	2,544,622	2,506,841	2,388,246	2,352,871	2,302,108	2,322,760	2,285,551	1,993,899
Net Cash inflow/(outflow) from operating activities	485,370	393,445	532,290	301,099	336,133	108,711	321,845	315,964	298,251	190,692
Net Cash inflow/(outflow) from investing activities	(103,204)	(94,287)	(259,610)	(126,460)	(131,654)	(165,069)	(170,378)	(231,723)	(530,418)	(334,118)
Net Cash inflow/(outflow) from finance activities	(115,128)	(209,166)	(327,359)	(168,629)	(66,040)	(164,130)	(249,640)	176,655	149,279	198,440
Increase/(decrease) in cash & cash equivalents	267,038	89,991	(54,680)	6,010	138,439	(220,488)	(98,173)	260,896	(82,888)	55,014
Key Indicators										
EPS (basic) (Rs.)	9.84	4.87	10.08	7.31	9.09	(2.17)	6.21	(0.94)	4.60	4.19
Net assets per share (Rs.)	87.32	70.75	71.02	63.09	57.07	47.67	52.33	42.56	44.75	42.91
Market price per share (Rs.)	32.00	32.50	35.10	24.00	24.00	29.70	46.40	25.25	13.00	35.75
Price earning ratio (times)	3.25	6.67	3.49	3.28	2.64	(13.72)	7.47	(26.86)	2.80	8.50
Current ratio (times)	1.70	1.23	1.16	1.28	1.16	0.88	1.17	1.17	0.90	0.90
Return on equity%	11.27	6.89	14.19	11.58	15.93	(4.14)	12.73	(2.20)	10.22	9.77
Debt to equity%	18.39	29.70	37.30	51.80	60.0	86.7	65.80	124.39	109.20	89.40
Dividend per share (Rs.) - Company	1.00	-	3.00	3.00	2.50	-	2.50	-	1.25	2.50
Dividend payout ratio (times) - Company	0.10	-	0.31	0.41	0.27	-	0.40	-	0.27	0.60

* 15 Months results, Restated - Statement of Financial Position

** Restated - Statement of Profit or Loss, Statement of Financial Position, Statement of Cash Flow

*** Restated - Statement of Financial Position

GLOSSARY

APPENDICES V

FINANCIAL TERMS

ACCOUNTING POLICIES
Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

AGRICULTURAL ACTIVITY
Is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

AGRICULTURAL PRODUCE
The harvested product of the entity’s biological assets.

HARVEST
Detachment of produce from a Biological Asset or the cessation of Biological Assets life processes.

AMORTISATION
The systematic allocation of depreciable amount of an intangible asset over its useful life.

BEARER BIOLOGICAL ASSETS
Biological assets those are not to be harvested as agricultural produce or sold as biological assets. The biological assets other than the consumable biological assets.

CONSUMABLE BIOLOGICAL ASSETS
Includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.

BORROWINGS/DEBT
Bank loans, overdrafts, long term loans, debentures, finance lease obligations and interest bearing liabilities.

CAPITAL EMPLOYED
Shareholder’s funds plus non controlling interests and debts.

SHAREHOLDERS’ FUNDS
Total of stated capital, capital reserves and revenue reserves.

CASH EQUIVALENTS
High liquid investments that are readily convertible to know amounts of cash and which are subject to an insignificant risk of change in value.

CONTINGENT LIABILITY
A condition or situation existing at the balance sheet date due to past events, where the financial effect is not recognised because:
1. The obligation is crystallised by the occurrence or non occurrence of one or more future events or,
2. a probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability

CURRENT RATIO
Current assets divided by current liabilities.

DEBT/ EQUITY RATIO
Debt as a percentage of shareholders funds and non controlling interests.

DEFERRED TAXATION
The net tax effect on items which have been included in the Income Statement, which would only qualify for inclusion on a tax return at a future date.

DIVIDENDS
Distribution of profits to holders of equity investments.

DIVIDEND PAY OUT
Dividend per share divided by Earnings per share.

EBIT
Abbreviation for Earnings Before Interest and Tax.

EBITDA
Abbreviation for Earnings Before Interest Tax Depreciation & Amortisation.

EBITDA Margin
EBITDA divide by Sales Revenue.

EARNINGS PER SHARE
Profit attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period.

COP
Cost of Production. This generally refers to the cost of producing a kilo of produce (Tea/Rubber).

COS
Cost of Sale. The cost incurred on preparation to salable condition of the goods sold.

CROP
The total produce harvested over a given period of time. (Usually during a financial year).

INTEREST COVER
Consolidated profit before interest and tax over finance expenses.

IFRS
International Financial Reporting Standards.

SLFRS
Sri Lanka Financial Reporting Standards.

LKAS
Sri Lanka Accounting Standards.

SoRP
Statement of Recommended Practices.

MARKET CAPITALISATION
Number of shares in issue at the end of the period multiplied by the market price at the end of period.

NET ASSETS
Total assets less current liabilities less long term liabilities less non - controlling interests.

NET ASSETS PER SHARE
Net assets as at a particular financial year end divided by the number of shares in issue as at the current financial year end.

NON CONTROLLING INTEREST
Part of the net results of operations and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through Subsidiaries, by the Parent Company.

PRICE EARNINGS RATIO
Market price of a share divided by earnings per share.

RELATED PARTIES
Parties who could control or significantly influence the financial and operating policies of the business.

RETURN ON EQUITY (ROE)
Profits attributable to shareholders as a percentage of average shareholders’ funds.

RETIREMENT BENEFITS

Present value of a 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.

REVENUE RESERVES
Reserves considered as being available for distributions and investments.

SEGMENT
Constituent business units grouped in terms of nature and similarity of operations.

WORKING CAPITAL
Capital required financing day-to-day operations (Current Assets less Current Liabilities).

UITF
Urgent Issue Tasks Force of The Institute of Chartered Accountants of Sri Lanka

NON-FINANCIAL TERMS

BIODIVERSITY
The variability among living organisms from all sources including, among others, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.

CARBON DIOXIDE SEQUESTRATION
The capture of atmospheric carbon dioxide (CO2) in a solid material such as growing trees, other vegetation and soils or a carbon sink through biological or physical processes, such as photosynthesis.

EXTENT IN BEARING
The extent of land from which crop is being harvested. Also see “Mature Plantation”.

ETHICAL TEA PARTNERSHIP (ETP)
ETP is a non-competitive alliance of 20 international tea packers who share a vision for a thriving industry that is socially just and environmentally sustainable.

FIELD
A unit extent of land. Estates are divided into fields in order to facilitate management.

GSA
The Gross Sales Average. This is the average sale price obtained (over a period of time, for a kilo of produce) before any deductions such as Brokerage etc.

NSA
The Net Sales Average. This is the average sale price obtained (over a period of time) after deducting Brokerage fees. etc (Also see GSA).

HACCP
Hazard Analysis Critical Control Point System. A Scientific system which identifies, evaluates and control hazards which are significant for food safety.

IMMATURE PLANTATION
The extent of plantation that is under development and is not being harvested.

INFILLING
A method of field development whereby planting of individual plants is done in order to increase the yield of a given field, whilst allowing the field to be harvested.

ISO
International Organisation for Standardisation. A worldwide federation of national standard bodies.

ISO 22000
International Standard for Food Safety Management Systems (FSMS) released by ISO in September 2005.

MATURE PLANTATION
The extent of plantation from which crop is being harvested. Also see “Extent in Bearing”.

RAINFOREST ALLIANCE (RA)
The Rainforest Alliance functions as the Secretariat of the SAN and administers its certification scheme; RA works to conserve biodiversity and ensure sustainable livelihoods by transforming land-use practices, business practices and consumer behaviors.

SUSTAINABLE AGRICULTURE NETWORK (SAN)
SAN is a coalition of independent non-profit conservation organizations that promote the social and environmental sustainability of agricultural activities by developing standards. SAN promotes efficient agriculture, biodiversity conservation and sustainable community development by creating social and environmental standards.

REPLANTING
A method of field development where an entire unit of land is taken out of “bearing” and developed by way of uprooting the existing tree/bushes and replanting with new trees/bushes.

SEEDLING TEA
Tea grown from a seed. (Also see VP Tea).

VP TEA
Vegetatively Propagated tea. i.e. Tea grown from a cutting of a branch of tea plant. (Also see “Seedling”).

YIELD
The average crop per unit extent of land over a given period of time. (Usually kgs per hectare per year).

UTZ
Means ‘good” in Mayan Language Quiche. UTZ certified is a sustainability program for Coffee, Cocoa and tea. It trains farmers how to produce sustainably improving their quality of life, environment and products. UTZ certified is working towards making tea sector sustainable.

PHDT
Plantation Human Development Trust

NIPM
National Institute of Plantation Management

TRI
Tea Research Institution.

CORPORATE INFORMATION

NAME OF COMPANY
Talawakelle Tea Estates PLC

LEGAL FORM
Public Limited company
Incorporated in Sri Lanka on 22nd June 1992

COMPANY NUMBER
PQ 36

FINANCIAL YEAR END
31st March

PRINCIPAL LINE OF BUSINESS
Cultivation and Manufacture of Black Tea

STOCK EXCHANGE LISTING
The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka.

DIRECTORS
Mr A M Pandithage - *Chairman*
Mr W G R Rajadurai - *Managing Director*
Mr Merrill J Fernando
Mr Malik J Fernando *(Alternate - Mr.D C Fernando)*
Dr S S S B D G Jayawardena
Mr L N De S Wijeyeratne *(Resigned on 08/07/2016)*
Dr K I M Ranasoma
Mr W D N H Perera- (Resigned on 08/03/2017)
(Alternate - Mr J M Kariapperuma-Resigned on 08/03/2017)
Ms M D A Perera
Dr N T Bogahalande
Mr D S Seneviratne
Mr S L Athukorala *(Appointed on 18/08/ 2016)*
Mr M H Jamaldeen *(Appointed on 15/03/2017)*

MANAGING AGENT
Hayleys Plantation Services (Private) Limited,
400,Deans Road, Colombo 10, Sri Lanka.

REGISTERED OFFICE
400, Deans Road, Colombo 10, Sri Lanka.

HEAD OFFICE
400, Deans Road, Colombo 10, Sri Lanka.
Telephone: (94-11) -2627754-5, 2697203
Fax : (94-11) -2627782
e-mail: tpl.tea@ttel.hayleys.com
website: www.talawakelleteas.com

SECRETARIES
Hayleys Group Services (Private) Limited
No.400, Deans Road, Colombo 10, Sri Lanka.

SUBSIDIARIES
TTEL Hydro Power Company (Pvt) Ltd
TTEL Somerset Hydro Power (Pvt) Ltd

SUBSIDIARIES - REGISTERED OFFICE
400, Deans Road, Colombo 10, Sri Lanka.

SUBSIDIARIES - HEAD OFFICE
27-2 East Tower, World Trade Center, Colombo 01, Sri Lanka.

BANKERS
Commercial Bank of Ceylon PLC
Sampath Bank PLC
National Development Bank PLC
Hatton National Bank PLC
Bank of Ceylon
Hongkong and Shanghai Banking Corporation Limited
Deutsche Bank
Indian Bank
Union Bank of Colombo PLC
DFCC Bank PLC
Seylan Bank PLC

AUDITORS
M/s Ernst & Young
Chartered Accountants
201,De Saram Place, Colombo 10,
Sri Lanka.

LEGAL ADVISORS
M/s F J & G De Saram & Company
Attorneys-at-Law
216,De Saram Place, Colombo 10,
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TAX ADVISORS
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Chartered Accountants
201,De Saram Place, Colombo 10,
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NOTICE OF MEETING

Talawakelle Tea Estates PLC
Company No. PQ 36

NOTICE IS HEREBY GIVEN that the Twenty Fifth Annual General Meeting of Talawakelle Tea Estates PLC will be held at the Registered Office of the Company, No.400, Deans Road, Colombo 10, Sri Lanka, on Wednesday, 28th June 2017 at 10.00 a.m. and the business to be brought before the Meeting will be:

1) To consider and adopt the Annual Report of the Board and the Statements of Accounts for the year ended 31st March 2017, with the Report of the Auditors thereon.

2) To re-elect Mr. S.L. Athukorala, who has been appointed by the Board, since the last Annual General Meeting, a Director.

3) To re-elect Mr. M.H. Jamaldeen, who has been appointed by the Board, since the last Annual General Meeting, a Director.

4) To re-elect Mr. Malik J. Fernando, who retires by rotation at the 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 Ms. M.D.A. Perera, who retires by rotation at the Annual General Meeting, a Director.

7) To re-appoint Mr. Merrill J. Fernando, who retires having attained the age of Eighty Seven years and the Company has received special notice of the undernoted ordinary resolution in compliance with Section 211 of the Companies Act No.07 of 2007 in relation to his re-appointment.

Ordinary Resolution

That, Merrill Joseph Fernando retiring Director, who has attained the age of Eighty Seven years be and is hereby re-appointed a Director in terms of Section 211 of the Companies Act No. 07 of 2007 and it is hereby declared that the age limit of Seventy years referred to in Section 210 of the Companies Act No.07 of 2007 shall not apply to the appointment of the said Director.

8) To re-appoint Dr. S.S.S.B.D.G. Jayawardena, who retires having attained the age of Seventy Four years and the Company has received special notice of the undernoted ordinary resolution in compliance with Section 211 of the Companies Act No.07 of 2007 in relation to his re-appointment.

Ordinary Resolution

That, Sri Suddha Sinharatna Bandara Don Gnanaratna Jayawardena retiring Director, who has attained the age of Seventy Four years be and is hereby re-appointed a Director in terms of Section 211 of the Companies Act No. 07 of 2007 and it is hereby declared that the age limit of Seventy years referred to in Section 210 of the Companies Act No.07 of 2007 shall not apply to the appointment of the said Director.

9) To authorise the Directors to determine contributions to charities for the year 2017/18.

10) To authorise the Directors to determine the remuneration of the Auditors, Messrs Ernst & Young , who are deemed to have been reappointed as Auditors for the financial year 2017/18 in terms of Section 158 of the Companies Act No.07 of 2007.

11) To consider any other business of which due notice has been given.

Note :

A Shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office No. 400, Deans Road, Colombo 10 by 10.00 a.m. on 26th June 2017.

By Order of the Board
TALAWAKELLE TEA ESTATES PLC
Hayleys Group Services (Private) Limited
Secretaries

Colombo
30th May, 2017

NOTES

Talawakelle Tea Estates PLC, No. 400, Deans Road, Colombo 10, Sri Lanka.