



Task Force on Climate-related
Financial Disclosures (TCFD)
Report 2021/22



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Introduction

Talawakelle Tea Estates PLC (TTE) is Sri Lanka's leading Regional Plantations Company.

As an entity that is custodian to a workforce of 5,279, an estate community of over 42,000 people, and 6,491 hectares of plantations that are inclusive of sensitive natural systems, we are well aware of the many multi-faceted responsibilities that have been imparted upon us.

Among these, is the responsibility to address the global climate crisis.

Tea is highly sensitive to climate change as it can only be grown under narrowly defined agro-ecological conditions. Our business, therefore, is heavily susceptible to climate change. Extreme weather events such as heavy rainfall and extended dry periods will seriously affect the quantity and quality of our produce. Additionally, the lives of our resident communities living within our estates are also threatened by such events.

While we identify these significant risks that the climate crisis can bring about, we are also well aware of the many opportunities that it presents for entities that are progressive and proactive in taking action.

TTE, therefore, is stepping up to this challenge in leading both the tea industry, and the local business landscape in driving climate action.

Having observed that transparent, accurate and informative reporting is key to ensuring to our stakeholders that we are on the right path in our fight against the climate crisis, this year, for the first time in Sri Lanka, we have adopted Task Force on Climate-related Financial Disclosures (TCFD) reporting.

| TCFD PILLAR | RECOMMENDED DISCLOSURE | TTE'S APPROACH |
|-------------|--|---|
| Governance | <p>a) Describe the board's oversight of climate-related risks and opportunities.</p> | <p>Creation of value to both the company and its stakeholders through sustainable development, is of utmost importance to the TTE Board. It ensures that Environmental, Social and Governance matters and metrics are firmly embedded into the business model. The Group Management Committee (GMC) of our parent company, Hayleys PLC, oversees how we manage our material ESG matters. On behalf of the GMC, and the Board, the Audit Committee provides guidance on such issues and reviews the principal risks, including those pertaining to climate change.</p> <p>The Company's integrated annual report, which is approved by the Board prior to it being released, provides a comprehensive account to the Company's stakeholders of its sustainability strategy and initiatives.</p> |
| | <p>b) Describe management's role in assessing and managing climate-related risks and opportunities</p> | <p>The Audit Committee, in turn, delegates the responsibility of such matters to the Corporate Management Committee comprising of a Sustainability Department. This functional unit is in charge of identifying global, local and industry trends in ESG, and adapting these such that they complement well with the activities of the organisation. All steps related to our climate action agenda, from, devising, implementing and monitoring our low carbon initiatives, their action plans, target setting, and related risk identification and management is also handled by this unit.</p> <p>The Sustainability Department submits periodical updates to the Board through the Managing Director on Company's sustainability initiatives, risks and opportunities arising from economic, social and environmental factors impacting its business operations and stakeholder concerns thereon.</p> |

Strategy

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

Based off the analysis of our operating context, and the input obtained from key stakeholders, we have identified that climate risks in particular may realise in two main ways as recommended by the TCFD: transition risks and physical risks. The former focuses on the threats faced by an organisation as the economy shifts from one that is high-carbon to one that is low-carbon. The latter relates to actual physical threats of climate change.

In order to assess TTE's climate-related risks and opportunities, we define the short-term as a time period that extends till 2025, the medium-term as a period that extends from 2025 to 2035, and long-term as a period that extends beyond 2035.

In the short to medium term, we have identified the introduction of policy initiatives to limit emission intensive activities, reputational risks, and the substitution of current products and services with lower emission ones, as key risks

Physical risks such as the increased risk of extreme weather events, rising mean temperatures, and the increase in the severity of natural disasters, may also substantially impact TTE as an agriculture business.

At the same time, climate change, as it progresses, also presents various opportunities such as access to new markets, changes in customer preferences, and access to more efficient and lower emission sources of energy.

b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

As it can only be grown in specific agro-ecological conditions, tea is highly sensitive to the changes in climatic conditions. As such, the risks associated with climate change have the potentiality to significantly affect the sustenance of our business.

Implementation of policies to constraint emission intensive activities may manifest in a number of ways: GHG emission regulation, carbon pricing, and fuel costs. Increased fuel and energy prices, especially will affect our operations as the process of manufacturing of tea is highly energy intensive, and we also use diesel and petrol for transportation purposes. Therefore, any decision to increase those prices, will significantly affect our cost of doing business.

As climate change moves up in customers' priority lists, any firm that they perceive as not doing enough in the face of climate change, will fall out of favour among them. Therefore, despite the many initiatives we take to ensure environmental compliance, if we are unable to showcase that as a business, we don't take actions to mitigate the impacts of climate change, our popularity will be reduced.

As awareness about climate issues increases, existing products and services that emit significant emissions will have to be written off or retired early. We will be compelled to invest in research and development in alternative technologies and there will also be costs to adopt to new practices and processes.

As the frequency and severity of extreme weather events increases due to increases in global average temperatures, our business could be seriously disrupted. In addition to the destruction of our estate lands and crops, such events will also affect the lives of our employees, 90% of whom live within the estates itself, along with their families. Extended dry periods will reduce the quality of the crop, and torrential rains erode soil nutrition, thereby impacting the quantity and quality of our produce, and reducing our revenue.

For organisations that consider climate related issues and take proactive measures to adapt and mitigate its worse impacts, an opportunity is created for such firms to engage with a new set of customers who are aware of such issues. This also opens up new markets, especially in foreign regions. We can also utilise the opportunity to significantly reduce our operational costs by investing in lower emission sources of energy.

c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We consider contributing to improve climate impacts as a strategic business imperative of the organization, applying globally recognized standards for managing emissions. The resilience of our strategy against climate change is supplemented by these. In 2019, we were the first Sri Lankan company to voluntarily commit to set Science Based Target Initiative (SBTI) towards limiting global temperature rise to 1.5°C in May 2019. The targets have now been verified and approved.

We manage emissions by employing a low carbon business model developed according to UN Carbon Neutral Now. This framework consists of three steps:

1. Measure: TTE has 3rd party verified Comprehensive GHG inventory covering Scope 1, Scope 2 and Scope 3 (13 out of 15 categories excluding 2 categories which are Not applicable for Company Scope) according to ISO 14064-1:2018 and latest GHG Protocol.
2. Reduce: Established GHG emission reduction targets according to "Science Based Targets initiatives" (SBTi)
3. Contribute: Became Climate Neutral company through fulfilling gold level requirement of measure and reduce stages and continual increasing capacity of GHG emission in setting projects.

Risk Management

| | |
|---|--|
| <p>a) Describe the organization's processes for identifying and assessing climate-related risks.</p> | <p>At TTE, we carry out an analysis of our operating context on a yearly basis. This helps us to identify the various macro and micro environmental factors that may have the potentiality to affect how we create value for our stakeholders. Through this assessment we are able to identify our risks and opportunities. The risk of climate change has always been a recurring point within this analysis.</p> <p>Due to the very volatile nature of the business environment, we also conduct a materiality assessment each year. The aim of this task is to ensure better alignment with the changing needs and expectations of our stakeholders, and the prioritisation of aspects that have the ability to significantly affect the value creation process. Climate related risks such as rising temperatures, unpredictable weather patterns, and extreme weather events are considered under this process.</p> <p>Apart from these analyses, our employees working at all levels, are also responsible for identifying risks within their scope. They also form the first line of defence against risks.</p> |
| <p>b) Describe the organization's processes for managing climate-related risks.</p> <p>c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.</p> | <p>The ultimate responsibility for Risk Management lies with the Board of Directors and the Board has set in place a framework that ensures risks are managed in a consistent way across the Company with appropriate oversight and accountability. The Board is assisted in the discharge of duties by the Audit Committee. The Hayley's Group Internal Audit Division and the outsourced audit firms supports the Audit Committee in performing its assurance role through regular reviews and recommendations on the robustness of the internal control systems in place. Responsibility for effective execution of Risk Management lies with the Corporate Management Committee lead by the Managing Director.</p> |

Risk Management Governance Structure

The Board (Assisted by the Audit Committee)

1st Line of Defence

2nd Line of Defence

3rd Line of Defence

Business Line Management Primary risk and control Responsibility

Promotes risk culture
Complies with risk appetite
Owner of Risk Management
processes.
Responsible for day-to-day
Risk Management.
New and potential risks
identified are escalated to
Board through MD/ CMC.

Corporate Management Committee (CMC) Oversight

Develops policies and
standards
Sets Roles and
Responsibilities
Develops Risk Management
processes and controls
Monitors and reports on risk

Hayley's Group Internal Audit Division and External Audit Independent Assurance

Provides independent and
objective challenge to the
levels of assurance provided
by business operations and
oversight.
External Audit gives
assurance on the financial
statements.

Metrics and Targets

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Scope 1, 2 and 3 GHG Emissions

| | | 2021/22 | 2020/21 |
|---|---|---------|---------|
| Direct | Scope 1 | | |
| | Stationary combustion – Stationary equipment fossil | 96 | 104 |
| | Stationary combustion – Stationary equipment | 318 | 337 |
| | Mobile combustion | 553 | 533 |
| | Fugitive emissions | 3980 | 1465 |
| | Subtotal Scope 1 | 4947 | 2439 |
| Indirect | Scope 2 | | |
| | Indirect GHG emission from imported energy | 3124 | 2679 |
| | Subtotal Scope 2 | 3124 | 2679 |
| | Scope 3 | | |
| | Indirect GHG emission from transportation | 436 | 220 |
| | Emission from business travel | 0 | 0 |
| | Emission from product used by organisation | 72 | 63 |
| | Subtotal Scope 3 | 508 | 283 |
| Total Scope 1, 2 & 3 (Excluding Biogenic Emission) | 8579 | 5401 | |

Renewable energy generation and resulting GHG savings

| Type | 2021/22 | | 2020/21 | |
|-----------------------|---------|------------|---------|------------|
| | kWh | GHG saving | kWh | GHG saving |
| Hydro power generated | 7790668 | 6267 | 6482480 | 5256 |
| Solar power generated | 326330 | 242 | 275872 | 207 |
| Total | 8116998 | 6509 | 6758352 | 5463 |

(*GHG emissions in tCO₂e)

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

The key strategic direction and foreseeable end point in our climate action agenda, is the Net Zero by 2050 goal. In addition, we have identified two other targets along this path. We have committed to reduce absolute scope 1 and scope 2 GHG emissions by 50.4% by FY2030/31 from a FY2018/19 base year. TTE PLC commits to reduce absolute scope 3 GHG emissions 34.2% by FY2030/31 from a FY2018/19 base year basis. Renewable energy generation against total consumption of electricity will be 150%. These targets were developed under the guidance of the methodologies approved by the SBTi. As such they are backed by science and are in line with level of emissions that will help to avoid the worst impacts of climate change.

(*The target boundary includes biogenic emissions and removals from bioenergy feedstock's)