TALAWAKELLE TEA ESTATES PLC
ANNUAL REPORT 2017/18

To The Rhythm

Talawakelle
Tea Estates®

Talawakelle
Tea Estates®

To The Rhythm

Every symphony, whether natural or manmade has a beat, a rhythm that helps it flow from one movement to another...
We at Talawakelle believe in this natural movement in all that we do. A living organism working together ceaselessly to create products and services that in turn help move lives.
A constant creativity of passionate people who are committed to be the best and being ahead of our game.
From the rustle of the tea leaves to the clink of a tea cup, our rhythm is impeccable.

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ABOUT THIS REPORT

REPORT OUTLINE

GRI: Disclosures 102-10, 48, 49, 50, 51, 52, 53, 54, 56

REPORTING PERIOD

The annual reporting cycle of Talawakelle Tea Estates PLC (TTE) is 12 months from 1st April to 31st March. The annual report herein is published for the financial year ended 31st March 2018. As and where relevant, we draw references and comparisons with the results published in the annual report of the preceding financial year ended 31st March 2017. We also benchmark the industry performance in the year 2017. Future strategy, plans, targets and forecasts are set out for the ensuing financial year, 2018/19.

REPORTING BOUNDARY

GRI: Disclosures 102-46

This report covers our operations across 16 tea estates and 14 Black and Green tea factories located in the high grown and low grown areas in the country as well as the corporate office located in Colombo. We also report on our two subsidiary operations in the hydro-power sector as and where relevant, particularly, laying emphasis in our operational, financial and natural capital sections of this report.

CONTENT AND SCOPE

GRI: Disclosures 102-56

Standing committed to uphold best practices, we continued to follow an integrated approach to reporting; highlighting the way we engage with our stakeholders and the way we create and share value holistically, from a triple perspective—encompassing economic, environmental and social aspects of our operations. Both financial and non-financial information are given equal prominence in the report.

The report attempts to demonstrate the progress we have made in formulating and taking forward our strategy against a volatile business backdrop; managing our core capitals efficiently and striving to achieve our operational and financial goals for the financial year under review. We discuss the future outlook of the plantation industry and our plans to ensure operational viability and sustainability in the short, medium to long term. We also elaborate on our efforts to be effective in risk management and uphold good governance as a responsible corporate citizen.

GRI: Disclosures 102-12, 46, 54

REPORTING GUIDELINES

OVERALL REPORTING
- Integrated Reporting <IR> Framework, IIRC

SUSTAINABILITY REPORTING
- GRI Standards, 2016
- UN Global Compact Principles

FINANCIAL/OPERATIONAL
- Company's Act No. 07 of 2007
- International Financial Reporting Standards
- Sri Lanka Accounting Standards

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

Following through our efforts for the fourth consecutive year, we report based on the Integrated Reporting <IR> guidelines set out by the International Integrated Reporting Council (IIRC). Accordingly, we report on our 'integrated thinking' and how we manage the six capitals—financial, relationship, social, natural, manufacturing and intellectual—relevant and significant to create value overtime. The report focuses on strategic imperatives, the management approach and key performance indicators under capital management sections.

As initiated in the year 2011, the sustainability reporting is carried out in line with the guidelines set out by the Global Reporting Initiative (GRI). This year, moving a step ahead from GRI-G4 guidelines, we adopted and refined our reporting content to meet the latest standards published by the GRI in 2016, in accordance with the 'comprehensive' option. The report gives due consideration to uphold the GRI principles of reporting in terms of defining the content and the report quality. The content index as per the GRI Standards is given on pages 273 to 281. Our sustainability report aligned with United Nations Sustainability Development Goals and our commitment towards the goals are presented in page 175 We also take into account the ten principles covering human rights, labour, social and environmental issues, stipulated under the UN Global Compact Framework which we embraced in the preceding year.

Green House Gas (GHG) emissions of Talawakelle Tea Estates PLC has been quantified in accordance with ISO 14064-1: 2006 GHG protocol for last three years and certified by M/s Diverso Space Consultants as set out on page 165 and The sustainability reporting is externally assured by M/s Ernst & Young – Chartered Accountants as set out on page 21.

Apart from these initiatives, the reporting on operations complies with the guidelines prescribed by the Company's Act No. 07 of 2007. Our financial statements and the related notes and disclosures are prepared and reported in line with the International Financial Reporting Standards and Sri Lanka Accounting Standards. Our independent auditors, M/s Earnst & Young – Chartered Accountants has audited the financial statements and the related notes. Their audit report is set out on pages 206-207.

We also report on governance in compliance with the Code of Best Practice on Corporate Governance, 2017, issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka and the regulatory requirements under the Colombo Stock Exchange.

INFORMATION SOURCES

OPERATIONS AND FINANCE
- Interim financial statements
- Past audited annual financial statements and notes

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

WORKFORCE AND LABOUR RELATIONS
- HR clusters at estates
- HR department - corporate office
- Collective agreements

PRODUCT RESPONSIBILITY
- Buyer review reports
- ISO certification

COMMUNITY DEVELOPMENT AND RELATIONS
- 'A Home for Every Plantation Worker' programme
- Ethical Tea Partnership

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

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

RISK MANAGEMENT
- Risk Management Governance Framework of TTE

Our content is developed based on both primary and secondary research. We relied extensively on the data and information set out in the management information reports, corporate strategy and plans and reports complied for our certification programmes. We have also based our content on the interviews and discussions held with the management team of the estates and the corporate office. The data and information on the economy and industry are based on published reports. The report information published was validated by the senior management.

DISCLAIMER

This report contains forward-looking statements and information in terms of our future business outlook, plans, operational targets and financial forecasts. Although we have exercised due diligence when developing the content and reporting on such information, we are not responsible and we do not guarantee that such statements may materialise as expected. We urge our stakeholders to be mindful of the possibilities that our assumptions may be subject to change in reality and we advise our stakeholders not to place undue reliance on these statements. We also do not have any obligation and nor do we undertake responsibility to publicly update our forward-looking statements in response to the changes in our business backdrop after the date of publication.

INQUIRIES

GRI: Disclosures 102-53

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

VISION, MISSION AND BUSINESS PHILOSOPHY

GRI: Disclosures 102-16

Our Vision

To be the most admired plantation company in Sri Lanka.

Mission

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

Business Philosophy

We Believe in...

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

FINANCIAL HIGHLIGHTS

We set benchmarks again...

RS. 647.1 MN

GROUP FREE CASH FLOW POSITIVE FOR THE 6TH CONSECUTIVE YEAR

RS. 21.8 MN

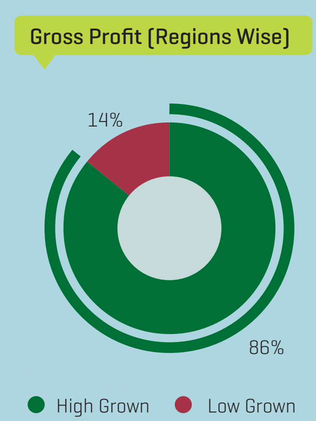
GROUP FINANCE EXPENSES DECREASED BY 38.8%

20.33%

GROUP RETURN ON EQUITY INCREASED FROM 89.1%

13.5%

GROUP DEBT TO EQUITY REDUSED FROM 26.5%



RS. 944.4 MN

MARKET CAPITALISATION INCREASED BY RS. 534.37MN

FINANCIAL HIGHLIGHTS CONTD.

RS. 547.5 MN

HIGHEST EVER GROUP NET PROFIT AFTER TAX INCREASED BY RS. 306.1 MN

RS. 702.4 MN

SHORT TERM INVESTMENTS INCREASED BY RS. 610.4 MN

RS. 4.7 BN

GROUP TOTAL ASSETS INCREASED BY RS. 588.5 MN

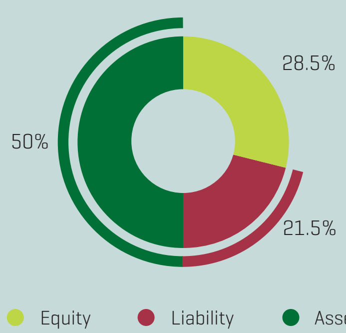
RS. 106.20

GROUP NET ASSETS PER SHARE INCREASED BY 21.6%

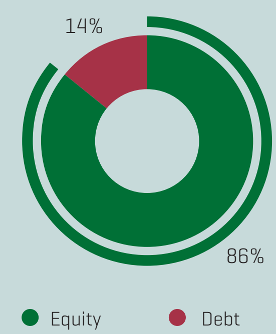
RS. 118.75 MN

DIVIDEND PAID PROPOSED RS. 2.50 PER SHARE

Balance Sheet Strength (Group)



Debt to Equity (Group)



NON FINANCIAL HIGHLIGHTS

Rank Number 2

OVERALL AMONGST REGIONAL PLANTATION COMPANIES

146

TOP PRICE RANKINGS
IN COLOMBO TEA AUCTIONS

8,989 KL

WITHDRAWAL OF WATER
INCREASED BY 5%

27.50

HECTARES
FUEL WOOD PLANTED

RS. 100.6 MN

COMMUNITY INFRASTRUCTURE
DEVELOPMENT
INCREASED BY 282%

4%

AVERAGE EMPLOYEE TURNOVER
DECREASED BY 56%

7,400 tCO_2e

GHG EMISSIONS
INCREASED BY 19%

RS. 11.5 MN

RESEARCH AND
DEVELOPMENT

5.30 MN KWh

ELECTRICITY CONSUMPTION
REDUCED BY 1%

1.22 tC02e

GHG EMISSIONS INTENSITY
DECREASED BY 3%

6,697 KGS

SOLID WASTE RECYCLED

BOP GRADE

RS. 1,850/- PER KILO
GREAT WESTERN ESTATE

6.8 MN KWh

HYDRO ELECTRICITY GENERATED

DUST 1 GRADE

RS. 950/- PER KILO
MATTAKELLE ESTATE

Nimble fingers break
the tender leaves;
a steady rhythm that
is centuries old...

To The Rhythm

CHAIRMAN'S STATEMENT

GRI: Disclosures 102-14

Focused on Quality

"We marked a momentous milestone in a challenging year."

GROUP TURNOVER

RS. 4.06 Billion

GROUP NET PROFIT AFTER TAX

RS. 547.5 Million

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 2018.

I have the pleasure to announce in a year of many challenges, your company in its 25th Anniversary post privatisation since 1992 has surpassed the above average industry performance benchmark, recording the highest ever Group turnover of Rs. 4.06 billion and a profit after tax of Rs. 547.5 million.

OPERATING LANDSCAPE

The Sri Lankan economy posted a GDP growth of 3.1 percent, lower compared to the previous year of 4.4 percent, despite an improved export performance. In spite of the adverse impact of weather on the agriculture sector the tea sub sector made a noteworthy contribution to the overall GDP growth with higher production levels and export earnings. The sector had nevertheless many challenges to grapple with; apart from extremities in weather, withdrawal of the fertilizer subsidy, higher wage costs and the banning of chemical weedicide Glyphosate. In spite of these challenges the silver lining for the industry was the strong demand for Ceylon Tea at the Colombo Tea Auctions yielding remunerative tea prices during the year coupled with key export markets being more stable than the previous years. Consequently, the overall regional plantation companies (RPCs) performed better than the preceding year.

The tea sector this year too remained a strong pillar of the national economy—making a significant contribution to the overall economic and social development in the country; despite many challenges. Tea production at 307.08 million kilograms was higher to last year's production of 292.57 million kilograms, the lowest since 2009. Yet, the production levels in the reporting year were lower compared to the average production levels of the previous five years. As for exports volumes, the year recorded 288.9 million kilograms, a marginal increase vis-à-vis the last year. Export revenues recorded a significant increase of Rs.48.6 billion

amounting to Rs.233.3 billion—an all-time high. The bullish market momentum from mid-year 2016 continued in to the year 2017, reflecting a further increase in prices at the Colombo Tea Auctions. The relatively higher tea prices in the year to cost of production enabled the RPC sector to consolidate its financial viability in the year under review.

Export earnings reached US dollars 1.53 billion, an increase from US dollars 1.26 billion in 2016. Turkey emerged as the number one buyer of Sri Lankan teas in 2017. Middle East market showed greater stability with the easing of sanctions on Iran and higher oil revenues. Russia and CIS countries continued to be major markets for our teas. A shortfall in tea production in Kenya and North India, had a positive impact on the Colombo Tea Auctions. In terms of global tea prices, the US dollar prices at the Colombo Tea Auctions were higher than the other auction centers. The average price per kilogram was US dollars 4.11 compared to US dollars 3.14 posted in the previous year.

CHAIRMAN'S STATEMENT CONTD.

CORPORATE PERFORMANCE

The Company's turnover for the year under review increased by 23 percent compared to the 1.8 percent contraction in the previous year, to reach an all-time high of Rs.4.0 billion. Net profits after tax was a record, Rs.550.8 million compared to Rs.242.3 million in the previous year; the highest reported profit to end last year. On a consolidated Group financials, the turnover of the Group stood at Rs.4.06 billion, an increase of 22 percent over the previous year. The Group's net profit after tax stood at Rs.547.5 million. Our two subsidiary companies in the mini hydropower sector recorded a loss of Rs.1.7 million, a substantial dip compared to Rs.15.7 million profit recorded in the previous year. The downward revision of the tariff rates paid by the Ceylon Electricity Board as per the Standardised Power Purchase Agreement had a significant impact on the revenue, despite a higher generation of electricity during the year.

A strong and robust tea market in the year combined with the leadership to execute a focused strategy enabled the company to produce quality tea consistently at a competitive cost. This enabled us to optimise the market potential. Our efforts in encompassing sustainable agriculture and manufacturing practices in a performance-oriented culture, guided by our values and strong financial discipline led to an outstanding year, recording a profit before tax of Rs. 617.04 million for the financial year 2017/18.

The Company maintained premium prices and was ranked number one and two respectively in the low and high grown elevations amongst all RPCs. This together with an improvement in weather compared to the previous year, and effective cost management with a productivity linked wage structure strengthened the year's earnings. This outstanding performance is creditable given the impact of the full year's wage cost granted in mid-October 2016.

DIVIDENDS

An interim dividend of Rs.4.00 per share was paid in March 2018 and the Board recommends a further dividend of Rs.2.50 per share as a final dividend.

RECOGNITION, RANKINGS AND AWARDS

Upholding our commitment to drive for operational excellence, we continued to clinch coveted awards at the industry and at the national level. In the year under review, our price rankings remained amongst the highest within the RPCs in both elevations at the Colombo Tea Auctions. Our brand for finest quality teas as nurtured over the years stood as our forte—underlining our solid relationships we have built with buyers and enabling us to perform above the national elevation price averages.

Coinciding with 150 years of Ceylon Tea, we were honored to receive top industry awards at the Colombo International Tea Convention 2017, organised by the Sri Lanka Tea Board. Holyrood and Deniyaya estates were recognised with Silver and Bronze awards respectively at the Presidential Environmental Awards 2017 organised by the Central Environmental Authority. Both Mattakelle and Bearwell estates received Merit awards at this ceremony. We also clinched several awards including as the winner for 'Excellence in Environmental Sustainability' in the agriculture and plantation sector category at the National

"The Company's turnover for the year under review increased by 23 percent compared to the 1.8 percent contraction in the previous year, to reach an all-time high of Rs.4.0 billion."

Business Excellence Awards 2017, organised by the National Chamber of Commerce of Sri Lanka.

REPORTING BEST PRACTICES

Consistently raising the bar and upholding the values of transparency and accountability, we sought in the year to further strengthen and refine our integrated approach to reporting—highlighting the workings of the six capitals of Financial, Social, HR, Intellectual, Relationship and Natural in creating value and reaching out meaningfully to all our stakeholders. In keeping with the theme 'Quintessence of Eminence', our reporting initiatives were acclaimed with a 'Gold' in the plantation sector category for the fourth consecutive year at the '53rd Annual Report Awards 2017', organised by The Institute of Chartered Accountants of Sri Lanka. We were recognised within the 'Ten Best Integrated Reports' by 'CMA Excellence in Integrated Reporting 2017', organised by the Institute of Certified Management Accountants of Sri Lanka. Apart from the recognition received from the domestic awarding bodies, our corporate governance reporting initiatives were acclaimed by the South Asian Federation of Accountants.

STRATEGIC DIRECTION AND OUTLOOK 2018

In the year under review, I am happy that the sense of optimism that prevailed in 2017 has materialised due to our professionalism and strategic focus. These strengths underlined our efforts to capitalise on opportunities that emerged from the favourable dynamics that played out both in the Sri Lankan and the global tea industry. We marked a momentous milestone in the year under review. It is heartening to note that today, we stand tall amongst our industry peers with a successful year behind us.

We are mindful that the current tea price levels have enabled us to maintain profitability in the context of rising overall costs of inputs and overheads. As prices are volatile, even a marginal price reduction will have a negative impact on the industry's viability. The shortage of workers in the low grown is also of concern. The wage increase to be negotiated at the expiry of the present Wage Agreement in October 2018 will also have a significant cost impact in the year 2018/19. We call upon the trade unions in the upcoming wage negotiations to be mindful of their wage demands in the context that the industry needs to be sustainable and financially viable in the future for the benefit of all concerned. As the existing wage model is now less relevant in today's context of changing worker aspirations and socio-economic changes prevalent in the country, we seek the support of the leaders of the trade unions to agree to a revenue share remuneration mechanism to be fostered amongst the workers and their families, resident on the estates.

The Sri Lanka's tea industry needs to be sustainable, globally competitive and have a strong brand presence for 'Pure Ceylon Teas'. Hence, all stakeholders need to have a shared view of the well-being of the industry and pay their respective roles responsibly. Whist we thank the Tea Board for the initial steps taken to roll-out the tea marketing campaign, we request the government to set up a tea testing laboratory to meet the increasing regulatory requirements in our major markets. We also need to have the Tea Research Institute strengthened with additional funding to undertake relevant and timely research that would enable the industry to meet climate change challenges and cleaner teas to meet stringent maximum residue levels (MRLs) in the importing countries. Policy consistency with regard to land size, ownership and lease tenure, land acquisition and crop diversification is essential. If we are to be considered as a greener industry, it is essential that the tea industry switch to renewable sources by developing energy plantations. This requires an enabling environment to develop forestry and energy plantation. We also request the authorities to prepare a national policy document on the role of the RPCs to ensure clarity of their future.

We are thankful to the government for the speedy action taken to resolve the Russian Tea export ban, relief given to the industry by granting a fertilizer subsidy and removal of the ban on Glyphosate weedicide imports. These measures will undoubtedly have a positive impact on the quality and crop levels of the growers. We are of the view with the smallholder being the backbone of the industry, an enhanced replanting subsidy will be beneficial in the long-run to improve national yields.

We share a sense of buoyance for the year 2018 with our key markets showing greater stability, despite our concerns with the global economy showing growth signs and higher oil prices in commodity markets. We trust that the authorities will act decisively to resolve industry concerns. However, it is prudent to understand that we are in an industry where its earnings are cyclical. Nevertheless, we remain confident in our capability to harness opportunities when they emerge.

IN APPRECIATION

It was indeed heartening to see the team come together, work with dedication and with professionalism to navigate through the challenges and achieve an outstanding year. My sincere appreciation and a warm thank you to all for a job well-done. I also wish to take this opportunity to thank especially our buyers, brokers, financers and all other stakeholders for their trust and confidence in our mission. My heartfelt gratitude is extended to my colleagues on the Board for their foresight and direction, taking TTE PLC to meet its strategic objectives with the company being able to surpass its best performance.

MOHAN PANDITHAGE
Chairman
Talawakelle Tea Estates PLC

15 May 2018

MANAGING DIRECTOR'S REVIEW

Focused on
Strategy

"We continued to be resolute in our integrated thinking, nurturing and bringing together our core capitals alongside ethical and responsible corporate practices."

GROUP NET PROFIT AFTER TAX

RS. 547.5 Million

ALL TIME HIGHEST SHARE PRICE

RS. 61.20

In the financial year 2017/18, Talawakelle Tea Estates PLC stood well-poised in its strategic delivery while consolidating and posting a strong performance amidst an evolving industry landscape. We continued to be resolute in our integrated thinking, nurturing and bringing together our core capitals alongside ethical and responsible corporate practices. In the year, we reinforced our forte and sustained our positioning at the helm of the industry. My review presented herein seeks to highlight our pragmatic approach to reach out to business excellence and our plans to move forward, securing our long-term sustainability.

INDUSTRY REBOUNDING

The tea industry in the year 2017, rebounded from difficult market conditions. The global economy moved into higher ground with upside trends in our key export markets, particularly, with the pick-up in oil prices. This together with the short-supply of teas from a global perspective, spurred a very conducive demand-supply dynamics and we saw exceptionally high price averages recorded at the Colombo Tea Auction.

On the production side, with less unfavourable weather conditions, the overall crop production improved compared to the previous year. Yet, the socio-economic and political undercurrents stifled the industry from reaching out to its potential performance. The irrational and illogical ban on weedicide, glyphosate, which came into effect in mid 2015, without an alternative in place, further distressed the industry. The repercussions of this ban are far-reaching, impacting the productivity, production, quality, cost and even safety of the field workforce.

SMARTER STRATEGY

Navigating through a dynamic operating backdrop, we were agile, responsive and pragmatic in reaching out to our strategic imperatives and goals. We continued to be proactive in our engagement with our stakeholders and followed through a well-integrated management approach; focusing on financial viability whilst investing in our fundamentals that underline environmental and social well-being. This year, we intensified our efforts and delivered a

better and a smarter strategy—synchronising the workings and leveraging on the strengths of our critical business drivers. This supported us to manage the down-side risks in the industry and capture the full advantage of the market opportunities present in the year.

In this light, we concentrated on perfecting our expertise embodied in our team and our operational processes and practices, thereby, enhancing our efficiency and sustaining our value proposition to produce premium quality teas. Our focus remained on developing people, driving for performance and improving worker productivity. We continued to invest on sustainable agricultural and manufacturing systems, community development and environmental initiatives. Our commitment to uphold financial discipline, good governance, risk management and work ethics fortified our operational strategy.

SOUND PERFORMANCE

With relatively better weather patterns and notwithstanding the significant impact of the ban on chemical weedicide, our crop production in the year saw an improvement of 8.9 percent over the preceding year to 6.1 million kilograms. Both high grown and low grown elevations recorded volume increases of 7.9 percent and 14.2 percent respectively. Bought leaf volumes maintained same level of production of 0.3 percent.

With bullish market trends on the Colombo Tea Auctions, we were able to leverage on the strength of our brand and attract premium prices for our teas. This, together with higher crop volumes boosted our top-line, recording a noteworthy increase of 23.3 percent as compared to the previous year, reaching to Rs. 3.9 billion.

MANAGING DIRECTOR'S REVIEW CONTD.

"We also maintained a sound financial position as at the year-end 31st March 2018. Our net asset position increased by 22.2 percent to stand at Rs. 2,486.6 million. "

Our cost of production, led by the wage bill, was a concern; continuing to escalate regardless of our disciplined approach to cost management. However, we curtailed our finance costs given our pragmatic approach to treasury management in a tighter monetary policy regime. In this context, more so, cushioned by the outstanding top-line results, we were able to strengthen our bottom-line with profits before tax increasing by an outstanding 137 percent to Rs.617.0 million. Our return on equity in the reporting year stood at 22.2 percent.

We also maintained a sound financial position as at the year-end 31st March 2018. Our net asset position increased by 22.2 percent to stand at Rs.2,486.6 million. Our liability obligations were well covered by our assets and we maintained a healthy current ratio.

With regard to our consolidated results, our revenue touched Rs.4.0 billion whilst profit before tax reached Rs.616.8 million. Our subsidiaries in the hydro power sector with plants in Radella, Somerset and Palmerston recorded a marginal performance, impacted by the downward revision in tariff rates paid by the Ceylon Electricity Board; despite an increase in power generation. The hydro power plants operated at 90 percent of the budgeted capacity levels, generating 6,797.1 MW per annum of electricity. The hydro companies reported a loss of Rs.1.7 million compared to 15.7 million profit in the previous year.

BUSINESS EXCELLENCE

In keeping with our value proposition, we were unwavering in our commitment to sustain excellence in business and uphold our brand for finest quality tea.

We continued to invest and reinforce our quality management processes, spanning across our value chain. We maintained ISO 22000:2005 standards on food safety across most of our estates, accounting for over 90 percent of our operations. This year, Great Western, our largest factory embraced ISO 14000 certification for environmental management standards. We are honoured to be the first Regional Plantation Company to be endorsed by this certification and we intend to adopt this standard across our estates and factories in the near future. All estates and factories obtained re-certification on the new standards advocated by the Rainforest Alliance whilst some also conformed to the guidelines set out by the UTZ and Ethical Tea Partnership. We also uphold the sustainability principles of the UN Global Compact programme.

Standing as a testimony to our commitment to quality, our teas continued to earn the market confidence and we were able to fetch best prices, even surpassing the elevation averages. We achieved, once again, for the thirteenth successive year the top most rank for best prices for low grown elevation teas whilst the high grown teas ranked second amongst the Regional Plantation Companies.

Our top estate, Mattakelle, achieved the third highest GSA in the Western high grown catalogue whilst five of our high grown estate marks were amongst the top twenty five price earners. Kiruwanaganga was ranked number one; Deniyaya and Moragalla ranked within the first five amongst the Regional Plantation Companies.

LONG-TERM INVESTMENTS

Bringing in a long-term perspective to an ageing plantation industry, we continued to follow through a structured mechanism to improve on land productivity for higher and better-quality yields. We invested well on sustainable agricultural practices in our field operations—replanting, soil management, water management and pest control. This year, our investment in field development stood at Rs.64.4 million.

Our non-field capital investments are focused on automating our field operations and on upgrading and modernising our processing factories with appropriate technology, state-of-the-art factory infrastructure and machinery and equipment. This year, we invested on our first ever solar power project at the Bearwell estate in the high grown region. This was aligned to the national initiative on solar energy 'Soorya Bala Sangramaya', under the Ministry of Power and Renewable Energy. We incurred Rs.14.2 million on this project with an anticipated return on investment of 22.5 percent. Our total non-field investments registered an increase of 125 percent to Rs.100.3 million.

FOCUSED ON PERFORMANCE

We give strategic priority and consider our performance management as one of the most significant critical success factors that underscores our sustenance amidst the present-day challenges of our industry. Our performance management system in place is exceptional; enabling us to track, measure, monitor and reward performance across estates, factories and the corporate office in Colombo. The system is well developed with necessary technology to work on real-time data analytics and communication for hands-on monitoring and decision making.

In the year, we were able to assess and reward the performance of the team across our operations; we extended due performance bonuses for executives and managers whilst productivity incentives were offered to the estate workforce.

LEARNING CULTURE

Building a dynamic workforce through learning remains critical to our strategy. We continued in the year to encourage and pave the way for our employees to develop and

"This year, we spent Rs.126.4 million on worker welfare and community development whilst our environmental management projects and initiatives took up Rs.43.3 million."

perfect their job skills, refine their soft-skills and bring in teamwork. This year, we looked at bringing in more structure to our training programmes, giving precedence to boosting worker morale, changing their mind-set towards productivity and instilling loyalty to the organisation. We got the support of our senior and middle level management and external trainers including the academia to roll out this programme across our operations. Our recently recruited consultants on strategic agri-business, sustainability and manufacturing brought in a wealth of experience and insight to our training initiatives. I am truly pleased with the good work done by our team of trainers, but more inspired with our team, for their participation and enthusiasm to learn and make the best of the programmes offered.

Our training investment in the reporting year touched Rs.2.98 million, corresponding to an increase of 35.4 percent. We saw an improvement in labour out-turn that contributed to higher productivity.

RESPONSIBLE INVESTMENTS

Notwithstanding the adversities inherent in our industry, we were responsible and sought to uplift the standards of living of our workers and resident communities of over 42,000 within our estates. We looked to enhance our social impact through our dedicated social responsibility initiative, 'Home for Every Plantation Worker'. We planned and invested well to bring in more meaningful programmes to improve housing, sanitation, health and nutrition, capacity building and youth empowerment. We also initiated a more intense campaign to safeguard children resident in our estates. We partnered with the 'Save The Children Fund' to support over 200 children in two of our estates in the high grown region. We also remained true to our environmental initiatives and campaigns. We continued follow through our well-structured programmes to use our resources efficiently, reduce our dependence on non-renewables, manage waste, conserve biodiversity and reach for carbon neutrality.

This year, we spent Rs.126.4 million on worker welfare and community development whilst our environmental management projects and initiatives took up Rs.43.3 million.

INDUSTRY WAY FORWARD

The year ahead is expected to continue with bullish market conditions, underlined by upward trends in oil prices and better trading prospects in the key markets. Yet, we have to be mindful of the intrinsic issues in the industry which together with climate change and socio-economic and political undertones will reflect adversely and may impede on the industry reaching out to its anticipated performance.

In this backdrop, it is imperative that all stakeholders come together and work in concert to find sustainable solutions to secure the industry way forward. To this end, we will have to continue lobbying with the government of Sri Lanka to arrive at a rational chemical weedicide policy. We have to push for productivity as a key criterion in wage negotiations which will come into play in an election year, 2019. From a long-term standpoint, it is critical to advocate a new paradigm—revenue-share model—to build an entrepreneurial mindset in the workforce and overcome issues of productivity and labour outmigration. We earnestly hope that all stakeholders will work towards industry's progress, particularly, at this juncture—150 years of tea plantations.

As a leading Regional Plantation Company, we are committed to support the industry way forward from a long-term standpoint. Our due focus and key investments in developing our critical business drivers will fortify the way we create value, with benefits cascading across the industry and society.

MANAGING DIRECTOR'S REVIEW CONTD.

FUTURE PLANS

In the ensuing years, we will seek to further consolidate our operations. We will bolt on our systems and processes; intensify our learning and development programmes; internalise performance within the workplace; build solid relationships with our buyers; and showcase our brand and strengthen our competitiveness in the marketplace. We will uphold discipline in the way we manage our financial capital and bolster our margins. Yet, we will continue to invest in our long-term sustainability—maintain sustainable agriculture and manufacturing practices, drive for greater automation; and focus on research and development to add value and develop new products to meet the changing demand trends. We will not compromise on our efforts to support the well-being of our communities and our environment.

Apart from our core business, we will follow through our medium-term strategy to roll out our crop diversification plans. We are currently looking at increasing our exposure to Cinnamon, Coconut and agriculture forestry. From a long-term strategic perspective, we will continue to mull over the opportunities within the tourism sector in the high grown region and seek to provide consultancy services in plantation management, both here and abroad.

IN CLOSING

We saw through a good financial year. We made right business choices to take advantage of the market dynamics and posted sound operational and financial results. The feats we achieved this year were commendable. Our stakeholders, as always, stood beside us, supportive of our efforts to address industry issues and reach out to higher summits.

I am grateful to our Chairman and my colleagues on the Board for their direction and leadership in taking forward our organisation against the complexities of our industry. This year, our corporate management and operational teams were focused to give their best and achieve our corporate goals. I sincerely appreciate their hard work and dedication and look forward to their unwavering support in the ensuing years.

I also take this opportunity to thank our shareholders, buyers, brokers, suppliers and all other stakeholders for their trust and confidence in our strategic delivery.

ROSHAN RAJADURAI
Managing Director
Talawakelle Tea Estates PLC

15 May 2018

GRI: Disclosures 102-56

INDEPENDENT ASSURANCE REPORT

Building a better working world

Ernst & Young
Chartered Accountants
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Colombo 10
Sri Lanka

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Fax Gen : +94 11 2697369
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eysl@lk.ey.com
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Independent Assurance Report to The Board of Directors of Talawakelle Tea Estates PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report-2017/18

Introduction and scope of the engagement

The management of Talawakelle Tea Estates PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2017/18 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 64 of the Report.
- Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: 'In accordance' - Comprehensive guidelines.

Basis of our work and level of assurance

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

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

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Company's responsibility for the report

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

process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young's responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: 'In accordance' - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 19 March 2018. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

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

- Interviewing relevant the company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the Company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the Company's audited financial statements for the year ended 31 March 2018.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: In accordance' - Comprehensive guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

Conclusion

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

- The information on financial performance as specified on page 64 of the Report are properly derived from the audited financial statements of the Company for the year ended 31 March 2018.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Company's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Comprehensive.

Ernst & Young

Ernst & Young
Chartered Accountants

15 May 2018
Colombo

MAP OF ESTATES

GRI: Disclosures 102-4, 5 & 6

Hayleys PLC

Talawakelle Tea Estates PLC

TTEL Somerset Hydro power (Pvt) Ltd
(51% Share Ownership)

TTEL Hydro power Company (Pvt) Ltd
(51% Share Ownership)

High Grown

Nanu Oya Region

Calsay Estate
Elevation : 1,463 m
GPS coordinates : 6.912483
80.74328

Clarendon Estate
Elevation : 1,555 m
GPS coordinates : 6.922334
80.732852

Dessford Estate
Elevation : 1,382 m
GPS coordinates : 6.917714
80.729447

Radella Estate
Elevation : 1,402 m
GPS coordinates : 6.937713
0.7165989

Somerset Estate
Elevation : 1,102 m
GPS coordinates : 6.927765
80.7222

Talawakelle Region

Bearwell Estate
Elevation : 1,280 m
GPS coordinates : 6.932584
80.679948

Great Western Estate
Elevation : 1,448 m
GPS coordinates : 6.953055
80.675901

Holyrood Estate
Elevation : 1,341 m
GPS coordinates : 6.961590
80.68297

Logie Estate
Elevation : 1,220 m
GPS coordinates : 6.931819
80.67604

Mattakelle Estate
Elevation : 1,372 m
GPS coordinates : 6.920910
80.700398

Palmerstone Estate
Elevation : 1,390 m
GPS coordinates : 6.938953
80.696056

Wattegoda Estate
Elevation : 1,219 m
GPS coordinates : 6.962324
80.652363

Low Grown

Deniyaya Region

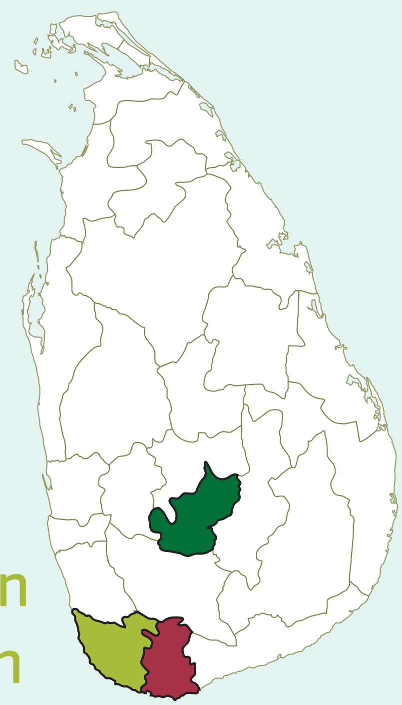
Deniyaya Estate
Elevation : 310 m
GPS coordinates : 6.337041
80.561768

Indola Estate
Elevation : 310 m
GPS coordinates : 6.26075
80.619826

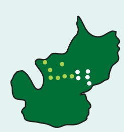
Kiruwanaganga Estate
Elevation : 310 m
GPS coordinates : 6.335827
0.561238

Galle Region

Moragalla Estate
Elevation : 38 m
GPS coordinates : 6.035745
80.372533



12 High Grown
04 Low Grown



High Grown
Talawakelle Region & Nanu Oya Region

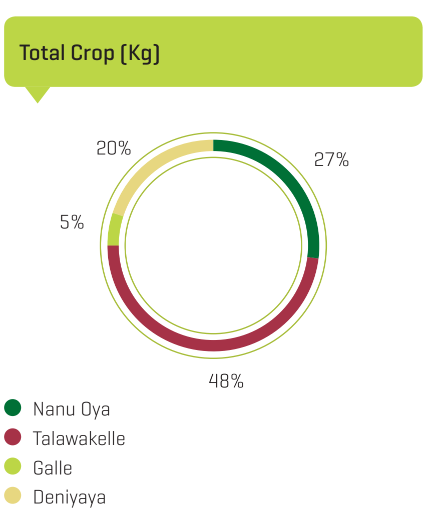
Low Grown
Galle Region

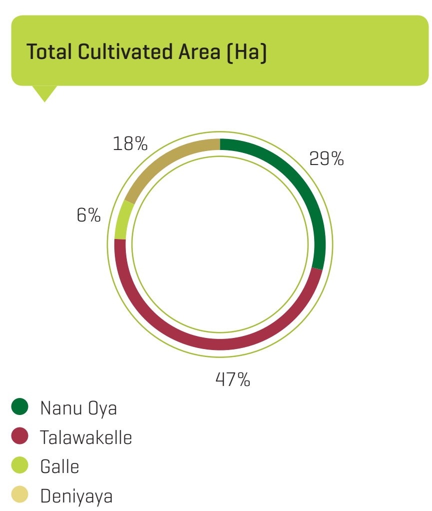
Low Grown
Deniyaya Region

OUR ESTATES AND FACTORIES

GRI: Disclosures 102-4

Estate	Total Extent	Area in Tea	Area in Rubber	Others	Total Cultivated	No. of Workers	Crop with B/L	Elevation	Type of Factory
	Ha	Ha	Ha	Ha	Ha		Kg	m	
Nanu Oya									
Calsay	282.25	202.50		53.75	256.25	269	182,728	1,463	Ortho
Clarendon	191.42	155.88		14.07	169.95	196	171,832	1,555	Ortho/RV
Dessford	431.99	316.88		33.33	350.21	559	389,991	1,382	Ortho/RV
Radella	458.76	268.13		108.96	377.09	523	392,531	1,402	Ortho/GR.T
Somerset	456.64	332.56		38.48	371.04	632	506,093	1,102	Ortho/RV
Sub Total	1,821.06	1,275.95		248.59	1,524.54	2,179	1,643,175		
Talawakelle									
Bearwell	423.41	321.02		52.32	373.34	437	524,307	1,280	Ortho/RV
Great Western	628.48	406.41		80.39	486.80	681	592,567	1,448	Ortho/RV
Holyrood	465.96	329.20		79.15	408.35	500	397,938	1,341	Ortho/RV
Logie	329.88	214.21		45.02	259.23	297	312,001	1,220	Ortho/RV
Mattakelle	361.96	256.66		45.34	302.00	650	446,864	1,372	Ortho/RV
Palmerston	203.11	149.61		23.75	173.36	227	243,755	1,390	
Wattegoda	529.89	315.00		96.40	411.40	494	400,593	1,219	Ortho/RV
Sub Total	2,942.69	1,992.11		422.37	2,414.48	3,286	2,918,025		
Galle									
Moragalla	384.78	95.42	134.84	66.09	296.35	206	311,503	38	Ortho
Pitiyagoda						09			Ortho
Sub Total	384.78	95.42	134.84	66.09	296.35	215	311,503		
Deniyaya/Urubokka									
Deniyaya	578.15	231.56	13.35	85.90	330.81	278	542,001	310	Ortho
Indola	282.16	87.02	98.14	41.43	226.59	139	73,248	310	
Kiruwanaganga	482.71	342.37	4.00	40.67	387.04	583	562,447	310	Ortho
Sub Total	1,343.02	660.95	115.49	168.00	944.44	1,000	1,177,696		
Grand Total	6,491.55	4,024.43	250.33	905.05	5,179.81	6,680	6,050,399		





The gentle rocking of machinery, as the tea is sifted down to the best quality...

To The Rhythm


SOMERSET

OUR AWARDS FOR THE YEAR 2017/18

Excellence is not a skill, it's an attitude

-Ralph Marston-

2016

BEST PRESENTED ANNUAL REPORT AWARDS & SAARC ANNIVERSARY AWARDS

Corporate Governance Disclousers 2016 Agriculture - 2nd Runner up

2017

NATIONAL BUSINESS EXCELLENCE AWARDS

Excellance in Environmental Sustainability Winner

2017

ASIA SUSTAINABILITY REPORTING AWARDS

Asia's Best Sustainability Report whithin Annual Report (Finalist)

2018

THE GOLDEN GLOBE TIGERS

Excellence in HR Leadership, Best Advance in performance Management

2017

EXCELLENCE IN COMMUNITY SERVICE 1992-2017

Appreciation for the achievements and dedicated service towards the Plantation Company by PHDT.

2017

NATIONAL BUSINESS EXCELLENCE AWARDS

Agriculture and Plantation Sector- Merit Award

2017

CA SRI LANKA 53rd ANNUAL REPORT AWARD

Plantation Sector - Gold Award

2017

CA SRI LANKA 53rd ANNUAL REPORT AWARD

Plantation Sector - Gold Award

2017

NATIONAL BUSINESS EXCELLENCE AWARDS

Excellance in Corporate Governance - Runner-up

2017

ASIA PACIFIC HRM CONGRESS AWARDS

Organisation with Innovative HR Practices

2017

CMA EXCELLENCE IN INTEGRATED REPORTING AWARDS

Ten Best Integrated Reports

2017

NATIONAL BUSINESS EXCELLENCE AWARDS

Excellence in Corporate Social Responsibility - Merit Award

2017

ASIA SUSTAINABILITY REPORTING AWARDS

Asia's Best Integrated Report (Higly Commended)

2017

SOUTH ASIAN PATNERSHIP SUMMIT & BUSINESS AWARD (SAPS)

Best HR Practices for organisational Development

MEDIA HIGHLIGHTS

Forbes and Walker Tea Awards 2016

Hayleys Plantations bags 20 awards

SUNDAY, JULY 16, 2017

Hayleys Plantations Celebrates Its 25th Anniversary And 150 Years Of Sri Lanka Tea

Two tea harvesters cutting a 25th Anniversary cake

Talawakelle Tea Estates wins big at Presidential Environmental Awards

Roshan Rajadurai awarded 'Best CEO' at CMI Management Excellence Awards

Recognizing a career filled with outstanding achievements in leadership and innovation, Hayleys Plantations Managing Director, Roshan Rajadurai was presented with the 'Best CEO - Agriculture Sector', Award at the recently concluded CMI Management Excellence Awards 2017.

Bestowed upon the most successful Sri Lankan corporate leaders following a stringent and holistic evaluation process conducted by an eminent panel of judges representing the private and public sectors (KPMG, PIM, EFC, IPM) together with prominent academics, the CMI Management Excellence awards are designed to showcase exemplary leaders thereby establishing an updating local best practices worthy of emulation.

for leading HR practices in Quality of work Life at the Global HR Excellence Awards. They also won Gold at National Social Dialog and Work Place Cooperation Awards. At the ... Tea awards organized by the Tea ... commemorate 150 ...

to management and leadership. His vision has been the driving force behind a concerted and systematic effort to infuse every aspect of the business with innovative best practices, and these efforts are directly responsible for the current and future success of Hayleys Plantations," Kelani Valley CEO ... stated.

Hayleys Plantations wins 20 awards at Forbes and Walker Tea Awards 2016

Sri Lanka's leading tea producers ...

Daily FT

Building a sustainable future for Sri Lanka's estate communities with Hayleys Plantations

Talawakelle Tea Estates honoured for 4th consecutive year at Presidential Environmental Awards 2017

HAYLEYS PLC-owned Talawakelle Tea Estates PLC (TTEL) continued its winning streak at the prestigious Presidential Environmental Awards, after the plantation company won four awards for their continued contribution towards promoting green practices and environmental sustainability.

At the 2017 awards ceremony, ...

processes and strategic environmental sustainability practices," said Hayleys Plantations Sector Managing Director Roshan Rajadurai.

"Continuing to steal the show for the fourth consecutive year at this prestigious awards ceremony is a great testament to all the industry-recognised green practices we follow at our tea estates. The four awards we received at Presidential Environmental Awards 2017 ...

FROM THE BOARDROOMS

GLYPHOSATE BAN COST TEA INDUSTRY Rs 36B IN 3 YEARS

GOVT CONTINUES IMPRACTICAL LAND ACQUISITION STRATEGY

The Sunday Times

CA 51st ANNUAL REPORT AWARDS 2015

CLARITY REDEFINED

Talawakelle wins Gold for the second successive year at the CA-Annual Report Awards

Hayleys Plantations Asia Pacific's Most Innovative HR Practitioner

Hayleys Plantations Sector continued to receive international recognition for its pioneering HR practices, having recently been awarded the organization with The Most Innovative HR Practices at the Asia Pacific HRM Congress Awards 2017 for the second year in a row.

Taking place in Bangalore, India, the Asia Pacific HRM Congress is one of the most prestigious regional events for HR professionals–serving both as a platform for sharing for discussing pressing industry issues as well as an opportunity for showcasing the best and brightest organisations and individuals and their many notable achievements.

"It is a true honour for us at Hayleys Plantations to receive this award at such an internationally renowned forum as the Asia Pacific HRM Congress.

Talawakelle wins two Golds and a Silver at NBE awards

Incorporated in 1992, TTE PLC is a leading Regional Plantation Company (RPC) managing 17 tea estates in both high and low grown elevations and producing the finest Dimbulla and Ruhuna speciality teas.

General Manager-Sustainability, Theja Dharmaratne receiving the Gold Award for Excellence in Environmental Sustainability

Director/DCEO, Dilantha Seneviratne receiving the Sector Gold Award

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www.dailymirror.lk

Daily Mirror

Hayleys Plantations emerge as Asia Pacific's most innovative HR practitioner

Hayleys Plantations Sector continues to receive international recognition for its pioneering HR practices, having recently been awarded with 'The Most Innovative HR Practices' at the Asia Pacific HRM Congress Awards 2017 for the second year in a row.

Taking place in Bangalore, India, the Asia Pacific HRM Congress is one of the internationally renowned forum as the Asia Pacific HRM Congress. This award builds on the outstanding recognition we received in 2016, and stands as a testament to the tireless efforts of our team of employees, working hand-in-hand with regional communities to establish a culture that empowers all stakeholders," Hayleys Plantations Managing Director Roshan ...

'100 Most Influential Global HR Professionals' in recognition of his efforts to extend comprehensive human resource management initiatives in keeping with the direct strategic vision and guidance of Rajadurai. Additionally, the company was also adjudged Gold Award winner at the National HR Excellence Awards 2016 and bagged the largest ever number ...

(HPL) and manages 60 Tea and Rubber estates, spanning over 26,750 hectares of land and account for 3.8 percent and 3.4 percent of Sri Lanka's tea and rubber production respectively.

Through concerted efforts to improve the social and economic standards of its 24,000 direct workforce and its 140,000 strong extended plantation community, Hayleys ...

Hayleys Plantations HRM strategy wins top accolades at Gl

award ceremony took place at the TajLands End in Mumbai, India. After several rounds of strict evaluation by a panel comprised of luminaries in the field of human resources, Hayleys was selected as winners of the Award for Leading HR Practices in Quality Work-Life, in recognition of its breakthrough efforts to successfully extend compre-

programmes to its workforce - spanning healthcare, education, upgrading of living standards and environment, community capacity building and youth empowerment.

In addition to its organizational accolade, Kelani Valley Plantations' HR and Corporate Sustainability Senior Manager Anuruddha Thiththagalla Gamage won the '100 Most Influential Global HR Professional Award'

"Innovation and excellence are the driving force behind the continued success of the Hayleys Plantations. In that regard, the unprecedented

Hayleys' Plantation Sector Head Roshan Rajadurai

තලවකැලේ තේ සමාගමට ජනාධිපති පාරිසරික සම්මාන

Gold award for Talawakelle Tea

Talawakelle Tea Estates PLC (TTE) was pronounced Gold award winners in the Plantation category at the 53rd CA Sri Lanka Annual Report Awards 2017.

award for four consecutive years is an affirmation of TTE's consistency ... the applicatio... regards to tra...

highest standards of financial ...

Talawakelle Tea Estate wins Gold at the CA-Annual Report Awards

Talawakelle Tea Estates PLC (TTE PLC) was honoured with a Gold Award under the Plantation Companies category for the third successive year by the Institute of Chartered Accountants of Sri Lanka at the 52nd Annual Report Awards ceremony held on 6th December 2016 at the Waters Edge.

TTE PLC was adjudged the winner under Agricultural Sector for Best Presented Annual Report Awards and SAARC Anniversary Awards for Corporate Governance Disclosures 2014 at South Asian Federation of Accountants (SAFA) in Lahore, Pakistan.

TTE PLC was also bestowed with Silver for Agriculture & Plantations Sector at National Business Excellence Awards recently clearly demonstrating their commitment towards implementing best sustainable management practices and achieving performance excellence.

Two of company's estates Radella and Deniyaya won the Silver and Merit Awards respectively under the Food and Beverages category at the National Green Awards ceremony held in October 2016.

Daily FT — Be Empowered — FRIDAY APRIL 21, 2017

Hayleys Plantations shines with 20 awards at Forbes and Walker Tea Awards 2016

...ward at the CA Sri Lanka Report Awards. Our dominant ...nce in this category stands ...r validation of Talawakelle's ...mitment to maintaining the

...rood and Deniyaya won silve... bronze awards, while Mattakel... Bearwell estates won merit a... under the Food and Beverages c... ry at the National Green Award... on 16thOctober 2017.

GLYPHOSATE BAN LIFTED FOR TEA, RUBBER INDUSTRIES

BY NISHEL FERNANDO

The ban on the Glyphosate weedicide has been lifted for tea and rubber industries with effect from yesterday following

Hayleys Plantation sector clinches top notch Gold and Silver Awards at the NBE Awards 2016

Hayleys's Plantation sector's flagship entities, Kelani Valley Plantations PLC and Talawakelle Tea Estates PLC claimed two gold awards and four silver awards at the National Business Excellence Awards 2016 organised by the National Chamber of Commerce. Kelani Valley Plantations PLC won two Gold awards in the Agriculture and Plantations Sector Category and the Excellence in Environmental Sustainability category as well as three silver awards in Excellence in Performance Management, Excellence in Local Market Reach and Excellence in Corporate Social Responsibility categories. Talawakelle Tea Estates PLC won a silver award in the category, Agriculture and Plantations Sector. The National Business Excellence Awards is an annual award competition conducted by the National Chamber of Commerce of Sri Lanka (NCCSL) with a view to recognising business enterprises, which have demonstrated excellence in business, whilst contributing to the economic progress of the country.

Russia to restrict tea supplies from Sri Lanka

MOSCOW (Reuters): Russia will place temporary restrictions on imports of all agriculture products from Sri ... December. 18, the Russi... agricultural safety watchd... Rosselkhoznadzor sa... yesterday.

Hayleys Plantations Sector win Gold at SLITAD People Development Awards 2016/17

Setting new benchmarks in Human Development, Hayleys Plantations emerged as Gold Award winners at the recently concluded SLITAD People Development Awards 2017 conducted by Sri Lanka Institute of Training and Development.

After several rounds of strict evaluation by a panel of well-qualified academics and professionals in corporate sector in Sri Lanka, Hayleys Plantations was selected as winners of the award in recognition of its breakthrough efforts to successfully extend comprehensive Human Development programmes to its workforce spanning healthcare, education, upgrading of living standard and environment, community

estates which we manage. This has been a winning strategy for Hayleys Plantations, as evidenced by the continuing recognition for our Human Resource Development initiatives and moving forward we will continue to champion empowerment-based

Hayleys Plantations Sector team of HR with the Gold Award

Hayleys Plantations HRM strategy wins international award

Setting new international benchmarks in sustainable human resource management (HRM), Hayleys Plantations emerged as winners in two categories – at both the individual and organizational level – ahead of over 700 leading corporates from 133 countries at the recently concluded Global HR Excellence Awards 2017.

Taking place at the culmination of this year's World HRD Congress – the profession's most prestigious calendar event – the awards ceremony took place at the Taj Lands End in Mumbai, India.

After several rounds of strict evaluation by a panel comprised of luminaries in the field of human resources, Hayleys was selected as winners of the Award for Leading HR Practices in Quality Work-Life, in recognition of its breakthrough efforts to successfully extend comprehensive human resource management programmes to its workforce – spanning healthcare, education, upgrading of living standards and environment, community capacity building and youth empowerment.

In addition to its organizational accolade, Kelani Valley Plantations' Senior Manager – HR & Corporate Sustainability, Anuruddha Thiththagalla Gamage won the '100 Most Influential Global HR Professional Award'.

Hayleys' Talawakelle Tea Estates emerge Inte... Plantations Company Rugby Sevens champs

MILESTONES

Journey of 25 years....

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

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

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

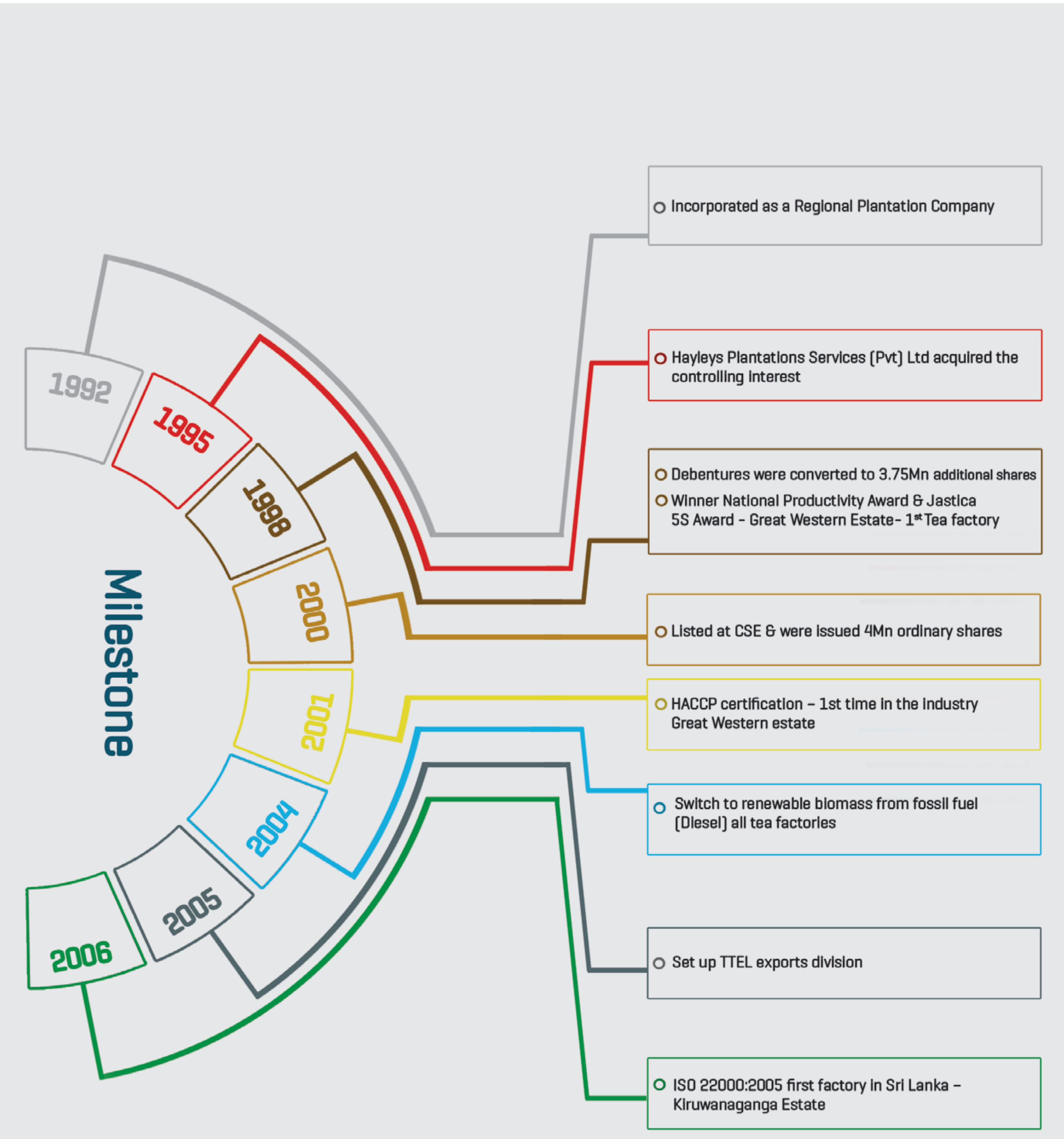
- R&D Unit Started – Innovative teas at Dessford estate
- "SATHDIYAWARA" CSR Project
- Introduced Electronic weighing scale & web base performance monitoring system

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

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

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

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


Milestone
1992
Incorporated as a Regional Plantation Company
1995
Hayleys Plantations Services (Pvt) Ltd acquired the controlling interest
1998
Debentures were converted to 3.75Mn additional shares
Winner National Productivity Award & Jastica 5S Award - Great Western Estate- 1st Tea factory
2000
Listed at CSE & were issued 4Mn ordinary shares
2001
HACCP certification – 1st time in the industry Great Western estate
2004
Switch to renewable biomass from fossil fuel (Diesel) all tea factories
2005
Set up TTEL exports division
2006
ISO 22000:2005 first factory in Sri Lanka – Kiruwanaganga Estate

BOARD OF DIRECTORS

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 Advisory Council of the Ceylon Association of Ships' Agents.

MR W G ROSHAN RAJADURAI *
Managing Director

Appointed to the Board in 2013.

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

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.

Holds a BSc. in Plantation Management and holds an MBA from the Post Graduate Institute of Agriculture, Peradeniya. Fellow Member of National Institute of Plantation Management (NIPM), Institute of Management of Sri Lanka (IMSL) and Institute of Certified Professional Managers (CPM).

He was the Chairman of the Planters' Association of Ceylon. Member of the Sri Lanka Tea Board, Rubber Research Board, Tea Council of Sri Lanka and Director Tea Small Holdings Development Authority. 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 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 20 years of experience in the Plantation Sector.

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

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

MR MERRILL J FERNANDO **

Appointed to the Board in 1998.

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.

MR D C FERNANDO * *

(Alternate to Mr Malik J Fernando)

Appointed as Alternate Director to Mr Malik J Fernando in 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.

BOARD OF DIRECTORS

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 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 Royal Ceramics Lanka PLC. Also serves as Director Uni Dil Packaging Ltd., LB Management Services (Pvt) Ltd., Delmege Coir (Pvt) Ltd., Vallibel Plantation Management Ltd., and Alternate Director of Horana Plantations PLC.

MR S L ATHUKORALA * * *

Appointed to the Board in 2016.

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

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

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

MR M H JAMALDEEN * * *

Appointed to the Board in 2017.

A Finance Professional with over 17 years of experience and a seasoned commercial property investor and advisor.

He is a Fellow of the Association of Certified Chartered Accountants, UK and holds a degree in Engineering and Business from the University of Warwick, UK.

He serves as a Director of Hayleys PLC, Talawakelle Tea Estates PLC, Haycarb PLC, Singer (Sri Lanka) PLC, Singer Industries (Ceylon) PLC, Regnis (Lanka) PLC and Executive Director of Ascot Holdings PLC and its subsidiaries : Ascot Development (Pvt) Limited, Ascot Leisure (Pvt) Limited, Ascot Ambalangoda (Pvt) Limited, Amtrad Limited, L & A Quarries (Pvt) Limited.

He is the Founding Managing Director of Steradian Capital Investments (Pvt) Ltd and is responsible for financing, corporate structuring, acquisitions and development. He has also been the Executive Director of a number of real estate companies, focusing on commercial property investment and development.

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

CORPORATE MANAGEMENT

MR. S B ALAWATTEGAMA
General Manager - Plantations

MR. M T D RODRIGO
General Manager - Strategic Performance Management

MRS. V A PERERA
Deputy General Manager - Finance

MR. D M WICKRAMARATNE
Senior Manager - Marketing

MR. M E SURAWEERA
Senior Manager - Information Technology

MR. H R L S BANDARA
Senior Manager - Finance

MISS. S K DHARMASEKARA
Manager - Human Resource

ESTATE MANAGEMENT

MR. N P ABEYSINGHE
Regional General Manager - Bearwell Estate

MR. P G G JAYATHILAKE
Senior Deputy General Manager - Kiruwanaganga Estate

MR. G K WIJESEKERA
Senior 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 - Dessford Estate

MR. W D JAYASINGHE
Manager - Indola Estate

ESTATE MANAGEMENT CONTD.

MR. U B UDAWATTE
Manager - Logie Estate

MR. A G R M S RANAWEERA
Manager - Radella Estate

MR. S G N N KUMARA
Manager - Mattakelle Estate

MR. K G M N GAMAGE
Manager - Deniyaya Estate

MR. Y D KUMARASIRI
Manager - Clarendon Estate

MR. D W A JAYATHILAKE
Manager - Wattegoda Estate

MR. SASHIKA WICKRAMASIGNHE
Acting Manager - Calsay Estate

MR. KAPILA BANDARA
Manager - Sustainability & Quality System Development

SUBSIDIARY REVIEW

GRI: Disclosures 102-45

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

RS 60MN
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 - 2017/18

RS 26.69MN	RS 1.74MN	RS 170.24MN	1.3%
REVENUE	PROFIT AFTER TAX	TOTAL ASSETS	RETURN ON EQUITY

TTEL HYDRO POWER COMPANY (PVT) LTD

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

RS 69MN
STATED CAPITAL

Radella Hydro Power Project

- 0.2 MW Capacity - Nanu Oya

Palmerstone Hydro Power Project

- 0.8MW Capacity - Talawakelle

Directors

- Mr. A M Pandithage (Chairman)
- Mr. Merrill J Fernando
- Mr. Malik J Fernando
- Mr. A R De Zilva
- Mr. W G R Rajadurai
- Dr. K I M Ranasoma
- Dr. Arul Sivagananathan

Key Performance Indicators - 2017/18

RS 25.82MN	RS 3.53MN	RS 224.06MN	(3.7%)
REVENUE	LOSS AFTER TAX	TOTAL ASSETS	RETURN ON EQUITY

HOW WE CREATE VALUE

"With two leaves and a bud, we are renowned for our expertise in making the finest cuppa"

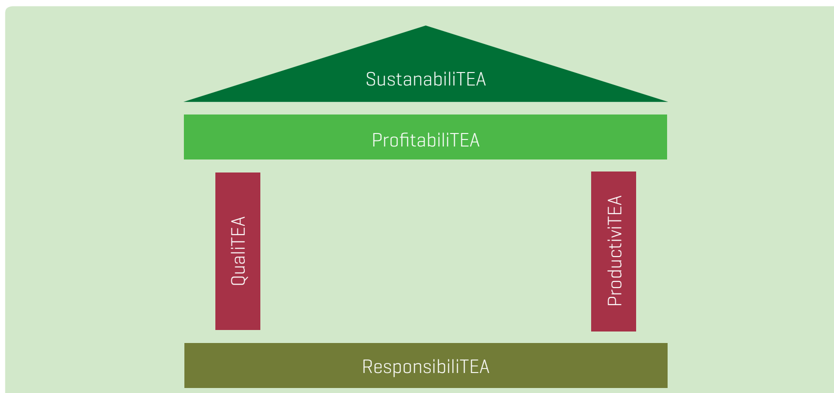
Aspiring to be 'the most admired plantation company in the country', we are committed in our mission create value responsibly to meet our stakeholder expectations and with far-reaching benefits cascading across the broader society. Well-poised at the forefront of the tea industry in Sri Lanka, we have the requisite critical facets to deliver excellence in our operations and create significant value from a long-term standpoint.

We follow a holistic approach to value creation. This assumes a greater significance for a regional plantation company such as ours, where we rely heavily on our team, resident communities and our natural assets we are endowed within our estates—setting a clear case to strike a blend between our economic goals with environmental and social aspects of our value creation process. This stands as the premise that underlines our business model.

We create value within 16 tea estates covering 6,491.55 hectares of land in both high grown elevations in Talawakelle and Nanu Oya and the low grown elevations in Deniyaya and Galle. Besides our estates, our bought-leaf suppliers in the low grown region, engaging over 1600 tea smallholders, add value to our operations. We have 14 factories, fully-equipped and modern to carry out our processing operations, specialising in black orthodox tea for the export market in the Middle East, Russia and CIS countries. We also produce green and value-added speciality teas. The three hydro-power plants operated under our subsidiaries contribute further to the value we create.

We bring together all six forms of capitals—financial, manufactured, intellectual, human, social and relationship and natural—to our value creation process. The financial capital needed for value creation comes from the equity raised from our shareholders, as well as through internal cash generation. Our extensive workforce of 7,136 including estate workers, factory and corporate office staff supports the field, factory processing and administration operations. The resident communities, reaching over 42,000, together with the neighbouring communities supports our labour requirements whilst our estates and bought leaf suppliers support us with good quality tea leaves.

The value we create is shared with our stakeholders—meeting our shareholder obligations and supporting to meet the aspirations of our other stakeholders—extending quality and responsible products for buyers; ensuring fair labour practices for our employees; and upholding social and environmental responsibility to secure the wellbeing of our resident communities and our environment.



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.

VALUE CREATION

VISION

MISSION

BUSINESS DOMAIN

Outcome

Impact

BUSINESS SEGMENTS

Tea Small Holders

Marketing

Estates

Hydro Power Generation

Manufacturing

Transformed Capitals

SUPPORT SERVICE

Customer Engagement

Quality Management & Assurance

Plantation Management

Sourcing

Logistics

Economic Environmental & Social Impacts

Re-assignment of Capitals

Impact on Capitals

Finance Capital

Manufactured Capital

Intellectual Capital

Relationship Capital

Social Capital

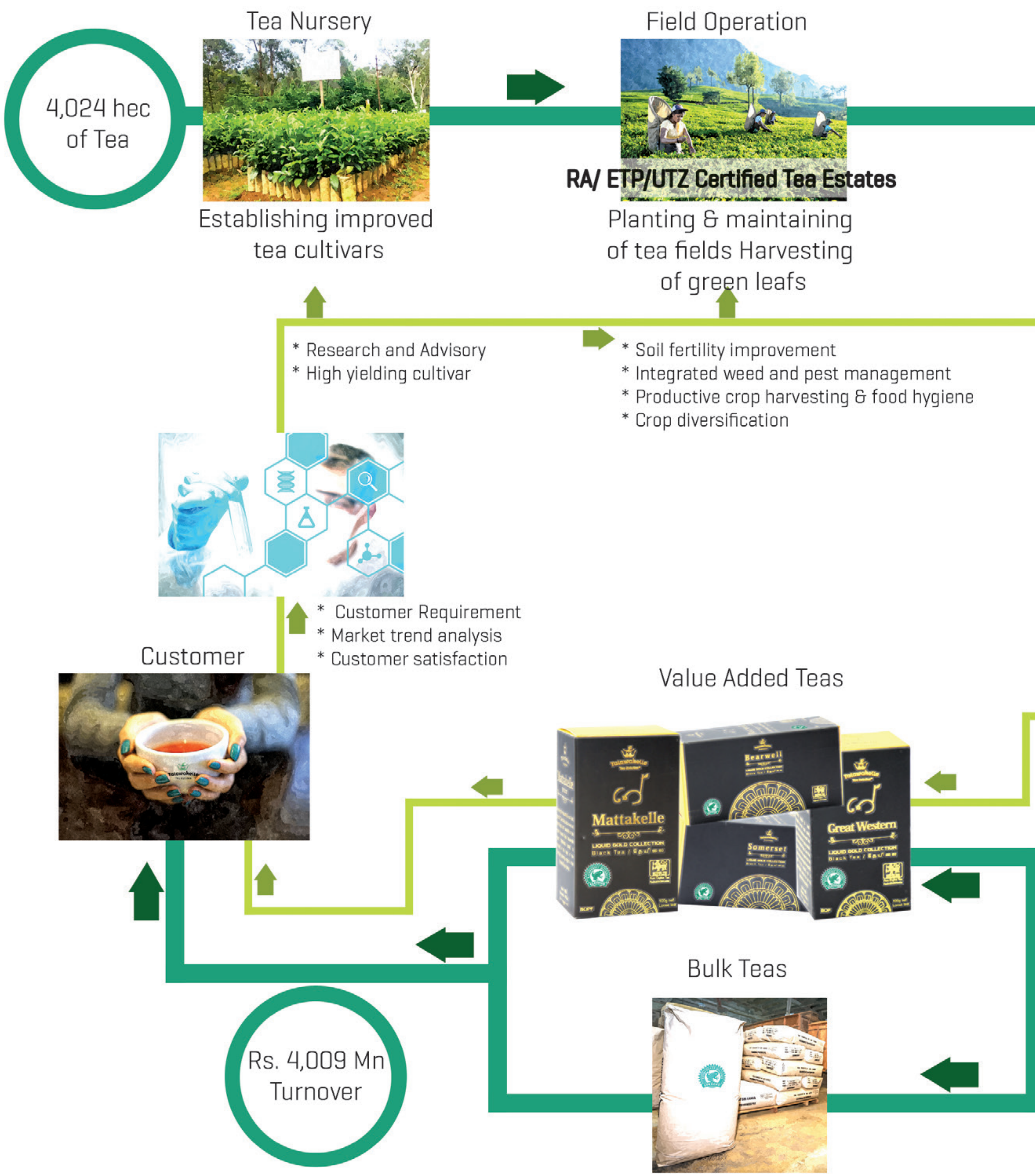
Human Capital

Natural Capital

Strategy, Management of Capitals, value creation and Risk

Governance Framework

VALUE CHAIN


4,024 hec of Tea
Tea Nursery
Establishing improved tea cultivars
Field Operation
RA/ ETP/UTZ Certified Tea Estates
Planting & maintaining of tea fields Harvesting of green leafs
* Research and Advisory
* High yielding cultivar
* Soil fertility improvement
* Integrated weed and pest management
* Productive crop harvesting & food hygiene
* Crop diversification
* Customer Requirement
* Market trend analysis
* Customer satisfaction
Customer
Value Added Teas
Mattakelle
Bearwell
Somerset
Great Western
Bulk Teas
Rs. 4,009 Mn Turnover


Collection
Collecting harvested crop and Bought Leaf from Smallholders
Factory
RA/ ETP/UTZ/ ISO (22000,14001,9001) Certified Tea Factories
Processing orthodox black, green and specialty teas
* Improvement of process productivity & quality
* Food safety & hygiene
* Material & energy efficient
Value Chain
R&D Advisory & Research
Black Tea & GreenTea
Speciality Teas
* Innovative tea varieties By products
Trading
Packaging Centers
Trading teas at the Colombo Tea Auctions and direct selling
6 Mn Kgs of Made Tea
Packing made teas, product labeling and transporting

INTEGRATED SUSTAINABILITY OBJECTIVES, GOALS AND ACHIEVEMENTS

ASPECT	OBJECTIVE	UNIT	GOAL 2017/2018	ACHIEVEMENT				
				2017/18	2016/17	2015/2016	2014/2015	2013
FINANCIAL CAPITAL	1. Revenue	Rs-Mn	3,600	4,009	3,262	3,323	4,643	3,528
	2. Gross Profit	Rs-Mn	354	740	403	247	437	337
	3. Return on Equity (ROE)	%	4	22.15	11.9	6.7	13.9	10.8
	4. Debt to Equity	%	25	13.93	15.95	30.2	36.4	48.9
MANUFACTURED CAPITAL	1. New Machinery acquisitions	Rs-Mn	13.3	24.97	13.2	7.66	46.51	22.74
	2. Production	Kgs.Mn	6.9	6.05	5.65	6.8	8.8	7.3
	3. Made tea out turn	%	22.20	22.77	22.33	22.21	22.31	22.05
INTELLECTUAL CAPITAL	1. Recognitions & Awards	Number of main awards	20	27	16	15	15	16
	2. Certifications							
	ISO 22000:2005 –FSMS	Number of estates	14	12	12	13	13	13
	Rainforest Alliance	Number of estates	14	14	14	14	13	13
	Ethical Tea Partnership	Number of estates	14	14	14	14	13	13
	UTZ	Number of estates	02	02	02	01	01	01
	ISO 14001:2015-EMS	Number of estates	02	01	-	-	-	-
	ISO 9001:2015-QMS	Number of estates	02	01	-	-	-	-
	Reputation and brand value	RPC GSA Ranking	01	02	01	01	02	02
HUMAN CAPITAL	1. Total Worker Productivity	kgs/Worker	2.70	2.65	2.64	2.7	2.7	2.6
	2. Worker Attendance	%	80	78	75	65	68	70
	3. Investment on Employee Training	Rs. Mn	1.5	2.98	2.2	1.3	1.6	1.5
	4. Worker Turnover	%	10	4.5	9	6	22	9
SOCIAL & RELATIONSHIP CAPITAL	1. New Housing	Units	50	66	2	32	11	10
	2. New Sanitary Facilities	Units	100	118	388	242	30	22
	3. Investment on Social infrastructure Development	Rs.Mn	35	100.6	38.7	54.8	30.5	24
COMMUNITY DEVELOPMENT	4. Investment on Social Activities and community development	Rs.Mn	18	26.35	17.4	17.3	15.4	13.1
CUSTOMER, SUPPLIER & INVESTOR RELATIONSHIP	1. Customer Complaints	Nos	0	7	7	22	10	13
	2. Customer Satisfaction Index	%	100	73	73	70	71	65
	3. Total Local supplier percentage	%	100	99	100	99.7	96	94
	4. Tea Small holder supplies Quantity	Kgs	758,000	689,027	690,960	938,751	1,585,725	1,252,095
	5. Price Earnings Ratio	times	3.00	2.36	3.25	6.52	3.49	3.28
NATURAL CAPITAL Field development & performance	1. Yield per Hectare	Kgs/hec/annum	1,508	1,407	1,305	1,547	1,887	1,570
	2. Replanting-Tea	hec/annum	6	4	19.43	29.41	46.25	27.47
	3. Planting of Fuelwood & Timber Species	hec/annum	42.95	27.50	44.77	52.72	54	11.04
	4. Investment on Field Development	Rs.Mn	118	64	88.6	105	79.2	71.5
Environmental stewardship	1. Generation of Hydropower	kWh-mn	10	6.7	5.9	8.2	6.9	9.0
	2. GHG Emissions-Carbon Footprint	tCO_2e	7,000	7,400	7,122	8,327	5,495*	5,696*
	3. GHG Emissions Intensity	tCO_2e/tonne of Made Tea	1	1.22	1.27	1.22	0.74*	0.74*
	4. Investment on Environmental Initiatives	Rs.Mn	45	43.3	40.4	33.1	26.4	49.5

**GHG Emission - Calculation excluding fertiliser (Dolomite and Urea) and compost.*

STAKEHOLDER ENGAGEMENT

OUR STAKEHOLDERS

GRI: Disclosure 102-40

EXTERNAL STAKEHOLDERS

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

INTERNAL STAKEHOLDERS

- Parent Company
- Employees/Trade Unions
- Resident Communities

STAKEHOLDER MAPPING

GRI: Disclosure 102-42

Following the reporting principles set out by the GRI Standards, we have given much thought to be stakeholder inclusive in our reporting process. Using a stakeholder mapping tool, we have identified and prioritised our stakeholders into four categories in terms of the level of influence they exert and the level of interest they have on the organisation. Accordingly, we give top priority and closely engage with key stakeholders who fall under high influence - high interest' category, encompassing parent company, shareholders, employees, trade unions, resident communities and buyers, customers and brokers. We also give due consideration to other stakeholders 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 Mapping		
High	Keep satisfied and meet their needs Suppliers/Service Providers Certification bodies	Closely engage and manage Parent Company Shareholders Employees Trade Unions Resident Communities Buyers/Customers/Brokers
Low	Engage when required Neighbouring Communities Non-government organisations	Keep informed Government Regulatory Bodies Financial Institutions Planters' Association/ Societies Media
	Low	High
	Interest in the Organisation	

APPROACH TO STAKEHOLDER ENGAGEMENT

GRI: Disclosures 102-43 , 44

As a plantation company, we are well aware of our obligations to uphold sound and long-term relationships with our wide and varied stakeholders. Giving due precedence to best practices, we are focused and structured in the way we engage with them, ensuring that we reach out, support and meet their expectations meaningfully. We stand committed to address their material issues and concerns both at the strategic decision-making level as well as in our day-to-day operations.

STAKEHOLDER ENGAGEMENT CONTD.

KEY STAKEHOLDER ENGAGEMENT

GRI: Disclosures 102-12

Stakeholder	Priority of Engagement High Medium Low	Key Issues / 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 Annual report Board meetings Corporate disclosures Press releases Open-door-policy	Weekly Monthly Quarterly Annually
Employees and 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 and bargaining Regular dialogue with the management 'Home for every plantation worker' programme Health and safety committees HR cluster meetings and initiatives Certification programmes	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 'Home for every plantation worker' programme Certification programmes	Weekly Monthly

Stakeholder	Priority of Engagement High Medium Low	Key Issues / Concerns	Process of Engagement	Frequency of Engagement
Suppliers		Price and 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
Certification bodies		Sustainability aspects Responsible corporate management Compliance with certification standards Reliability and reputation	Estate and factory audits Training Meetings	Bi-annual Annual
Financial Institutions		Meeting repayment schedule Climate change and crop production Responsible corporate management Reliability and reputation	Regular meetings dialogue and interactions Published accounts Annual report	Daily Quarterly Annually
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
Industry Associations		Overall performance Quality and standards Regulatory and legal compliance Plantation sector policies	Industry-level meetings	As and when required
Media		Overall performance Sustainability aspects Regulatory and legal compliance Responsible corporate management	Press releases	As and when required

MATERIALITY ANALYSIS

GRI 102: 46 - 47

Reinforcing our commitment to adopt, nurture and uphold current best practices in reporting, we continued to comply with the guidelines set out by the GRI. This year, our sustainability report content is developed in line with the latest GRI Standards.
The report seeks to fulfil the prescribed reporting principles in defining the content, encompassing ‘stakeholder inclusiveness’, ‘sustainability context’, ‘materiality’ and ‘completeness’. We have also given much thought to ensure the quality of the report following the principles of accuracy, balance, clarity, comparability, reliability and timeliness.

Our corporate planning team, well versed in plantation sector operations and finance and management sought to develop and refine the results of the materiality analysis carried out in the preceding two years. The team also engaged and sought the assistance of their colleagues, estate workers and trade unions. The findings from internal estate and certification audits and the desk research on the plantation industry underlined the deliberations. Our senior management role at the policy advocacy level within the plantation industry complemented the assessments.

Considering our stakeholders, we have established our sustainability context and developed a long list of sustainability aspects. Subsequently, the long list was prioritised based on the ‘materiality’ principle taking into account the relevance of each sustainability aspect from both an internal and an external stakeholder perspective. This involved a triple-standpoint, entailing economic, environment and social aspects of our operations including strategy,

MATERIALITY ANALYSIS PROCESS FOLLOWED

- Stakeholder Mapping & Engagement
- Assess the Sustainability context
- Establish the long list of sustainability aspects
- Prioritise sustainability aspects
- Set out the materiality matrix
- Define the report content
- Validate results

SUSTAINABILITY CONTEXT

ECONOMIC	We create extensive value across our tea estates and factories in both high and low grown areas including bought-leaf operations. We strive to achieve and sustain operational viability from a long-term standpoint and ensure that we share our wealth with our stakeholders.	Strategy formulation Value creation Profitability and returns Markets Procurement Risk management
SOCIAL	We are committed to uphold best practices in engaging our work-force of over 7,000 and support the well-being of our resident communities reaching over 40,000. We are also committed to maintain product responsibility and champion corporate stewardship.	Best practices in labour management Compliance with labour laws Workforce development Workforce well-being Well-being of resident communities Good governance and ethics Quality and standards of teas produced Responsible marketing and promotions
ENVIRONMENTAL	Our value creation and viability is closely linked and reliant on the environment. We seek to minimise our operational impact on the environment, striving to be efficient in using non-renewable resources, reducing our emissions to be carbon neutral and conserving biodiversity.	Resource utilisation Waste management Energy management Emissions Climate change Impacts on biodiversity

operations and financial performance; social and industry; environment; and statutory and regulatory framework. The prioritised list was consequently set out in the materiality matrix from high to low in significance in terms of the organisation and the external stakeholder. The report content focuses on aspects placed on high to medium in significance. The entire process and the materiality results were validated by the senior management.

The content boundary is where our operational impacts are the most—tea estates, factories and the corporate office in Colombo. We also cover our subsidiary operations in hydropower and our dealings with our parent, Hayleys PLC, if and when considered applicable.

GRI: Disclosures 103-1, 2, 49

Materiality Matrix

Level of Significance - External Stakeholder Standpoint	Low	Medium	High
High		Marketing and labelling	Economic performance Energy Biodiversity Emissions Effluents and waste Environment - compliance Employment Occupational health & safety Training & education Freedom of association & collective bargaining Child labour Forced or compulsory labour Local communities Customer health & safety Socio-economic compliance
Medium	Anti- competitive behaviour Human rights assessments	Indirect economic impact Procurement practices Materials Supplier environment assessment Diversity & equal opportunity Supplier social assessment Public policy	Water Labour/management relations Non-discrimination
Low	Security practices Rights of indigenous people Anti-corruption Customer privacy	Market presence	

Colour Code:
Economic Environment Social

Level of Significance - Internal Stakeholder Standpoint

Note:
1) The report content encompasses high to medium sustainability aspects. Aspects considered low to medium in materiality are not reported.
2) We have categorised the aspects of 'employment', 'occupational health and safety', 'training and development' and 'local communities' under high materiality for the external stakeholder compared to the medium categorisation in FY 2016/17. These aspects are considered under high-high materiality criteria in the reporting year.
3) The materiality of the 'market presence' aspect has been brought to medium significance for the internal stakeholder and low for the external stakeholder from medium-medium categorisation in the previous year. This aspect hence is not reported in the year under review.
4) There were no incidents of Anti-competitive behaviour, Anti-trust and monopolistic practises.

MATERIALITY ANALYSIS CONTD.

REPORTING FOCUS

GRI Standard		Related Capital	Material Topic	Boundary	Reporting Priority	
					High	Medium
GRI: 200 Economic	201	Financial & Human	Economic performance	Estates Factories Corporate Office	●	
	203	Financial & Social	Indirect economic impact	Estates Factories Corporate Office		●
	204	Relationship & Manufactured	Procurement practices	Estates Factories Corporate Office		●
GRI 300: Environment	301	Natural	Materials	Estates Factories Corporate Office		●
	302	Natural	Energy	Factories Corporate Office	●	
	303	Natural	Water	Estates Factories		●
	304	Natural	Biodiversity	Estates	●	
	305	Natural	Emissions	Factories Corporate Office	●	
	306	Natural	Effluents and waste	Factories	●	
	307	Natural	Environment - compliance	Estates Factories Corporate Office	●	
	308	Natural	Supplier environment assessment	Estates		●

GRI Standard		Related Capital	Material Topic	Boundary	Reporting Priority	
					High	Medium
GRI 400: Social	401	Human	Employment	Estates Factories Corporate Office	●	
	402	Human	Labour/management relations	Estates Factories		●
	403	Human	Occupational health & safety	Estates Factories	●	
	404	Human & Intellectual	Training & education	Estates Factories Corporate Office	●	
	405	Human	Diversity & equal opportunity	Estates Factories Corporate Office		●
	406	Human	Non-discrimination	Estates Factories Corporate Office		●
	407	Human	Freedom of association & collective bargaining	Estates Factories	●	
	408	Human	Child labour	Estates Factories	●	
	409	Human	Forced or compulsory labour	Estates Factories	●	
	413	Social & Manufactured	Local communities	Estates	●	
	414	Relationship	Supplier social assessment	Estates		●
	415	Social	Public policy	Corporate Office		●
	416	Relationship & Intellectual	Customer health and safety	Estates Factories	●	
	417	Relationship & Intellectual	Marketing and labelling	Factories Corporate Office		●
	419	Social	Socio-economic compliance	Estates Factories Corporate Office	●	

MANAGEMENT DISCUSSION & ANALYSIS

Focused on
Productivity

We're pleased to see that our bold attitude has brought good results...

BUSINESS REVIEW

OVERVIEW

We witnessed upside trends in the world economy in the year 2017, with broad-based growth across all major economies. With relatively stable commodity prices, our key markets were more buoyant in the year. However, geopolitical tension still remained a concern. In the domestic front, our economy continued to be challenged by socio-political risks, climate change implications as well the imbalances that prevailed within the macroeconomic environment. In this backdrop, the country's GDP growth decelerated to a record low in the recent history.

The tea industry in the year saw better operating conditions compared to the distraught issues faced in the previous year. Weather patterns that prevailed were broadly conducive to crop production whilst prices were bullish on the Colombo Tea Auctions. Yet, the cost of production remained high and the industry continued to grapple with the repercussions created by the ban on chemical weedicide, glyphosate.

Complemented by a more buoyant operating backdrop, we delivered an integrated strategy and achieved an outstanding performance. We remained focused in our efforts to further improve our productivity levels and conscientiously followed through sustainable practices in the field and factory operations; and thus, reinforced our positioning for finest quality teas. We stood committed and invested well in developing our people; uplifting the quality of life of our resident communities; and taking a proactive role in conserving and protecting our environment. We also continued to be disciplined in our financial management practices, particularly, focusing on controlling higher production costs as well as on managing our treasury operations. In this setting, our operational results for the financial year 2017/18 were noteworthy, leading to stronger profitability levels and returns. Our financial position was healthy and stable and we generated positive cash flows.

"Complemented by a more buoyant operating backdrop, we delivered an integrated strategy and achieved an outstanding performance. We remained focused in our efforts to further improve our productivity levels and conscientiously followed through sustainable practices in the field and factory operations; and thus, reinforced our positioning for finest quality teas."

RISKS, OPPORTUNITIES AND STRATEGY

We operate in an evolving and a complex industry landscape. We are challenged on many fronts—socio-political unrest prevalent in the present-day context, macroeconomic uncertainties, trade union activities, ad-hoc regulatory directives, labour issues to climate change. Focused and cautious in our management approach, at the top as well as in terms of ground operations, we seek to stand tall, navigate and contend with these challenges to mitigate negative impacts on our operations; whilst proactively exploring and seeking to leverage on business opportunities to scale-up, secure better prospects and sustain our organisation's way forward, amidst difficulties in our operating backdrop. Discussed below are principal risks and opportunities that underline our strategy both from a short-term and a long-term perspective.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Principal Risks

Global Economic and Geopolitical Uncertainty	Downturn economic trends and geopolitical tension, particularly in key markets impact demand and pricing, earning capacity and margins.
Domestic Macroeconomic Imbalances	Tighter monetary policy may exert pressure on finance expenses whilst exchange rate policy will determine the strength and stability of earnings.
Changing Demographics	Urbanisation along with the changes in attitudes and lifestyle may lead to out-migration of labour.
Buyer Preferences	Changes in buying preferences in key markets along with regulatory requirements including higher minimum residual levels will impact the demand for teas and the earning capacity.
Global Competition and Substitutes	Low cost producers may have a competitive edge and attract buyers whilst substitutes may have a better appeal due to lifestyle trends and consumer patterns.
Trade Union Demands	Trade union activity for ad-hoc and unproductive wage increases may impact productivity, quality cost of production and competitiveness.
Labour Productivity	Lethargy, negative attitudes and perceptions together with socio-economic and political influences impact labour productivity with grave implications on production volumes, quality, costs and competitiveness.
Monocrop Operations	The dependence on a single crop exposes the business to pests and disease in field operations and earnings will be more susceptible to price fluctuations.
Climate Change	Extremities in temperature and rainfall will impact the harvest, lower crop volumes and leaf quality. Climate change may affect the availability and quality of water.
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 crop volumes.
Government Policy on Chemical Weedicide and Fertiliser	Ad-hoc measures to control chemical weedicides, fertiliser and subsidies will lead to weed growth, pests and diseases, marring field operations and lead to higher costs.

Principal Opportunities

Brand Strength	Corporate standing for quality teas in line with internationally accepted certification standards and green and ethical business practices will strengthen 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 open new markets and result in remunerative prices.
Expertise	Expertise in plantation management will support 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 labour productivity, lower costs and enhance long-term viability.
Paradigm Shift	Growing consensus amongst key stakeholders on the need for a new paradigm based on revenue-share will ensure the industry's sustainability


Tea coin for celebrating '150th Ceylon Tea'


Harvesting


Warehousing

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

OVERALL BUSINESS STRATEGY SALIENT FEATURES

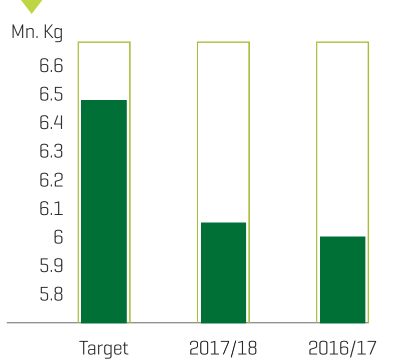
Strategic Imperatives	Short Term Strategy	Medium/Long Term Strategy
Quality Teas	Produce quality teas in line with sustainable, ethical and food safety business practices and in conformance with international certification bodies.	Invest in sustainable field practices and in automated solutions to improve factory processes.
Labour Productivity	Mechanise harvesting, intensify management control at the estate level, closely monitor productivity and incentivise and gain share on performance.	Maintain a dialogue with the workforce to educate and support them to 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 to market new products.	Further invest in research and development to increase the value-added product range and draw up long-term marketing plans.
New Revenue Streams	Study feasibilities and secure new market opportunities for crop diversification and provide plantation management consultancy services.	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, switch to renewable energy sources and work towards carbon neutrality.
Workforce Development	Create a performance-oriented workplace, invest in learning and development and workforce well-being.	Build an empowered workforce enhancing their quality of life and change the mindset to be a stakeholder rather than a worker.
Community Development	Consolidate 'Home for Every Plantation Worker' project for resident communities.	Maintain a dialogue and 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

OVERALL OPERATIONS

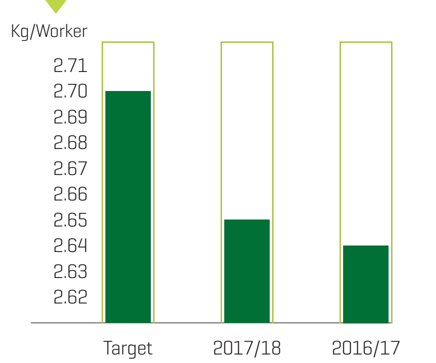
Key Indicators, Targets vs. Actuals

	Unit of measurement	Target	Actuals		
			% of Target	2017/18	2016/17
RPC tea price ranking	Ranking number	First	-	Second	First
High grown yield	Kilogram/hectare	1,567	93%	1,463	1,365
Low grown yield	Kilogram/hectare	1,246	93%	1,154	1,033
Tea production	Million/kilogram	6.48	93%	6.05Mn	6Mn
Worker productivity	Kilogram/worker	2.70	98%	2.65	2.64
Tea replanting	Hectare	6	67%	4.00	12.43
Capital expenditure	Rs. million	168	98%	164	133
Employees trained	Number	15,000	96%	14,336	16,520
Training hours	Number	15,000	88%	13,209	19,984
Training investment	Rs. million	2.5	119%	2.98	2.2
Training programmes on health and safety	Number	150	64%	96	192
Employees trained on health and safety	Number	7,000	72%	5,005	9,580
Training hours on health and safety	Number	8,000	84%	6,759	10,039
Expenditure on social development	Rs million	50	254%	126.95	38.79
Expenditure on environment management	Rs million	45	96%	43.3	40.4

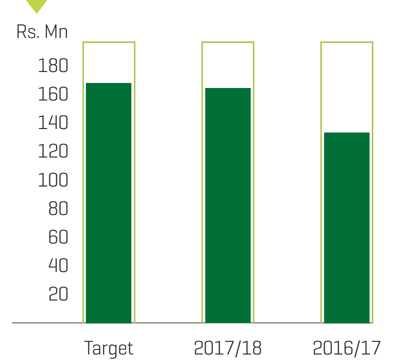
Tea Production



Worker Productivity



Capital Expenditure



MANAGEMENT DISCUSSION & ANALYSIS CONTD.

ECONOMIC REVIEW

GLOBAL ECONOMY

Global Economy Growth	Advanced Economies	Emerging & Developing Economies
2017: 3.8%	2017: 2.3%	2017: 4.8%
2016: 3.2%	2016: 1.7%	2016: 4.4%

With greater positivity, the year 2017 saw the world economy rebound with stronger growth results recorded across major economies—from advanced nations, euro area to emerging and developing nations. Global trading conditions improved despite the tension between the United States of America (US) and China; investments were buoyant; financial conditions were more accommodative; market sentiments were positive; and oil prices along with other commodities strengthened compared to the previous year. As per the International Monetary Fund, global growth in 2017 stood at 3.8 percent, an improvement vis-à-vis 3.2 percent in 2016. Advanced nations led by the US reached a growth of 2.3 percent. Dominating the world output, emerging markets and developing world grew at 4.8 percent.

Continued policy stabilisation over the past two years sought to balance the macroeconomic environment in the year 2017. Adverse weather conditions that prevailed steered the economy, taking the real economic growth to a multi-year low of 3.1 percent from 4.5 percent in 2016.

SECTORAL GDP

All three key sectors, agriculture, service and industry decelerated in the year 2017. Agriculture recorded a contraction of 0.8 percent in value added terms. The improvements in forestry logging and tea sub sectors cushioned the agriculture sector. The favorable agro-climatic conditions in the main tea planting areas, complemented by bullish market trends at the Colombo Tea Auctions, led the tea sector to rebound and post strong results. Tea production in the year improved by 5.2 percent. The industry sector growth stood at 3.9 percent, down from 5.8 percent in 2016. Both construction and mining and quarrying sub sectors slumped against stronger results posted in the previous year. The services sector also slowed down to 3.2 percent growth compared to 4.7 percent in 2016.

SRI LANKAN ECONOMY

GDP	Agriculture	Industry	Services
2017: 3.1%	2017: -0.8%	2017: 3.9%	2017: 3.2%
2016: 4.5%	2016: -3.8%	2016: 5.8%	2016: 4.7%

MACROECONOMIC DEVELOPMENTS

Lending Rate (AWPR)	Inflation NCPI (Y-O-Y)	Budget Deficit (% of GDP)	Balance of Payment (US$ Mn)
2017: 11.55%	2017: 7.3%	2017: -5.5	2017: 2,068
2016: 11.52%	2016: 4.2%	2016: -5.4	2016: -500

INTEREST RATES & CREDIT GROWTH

Evening out the imbalances in the economy, we saw a tighter monetary policy continue during the year 2017. This sought to manage the private sector credit growth which spiked in 2016 and to control demand driven inflation. The market experienced two policy rate hikes and a hike in Statutory Reserve Ratio. Liquidity remained tight until the first half of the year, resulting in interest rates trending upwards. However, market liquidity levels improved with the International Sovereign Bond along with the Central Bank's foreign currency activities in the market. Average Weighted Prime Lending Rate (AWPR) fluctuated to close at 11.55 percent. The private sector credit growth was curtailed at 14.7 percent at the year-end compared to 21.9 percent at the previous year-end.

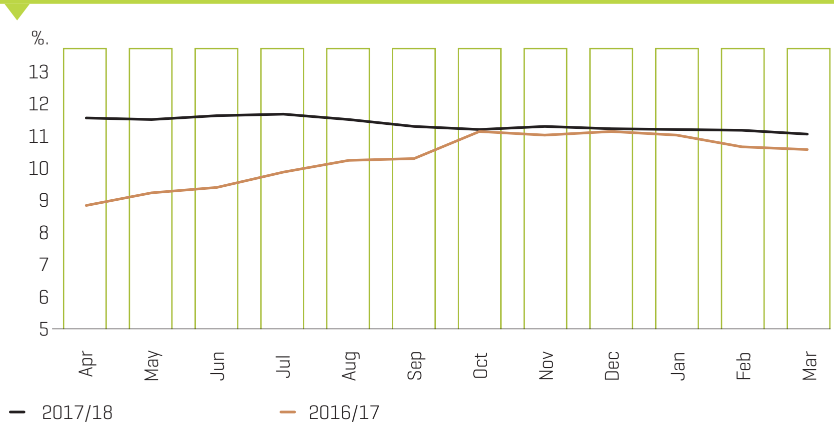
INFLATION

As was the case in the preceding year, inflation continued to trend upwards in 2017. Supply-side pressures given adverse weather conditions along with indirect tax revisions and higher commodity prices in the global market resulted in inflationary hikes. Yet, policy level action controlled headline inflation as measured by the National Consumer Price Index (NCPI) to settle at a single digit level at 7.3 percent by the year-end—above the targeted rates and the previous year-end.

FISCAL POSITION

Focused efforts continued to consolidate the fiscal position through revenue. With tax reforms implemented, tax revenue increased as percentage of GDP. However, revenue expectations did not materialise given the lower non-tax revenue whilst recurrent expenditure as a percentage of GDP saw only a marginal decline. The budget deficit in the year widened to 5.5 percent of GDP. The deficit was mainly financed through foreign sources although domestic borrowings remained significant.

AWPLR Movement



EXTERNAL SECTOR

The Central Bank of Sri Lanka continued to maintain a market-based exchange rate policy in the year 2017. The first two quarters experienced pressure on the exchange rate given higher imports and government debt repayments. Further pressure on the Sri Lankan rupee continued with foreign investors moving out of the market due to interest expectations in the US. However, this scenario reversed by the second half of the year, with improved investor appetite in government securities market and the Colombo Stock Exchange along with proceeds from the International Sovereign Bond and IMF Extended Fund Facility. This eased the pressure on the currency and thus, limited the depreciation of the rupee against the US dollar to 2.0 percent to Rs. 152.85 at the close of 2017.

With upside trends in the global economy and the restoration of GSP, export earnings reported strong growth during 2017. However, higher expenditure mainly on account of food items and fuel, mitigated the considerable earnings from exports. The trade gap, therefore, widened to 11 percent of GDP from 10.9 percent of the GDP in 2016. With higher inflows to the financial account, the Balance of Payments improved to record a surplus compared to the deficit positions recorded in the preceding two years. The gross official reserves improved to 4.6 months of imports from 3.8 months in 2016.

ECONOMIC OUTLOOK

There is much optimism for global growth momentum to continue up until 2019. The global growth is expected to edge up to 3.9 percent in 2018 and 2019. Yet, we have to be cautious of geopolitical tension, tightening financial conditions and escalation of trade issues which will have grave implications and mar world economic prospects in the ensuing years.

From the domestic standpoint, there is much uncertainty in the short-term economic outlook particularly, given the country's socio-political dynamics. Yet, much hope is placed in the medium-term prospects. The new development projects including the Port City and the Megapolis projects, better infrastructure, focus on digitalisation, mechanisation of agriculture and industry, skills development of the workforce along with more balanced macroeconomic environment, are expected to spur greater economic activity and pave the path for higher GDP goals. The Central Bank forecast GDP growth to touch 6.0 percent by 2020.

Note: The information and data for the global and Sri Lankan economic review were sourced from the Annual Report 2017, Central Bank of Sri Lanka and the World Economic Outlook April 2018, IMF.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

TEA INDUSTRY

GLOBAL TEA OUTLOOK

Tea Production

The global tea production for the year 2017 saw that most major producing countries recorded a marginal decrease in production when compared to the preceding year. The largest producer, India as a whole, recorded a modest increase of 11.4 Mn kilograms in production. North India alone recorded a marginal decrease over the preceding year. A significant increase was recorded from Malawi. Bangladesh registered a marginal decrease. Kenya also showed a decrease of 33.1 Mn kilograms. However, Sri Lanka registered an increase of 15.2 Mn kilograms compared to 292.5 Mn kilograms achieved in the previous year.

GLOBAL AUCTION PERFORMANCE

Some of the world tea auction centers experienced a modest decline in prices during the first quarter of the year 2017; and by the end of first quarter, prices picked up and thereon continued to stabilise throughout the year. Colombo auction continued to sustain its rank at the forefront as against other competitors; the Colombo auction prices were stable between US dollars 3.9 to US dollars 4.3 throughout the year. Kolkata and Guwahati auctions in India registered lower prices till April, but started to pick-up and stabilised over US Dollars 2.00 until the year-end. African auction centers remained below US dollars 3.00 throughout the year. Kenyan tea prices also showed a buoyant trend. Limbe and Cochin auctions too remained below US dollars 2.00.

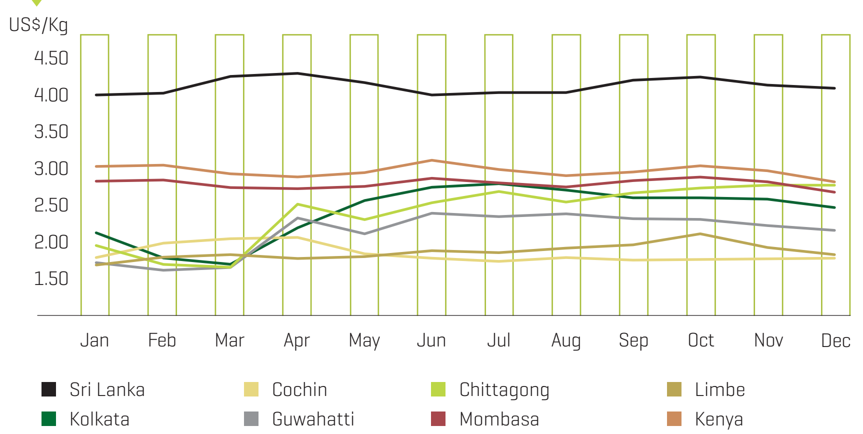
NATIONAL TEA INDUSTRY

Sri Lankan tea industry celebrated 150 years of Ceylon Tea in 2017. Heavy rain falls during the monsoons, with flash floods and landslides affected the tea growing areas, mainly in the Sabaragamuwa region and in the Southern district.

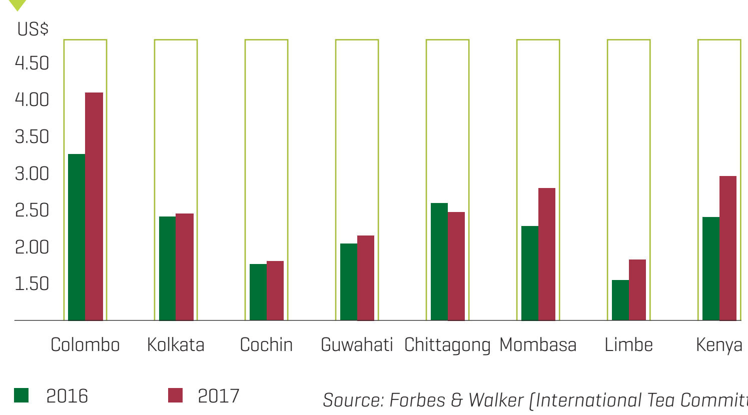
GLOBAL TEA PRODUCERS (2015, 2016 & 2017) MN. KG

	2015	2016	2017
Sri Lanka	328.9	292.5	307.7
Bangladesh	66.5	79.4	73.7
Kenya	399.2	473.0	439.9
North India	981.1	1,054.5	1,046.4
South India	227.6	212.9	232.4
Malawi	39.4	43.1	45.6

World Tea Auction Prices - 2017 (US$)



World Auction Averages (US$)



Source: Forbes & Walker (International Tea Committee - 2017)

The National tea production registered a decline from January to March 2017, with the cumulative production reaching to 66.87 Mn kilograms, down by 3.6 Mn kilograms as against 70.41 Mn kilograms in the corresponding period in 2016. However, crop production started to improve in the month of March and continued until April of the year. We saw a setback in production levels in the month of May which subsequently, recovered by the month of June.

Tea production during the third quarter of this year significantly improved as against the corresponding period in 2016. Low grown elevation saw higher volumes. The fourth quarter tea production saw a marginal decline when compared to third quarter results. During this period, agriculture sector on the whole had to face a severe shortage and higher prices of fertiliser.

NATIONAL TEA PRODUCTION QUARTERLY - 2015, 2016 & 2017 (KG)

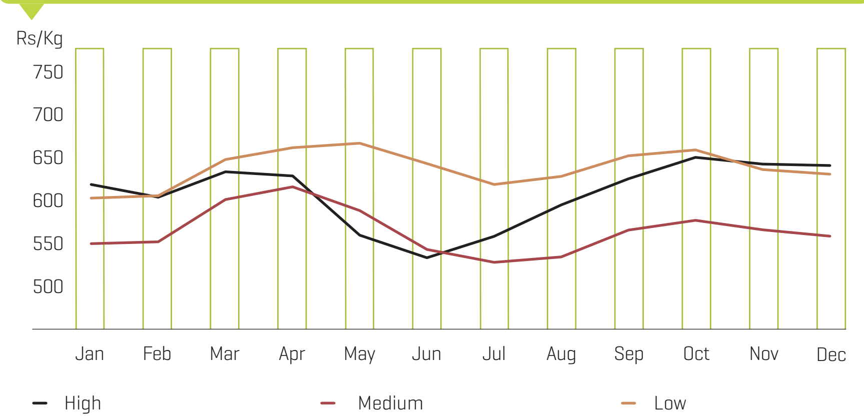
	2015	2016	2017
1st Quarter	79,088,833	70,418,592	66,876,780
2nd Quarter	93,526,942	83,835,676	89,901,554
3rd Quarter	80,081,879	64,722,085	76,307,322
4th Quarter	76,262,918	73,597,233	74,634,149
Cumulative	328,960,572	292,573,586	307,719,805

TEA PRODUCTION - ELEVATION & TYPE (MN. KG)

	2015	2016	2017
High Grown	76.3	63.8	63.7
Medium Grown	47.5	42.8	44.1
Low Grown	202.2	183.5	197.3
Green Tea	2.9	2.4	2.7
Total Production	328.9	292.5	307.7
TTEPLC	7.2	5.8	5.8
TTEPLC Market share	2.2%	2.0%	1.9%

Source: Forbes & Walker (Sri Lanka Tea Board)

Monthly Elevation Tea Prices 2017



Overall exports of Ceylon tea showed a modest increase. Ceylon tea exports to the Middle East, Russia and Ukraine showed a negative growth due to continued economic and geopolitical uncertainties. Heavy rain falls during the third quarter affected the year's Uva season. The production volumes improved whilst the auction averages were positive due to higher demand from black tea importers from China and Japan. Low grown recorded high averages due to higher demand mostly from importers of orthodox black tea from Iraq and Iran. Ceylon tea exports registered a decline in Russia, Iran, Syria, U.A.E and Libya in 2017. Turkey emerged as the main destination for the first time in history. Iraq registered as second whilst Russia remained at the third position.

Total exports in 2017 reached 289 Mn kilograms which was comparable to 288.7 Mn kilograms recorded in 2016. Tea exports value increased by Rs. 48.6 billion to Rs. 233.3 billion in 2017 compared to Rs 184.7 billion in 2016.

COLOMBO TEA AUCTION PRICES

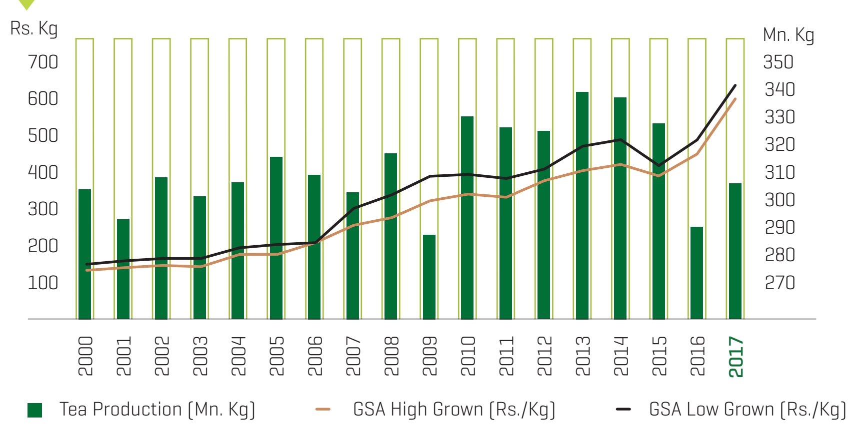
Colombo Tea Auction prices in 2017 recorded the highest ever average on a calendar year— total average of Rs.618.14 over Rs.468.61 in the preceding year, showing a substantial gain of Rs.149.53. High grown average of Rs. 600.93 reflected an increase of Rs.151.08 when compared to Rs.449.85 in 2016. Medium grown elevation prices averaging to Rs.563.54 recorded a gain of Rs.143.95 over Rs. 419.59 in the preceding year. Low grown elevation average of Rs.637.40 was recorded against Rs.486.74 in 2016, showing a substantial gain of Rs.150.66. The higher prices witnessed in the year were mainly on account of the global short supply situation given the lower production volumes from Kenya and other producing countries.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

COLOMBO AUCTION PRICES (ELEVATION WISE) 2010 - 2017

Year	High	Medium	Low	National
2010	337.82	330.88	393.40	370.61
2011	329.95	319.77	381.27	359.89
2012	375.53	351.08	407.14	391.64
2013	402.98	398.65	469.91	442.42
2014	420.36	410.13	488.06	461.86
2015	388.38	362.57	416.32	402.14
2016	449.85	419.59	486.74	468.61
2017	600.93	563.54	637.40	618.14

National Production & GSA - 2017



TEA EXPORTS - TOP TEN COUNTRIES 2015/2016/2017

Quantities (Kgs)	2015	2016	2017
Turkey	33,705,653	27,068,974	37,815,700
Iraq	31,364,833	32,557,218	35,032,772
Russia	36,743,776	34,432,739	33,379,977
Iran	30,065,558	33,928,612	27,418,910
U. A. E.	23,438,174	18,381,410	15,785,266
Azerbaijain	11,176,815	10,556,896	12,271,107
Libya	9,983,880	12,645,055	11,609,461
China	7,455,396	7,603,870	9,903,199
Japan	8,462,172	7,763,607	7,924,043
Syria	11,091,074	12,107,279	7,399,616

TEA EXPORTS

Product Performance

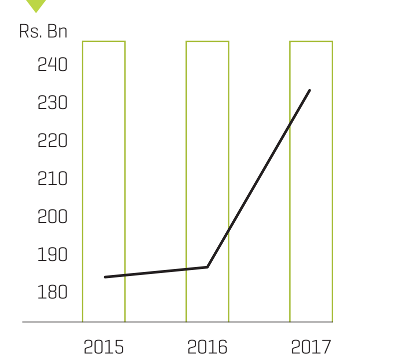
When analysing the product performance in relevant categories of exports, bulk tea totaling 125.6 Mn kilogram in 2017 was comparable to the preceding year. Packed teas also showed a marginal gain. However, tea bags registered a decline, totaling to 21.7 Mn kilograms in 2017 as against 23 Mn kilograms in 2016 whilst instant tea showed a marginal increase. It's noteworthy that green tea exports totaling to 5.0 Mn kilograms showed a gain of 0.8 Mn kilograms over 4.2 Mn kilograms in the preceding year.

	2015	2016	2017
Tea In Bulk	132.7	125.1	125.6
Tea In Packets	145.4	134.3	134.5
Tea In Bags	22.1	23.0	21.7
Instant Tea	2.1	2.0	2.1
Green Tea	4.4	4.2	5.0
Total	306.9	288.7	289.0

TEA EXPORTS EARNINGS

Tea exports earnings in 2017 recorded the highest ever revenue of Rs. 233.3 billion, a substantial increase of Rs. 48.6 billion compared to Rs. 184.7 billion in 2016. Previous best was recorded in 2014 revenue of Rs. 212.5 billion. Mid-year destructive weather conditions led to crop shortfall, in turn, creating a heavy demand from South East Asia and some major Middle Eastern exports destinations. This together with the strength in the price of crude oil underlined the higher export earnings.

Tea Exports Earnings



Source: Forbes & Walker (Sri Lanka Tea Board)

ECONOMIC VALUE CREATION

"The total economic value generated during the year was Rs. 2,975.3 Mn, representing an increase of 29.4 percent as compared to the preceding year."

OVERVIEW

Operating as a leading tea plantation company, the value we create is extensive, cascading with far-reaching benefits across the economy. With expertise to produce finest tea, strong brand positioning combined with the strength of our parent, Hayleys PLC, we are well set to meet our stakeholder expectations and in turn, gain their confidence and solicit their support to create further value. This section will highlight our role within the emerging economy—both direct and indirect—supporting the nation to fulfil its development agenda.

VALUE CREATION SNAPSHOT - 2017/18

Value Created: Rs. 2,975.3 Mn

- Rs.4,009 Mn TTEL Revenue
- Rs.52.5Mn Hydropower
- 7136 Present Employments

Value Distributed: Rs. 2,372.9 Mn

Shareholder	Rs. 118.7 Mn Dividend paid	22.2% Return on Equity	Rs. 23.19 Earnings Per Share
Employee	Rs. 1,831.8 Mn Remuneration and Incentives	Rs. 139.3 Mn Defined Benefits	Rs. 2.98 Mn Training Expenditure
Resident Community	Rs. 55.3 Mn Housing Expenditure	Rs. 6.3 Mn Health & Nutrition	Rs. 19.7 Mn Capacity Building
Supplier	Rs. 366.5 Mn Bought-leaf of Tea Smallholders	Rs. 711.6 Mn Local Suppliers	
Government	Rs. 70.3 Mn Tax Payments		
Financial Institutions	Rs. 102 Mn Loan Repayment	Rs. 702.4 Mn Deposit Base	
Environment	Rs. 43.3 Mn Investments in Environmental Initiatives		

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

MANAGEMENT APPROACH

GRI STANDARDS: 103-1, 103-2, 103-3

MATERIAL ASPECT:
- GRI 201 - Economic Performance
- GRI 202 - Market Presence
- GRI 203 - Indirect Economic Impacts

- **Materiality Basis:** As as regional plantation company with an extensive presence in both high and low grown tea elevations, our role in the economy and the value we generate is substantial and significant.

- **Boundary:** Estates, Factories, Corporate Office

Management Approach
- Create value from a tripple-bottom line standpoint, upholding best practices in business.

GRI Disclosures:201-1, 2, 3 & 4; 202-1 & 2 & 203-1 & 2

As a tea plantation company, our management approach to value creation is intrinsically linked to the triple bottom-line concept where we bring together financial considerations with social and environmental aspects of our business. Therefore, we seek to create shared value, underscored by ethical business practices including good governance and risk management. This is a fitting approach to engage and meet the expectation of our wide and diverse set of stakeholders.

ECONOMIC VALUE GENERATION

GRI Disclosure: 201- 1

With 16 tea estates in both low grown and high grown regions, supported by a workforce of over 7,106, we produced 5.36 Mn/kg of tea in the year under review. Our total tea production inclusive of bought leaf stood at 6.05 Mn/Kg. This accounted for 1.97 percent of the national tea production and corresponded to 8 percent increase over the previous year. In the year, we leveraged on our quality teas in a bullish tea market backdrop and succeeded to attract premium prices at the Colombo Auctions. Our prices exceeded the elevations averages.

The total economic value generated during the year was Rs.2,975.3 Mn, representing an increase of 29.4 percent as compared to the preceding year. Over 80 percent of the value generated was shared amongst our key stakeholders. The value retained within the Company to nurture future growth was Rs. 602.3 Mn , representing 20 percent of the total.

Our consolidated value-added statement including our hydropower operations carried out through our subsidiary companies are set out below:

CONSOLIDATED VALUE ADDED STATEMENT

	2017/18 Rs.000'	2016/17 Rs.000'	2015/16 Rs.000'	2014/15 Rs.000'	2013 Rs.000'
Total Revenue	4,061,310	3,334,494	3,434,579	4,761,101	3,646,837
Purchase of goods and services	(1,160,402)	(1,065,016)	(991,105)	(1,601,525)	(1,242,122)
	2,900,908	2,269,478	2,443,474	3,159,576	2,404,715
Other Income	74,407	31,403	70,645	56,744	41,419
Total Value Added	2,975,315	2,300,881	2,514,119	3,216,320	2,446,134
Distributed as follows					
To Government (Income Tax and Other Taxes)	70,393	50,700	38,531	47,838	36,747
To employees (Salaries and other staff costs)	2,162,828	1,831,359	2,112,484	2,646,172	1,970,221
To lenders of Capital (Interest on Loan Outstanding and Minority Interest)	21,021	43,470	66,342	101,074	106,603
To Shareholders (Dividends)	118,750	23,750	-	71,250	71,250
Retained for re-investment and future growth	602,323	351,602	296,762	349,986	261,313
Total Value Distributed	2,975,315	2,300,881	2,514,119	3,216,320	2,446,134

SHAREHOLDER RETURNS

Refer: Financial Capital, Page 80 and Relationship Capital – Investor, Page 115

Upholding shareholder obligations, we continued to deliver a focused strategy and ensure solid returns to our shareholders. In a more buoyant industry backdrop, we were able to record outstanding profits of Rs. 550.8 Mn after taxation. Our hydropower subsidiaries also registered poor financial results compared to the previous year less by 96 percent. The consolidate profits, therefore, reached Rs. 547.5 Mn. The dividends paid for the year totalled to Rs. 118.7 Mn . Return on equity improved by 86.6 percentage points to 22.2 percent whilst earnings per share stood at Rs. 23.19, up by 127.4 percent.

WORKFORCE – REGION WISE – 2017/18

GRI Disclosure: 102-7

Employee Category/ Region	High Grown		Low Grown		Head Office	
	Talawakelle	Nanu Oya	Deniyaya	Galle	Colombo	Total
Executive	20	15	10	1	23	69
Staff	177	118	83	2	7	387
Manual	3,286	2,179	1,000	215		6,680
Total	3,483	2,312	1,093	218	30	7,136

EMPLOYMENT AND COMPENSATION

GRI Disclosure: 201-3 & 202-1 & 2

Refer: Human Capital, Pages 131

Operating in a labour-intensive industry as a regional plantation company, our contribution to employment generation is significant. Our workforce stood at 7,136 as at the year-end with 99.7 percent in permanent category. This year, we created 580 new jobs. Out of the permanent workforce, 99 percent worked under the manual and staff grade category and over 91.5 percent of them were residents within our estates and neighbouring communities. We even have 46 members of the executive cadre living within or in the environs of the estates in which they work.

Our compensation is in line with the industry norms. The wage rate and all increments are determined on a collective basis on a wage formula agreed with the engagement of trade unions. The entry level wage rate also falls under this collective process. Wage rates are not determined on gender.

We ensure that all compensation payments are made on time. We also stand firm in our commitment to meet our defined benefit and contribution obligations as stipulated by the labour laws in Sri Lanka. In the reporting year, we provided a total of Rs. 180.5 Mn to the Employee Provident Fund and Employee Trust Fund. The Defined Benefit Plan Obligation stood at Rs. 809.9 Mn.

For the Y. E	Basis of Contribution	2017/18 Rs Mn	2016/17 Rs Mn
Defined Contribution Plan Obligations			
Employees' Provident Fund	12%*	144.4	129.7
Employees' Trust Fund	3%	36.1	32.4
Defined Benefit Plan Obligations			
Gratuity Provision		139.3	135.9
Gratuity Payments		107.0	98.2

Note: 8% is contributed by the employees

RESIDENT COMMUNITIES

GRI Disclosure: 203-1 & 2

Refer: Social Capital, Pages 121

We have over 42,000 people living within our estates with nearly 87.5percent in high grown region in the Central Province. We also have a significant resident community based in the South in 4 of our estates. The majority of the resident communities are employed under the permanent workforce. Apart from employment, we facilitate basic amenities and care for their well-being through our dedicated social responsibility programme — 'Home for Every Plantation Worker'. Our initiatives under this programme are structured to empower the communities and uplift their quality of life. In the reporting year, we invested a sum Rs. 126.3 Mn under this programme, which included Rs.100.6Mn as infrastructure development; accounting for a significant share of 79.6percent.

SUPPLIER PAYMENTS

Refer: Relationship Capital – Suppliers, pages 110

Given the scale of our operations, we have an extensive supplier base. In the low grown elevation, we engage a large number of bought leaf suppliers within the tea smallholder sector. We give them the necessary support and guide them on sustainable agriculture practices. In the reporting year, we spent a sum of Rs. 366.4 Mn on bought leaf suppliers, representing 34 percent of our total supplier payments amounting to Rs. 1,078 Mn.

TAX PAYMENTS

GRI Disclosure: 201-4

Refer: Financial Capital, Page 80 and Note 11 Financial Statements, page 232

Committed in meeting our tax obligations, we settled a sum of Rs. 70.3 Mn to the Department of Inland Revenue as corporate taxes in the year under review. Our Value Added and Nation Building taxes amounted to Rs. 6.15 Mn. We also paid Rs. 30.45 Mn as lease rentals and interest to the Government.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

FINANCIAL INSTITUTIONS

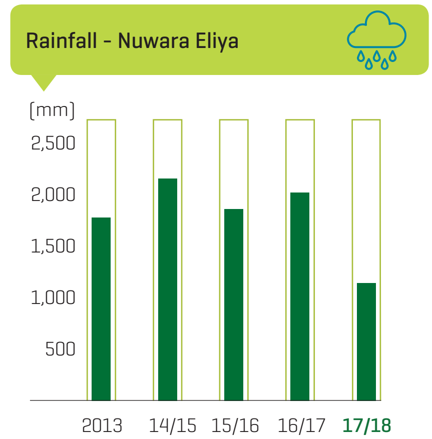
As a trusted corporate within the business domain, we continued to maintain cordial relationships with our bankers and financial institutions. We remained prompt in meeting our debt payment obligations. In the reporting year, we paid a sum of Rs. 120.4 Mn to financial institutions as loan repayments including capital and interest. We also maintained a substantial deposit base of Rs. 702.4 Mn within the financial sector.

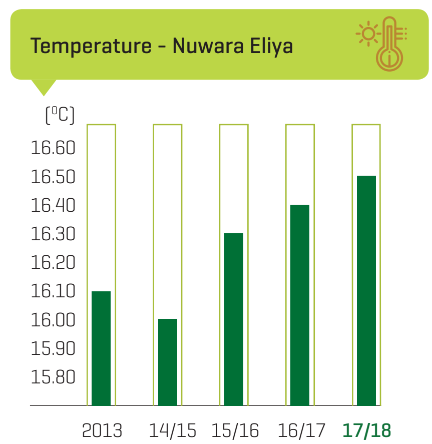
ENVIRONMENTAL INVESTMENTS

GRI Disclosure: 201-2

Refer: Natural Capital, Page 151 and Operations Review, Page 67

As a plantation company, our operations are highly susceptible to the impacts from climate change affecting our crop production and leaf quality. The financial implications are grave with a direct hit on our viability both in the short-term and in the long-term. We give top strategic priority and due investments to take forward our environmental responsibility initiatives to curtail our carbon emissions and mitigate the impacts of climate change on our business operations. In the year, we invested a sum Rs. 43.3 Mn for environmental management initiatives including energy management and bio-diversity based programmes. We also initiated our first ever solar power project at the Bearwell estate at an investment of Rs. 14.2 Mn. It is estimated that this project will bring down our emissions by 5 percent in the ensuing years.





ANNUAL RAINFALL, MILLIMETRES

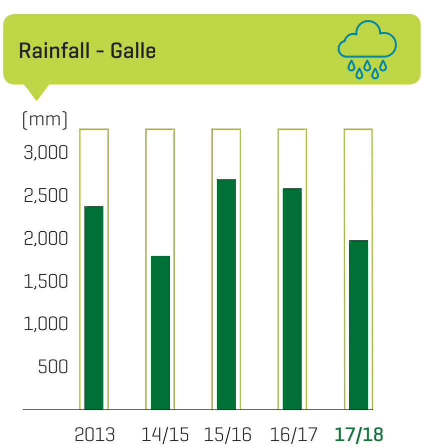
Year	2012/2013	2013/2014	2014/2015	2016/2017	2017/2018
Nuwara Eliya	1,771.10	2,157.70	1,857.70	2,021.20	1,138.20
Galle	2,367.20	1,799.10	2,677.70	2,577.20	1,981.40

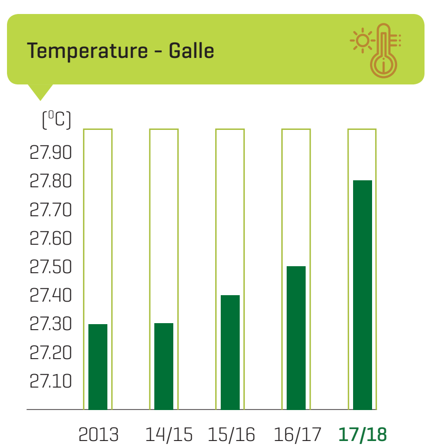
Source : Department of Meteorology

Mean Temperature

Year	2012/2013	2013/2014	2014/2015	2016/2017	2017/2018
Nuwara Eliya	16.10	16.00	16.30	16.40	16.50
Galle	27.30	27.30	27.40	27.50	27.80

Source : Department of Meteorology





OPERATIONAL REVIEW

AGRICULTURAL AND FIELD DEVELOPMENT

Strategic Imperatives	Strategic Goals
Nursery Management	Research and produce best-fit cultivars of tea and other native plants to enhance resistance to pests, disease and climate change for long-term sustainability.
Harvesting	Adopt and closely monitor key measures to improve the harvesting process and boost productivity and ensure the quality of the leaf.
Replanting Programme	Follow through the tea replanting programme to optimise quality and yields to ensure sustainability of the business.
	Replant fuelwood to sustain self sufficiency in fuelwood and be responsible in energy management.
Adapting to climate change	Ensure adaptability to climate change to positively manage impacts on the operational viability.

KEY PERFORMANCE INDICATORS
2017/18

6.1Mn Kg	Tea Production
41.69	Hectares Tea Replanted Lands Came into Revenue
27.50	Hectares Fuel Wood Replanted
Rs. 64Mn	Expenditure Field Development
89%	Estate Leaf % of Total Tea Production
11%	Bought Leaf % of Total Production
16 Numbers	Profitable Estates
4.00	Hectares Tea Replanted

MANAGEMENT APPROACH

AGRICULTURE AND FIELD DEVELOPMENT GUIDELINES AND PRINCIPLES

- Tea Research Institute
- ISO 22000 Food Safety Management
- International Plant Nutrition Institute
- Rainforest Alliance Sustainable Agriculture
- Ethical Tea Partnership
- UTZ Sustainable Tea

The tea industry is at critical juncture with grave issues impacting our field operations. Upholding best practices in agricultural and field development, therefore, are highly warranted, if we are to ensure present and future viability of our operations. It is in this context, that we stand committed and conscientious to be perceptive and sustainable in our field operations, encompassing 16 estates in both high and low grown elevations. Due investments are made in this regard without compromises.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

In our approach to agricultural and field development, we focus on six strategic imperatives. Amongst them, we give due precedence to tea nursey management. Our nurseries, located in eight high grown estates and four in the low grown, carry out necessary research to produce 'best-fit' cultivars to support our planting requirements sustainably. We focus on developing cultivars that are able to withstand pest, disease and adverse impacts from climate change.

We give top strategic priority to maintain leaf quality, which is central to our operations, especially in keeping with our value proposition of producing the finest quality teas. Right harvesting is a critical success factor to ensure leaf quality. Therefore, we are careful in our harvesting activities—planning our manpower effectively, being timely and supporting our plucker workforce to build their productivity levels. Our estate management has the necessary expertise along with the commitment to ensure harvesting of best quality leaves.

We are committed and follow through with best practices in soil management. Our initiatives in this regard are underlined by the '4R Nutrient Stewardship' advocated by the International Plant Nutrition Institute. Under this programme, we have adopted key measures to protect soil nutrients and conserve the top soil from erosion. We rely and continue to make investments to take forward our replanting programme to increase the vetiver planting cover and thus, optimise the potential yields. This programme also encompasses replanting of fuelwood, in turn, supporting our efforts to be 'greener' in energy management.

Our field operations are highly susceptible to the impacts of climate change, with adverse implications on the very sustainability of our business. Therefore, we give strategic precedence and take proactive measures to offset or mitigate the impacts 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 crop performance. We also invest well in adaptation measures to buffer against climate change.

We carry out extensive tea research through our dedicated unit established in 2014 at the Dessford estate. Our focus is to add value and produce specialty and innovative teas mainly targeting new market segments. We also invest in research on bio fertiliser, alternative energy sources and new technology to improve our field and factory processes.

We have pledged our allegiance and are guided by the sustainable agricultural principles and guidelines as set out by our certification programmes. We abide by the guidelines set by the Tea Research Institute and the International Plant Nutrition Institute. We also collaborate with the faculties of agriculture at the national university level to complement our efforts to be sustainable in our agricultural operations. We have in place a well-structured monitoring mechanism to closely follow-up and monitor our sustainability initiatives in our field operations.

"We give top strategic priority to maintain leaf quality, which is central to our operations, especially in keeping with our value proposition of producing the finest quality teas"

Machine Plucking

Shear Plucking

Tea Harvesting

Replanting

Timber Nursery

STRATEGY – AGRICULTURE AND FIELD DEVELOPMENT

Strategic Imperatives	Strategy	Performance Update 2017/18
Nursery Management	• Research and produce 'e4000' series cultivar in central nurseries to enhance yields, quality, adaptability to climate change and agro-climatic locations and resistance to pest and diseases. • Produce cultivar of fuelwood, timber and native plants for biodiversity value in the nurseries in Wattegoda and Calsay estates.	• The share of shear and machines harvesting increased to take up 5% of operations across the estates. • Increased the use of ergonomic plucking baskets across all estates to support plucker productivity. • Introduced electronic green leaf weighing scales in 10 estates for accurate and transparent measurement. • Planted a total of 4.00 hectares of tea in the high grown under the replanting programme • The vetiver planting cover increased to 51 percent compared to 68 in 2017/18 • The total extent replanted with tea reached 1033.43 hectares since privatisation in 1992. • Planted fuel wood in an extent of 27.50 hectares, Field development expenditure reached Rs. 64 Mn • Produced specialty tea for high-end markets in 07 estates, • Received positive feedback from buyers on specialty teas from China, Middle East and Russian markets • Overall crop production including estate leaf and bought leaf operations stood at 6.1 Mn kilograms, an increase of 8.9 percent as against 5.6 Mn kilograms recorded in 2016/17.
Harvesting	• Focus on man power planning and closely monitor worker attendance, utilisation and plucker-performance to reach higher level of productivity. • Ensure timeliness of operations with best-fit plucking intervals and standards to improve the efficiency in harvesting. • Encourage human resource development staff at the estate-level to closely engage with the workforce and motivate and boost their work morale. • Mechanise the harvesting process to increase productivity and production levels.	
Soil Management (Refer: Natural Capital, Page 151)	• Monitor the soil p.H levels periodically and be consistent in managing soil nutrition in the fields. • Conserve the top soil by improving organic matter, water run with lateral and leader drains and protect the banks. • Ensure that the soil management process meets the prescribed norms under the Tea Research Institute, Rainforest Sustainable Agriculture and International Plant Nutrition Institute.	
Replanting	• Replant tea and fuelwood under a structured programme. • Maintain capital clearings following best practices to sustain future yields.	
Climate Change	• Closely monitor the temperature and rainfall in both elevations. • Adopt drought, pest and diseases tolerant cultivars to ensure soil moisture and conservation. • Resort to compost and organic manure, planting shady trees and irrigation during dry months. • Follow the '4R' Nutrient Stewardship programme to minimise nitrogen fertiliser applications to prevent greenhouse gas emissions.	
Research and Development	• Collaborate with the Tea Research Institute and the national universities to produce specialty tea varieties.	

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

OPERATIONAL PERFORMANCE

Tea Production

"Complemented by more favourable weather patterns, total crop production posted an increase of 8.9 percent to 6.1 million kilograms."

6.1 Mn Kg Total Tea Production 2017/2018	5.6 Mn Kg Total Tea Production 2016/2017
89% Estate Leaf	88% Estate Leaf
11% Bought Lea	12% Bought Leaf

With relatively favourable weather patterns in the year 2017/18 combined with our focused management approach to drive for productivity and best practices in our field operations, we witnessed our crop production in the year improve compared to depressed production levels recorded in the preceding year. However, as was case across the industry, the ban on chemical weedicide along with the withdrawal of the fertiliser subsidy impacted crop production from reaching out to its potential levels.

Our overall crop production including estate leaf and bought leaf operations stood at 6.1 Mn kilograms, an increase of 8.9 percent as against 5.6 Mn kilograms recorded in 2016/17.

ESTATE LEAF PRODUCTION

64% Talawakelle	36% Nanu Oya	85% Deniyaya	15% Galle	64% Talawakelle	36% Nanu Oya	86% Deniyaya	14% Galle

4.6 Mn kg High Grown	0.8 Mn kg Low Grown	4.2 Mn kg High Grown	0.7 Mn kg Low Grown

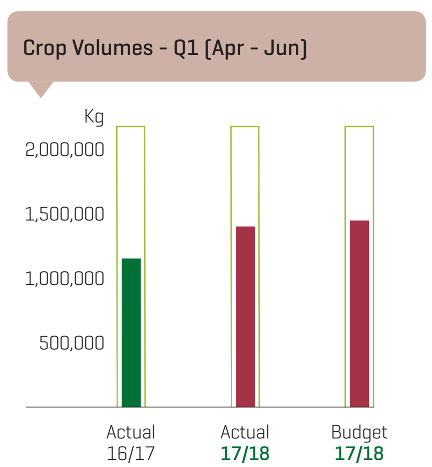
5.4 Mn Kg Estate Tea Production 2017/18	4.9 Mn Kg Estate Tea Production 2016/17

Improvement in weather patterns cushioned the crop production in both elevations at the estate level in the reporting year. Quarterly crop performance recorded an improvement vis-à-vis the corresponding quarters of the preceding year, except for third quarter results. The production volumes, however, were broadly below the budgeted levels. The total estate crop production stood at 5.4 Mn kilograms, up by 10 percent compared to the preceding year of 4.9 Mn kilograms. Estate crops accounted for 89 percent share of the total tea production.

Estate Production – Quarterly Performance – 2017/18

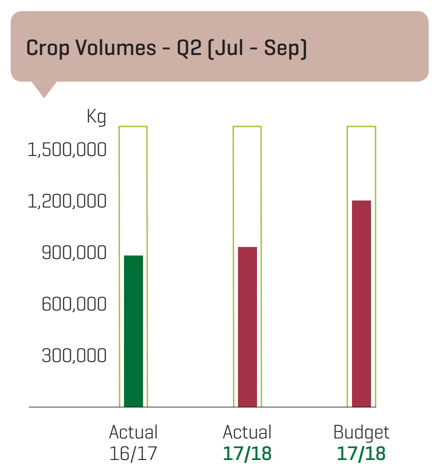
High Grown

Quarter 1



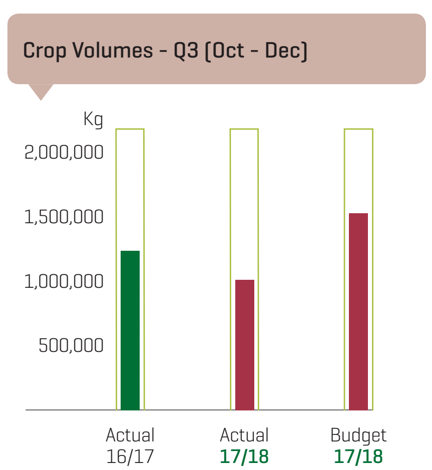
Complemented by favourable weather, crop production was just below the budgeted level and posted a notable increase of just over 20 percent against the 1st quarter of 2016/17.

Quarter 2



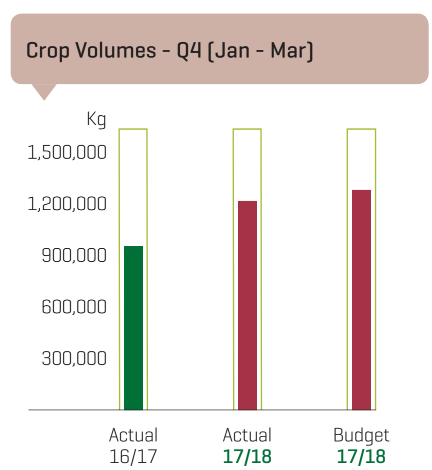
With unfavourable weather patterns setting in, crop volumes performed substantially below the budgeted level, and only improved marginally compared to the 2nd quarter of 2016/17.

Quarter 3



Heavy rains impacted crop production to drop significantly below the budgeted level and by 18 percent against the corresponding quarter of 2016/17.

Quarter 4



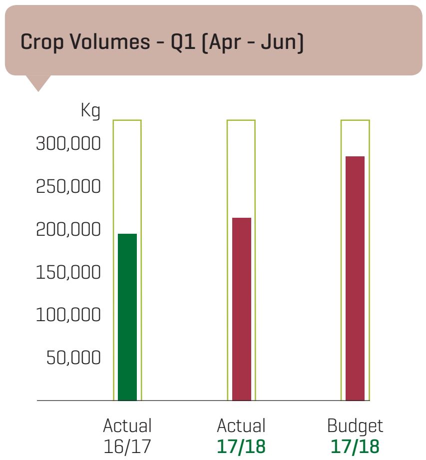
With improvements in weather conditions, crop volumes recovered to meet the budgeted level and surpassed the corresponding quarter of 2016/17 by almost 28 percent.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Estate Production – Quarterly Performance – 2017/18

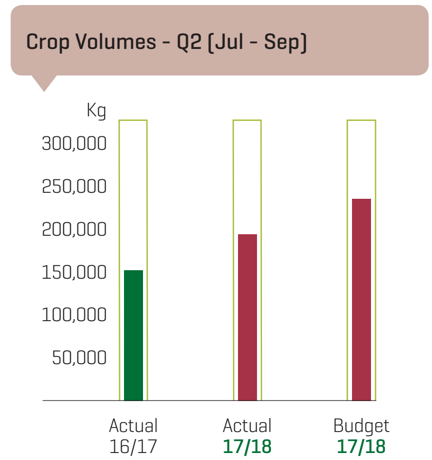
Low Grown

Quarter 1



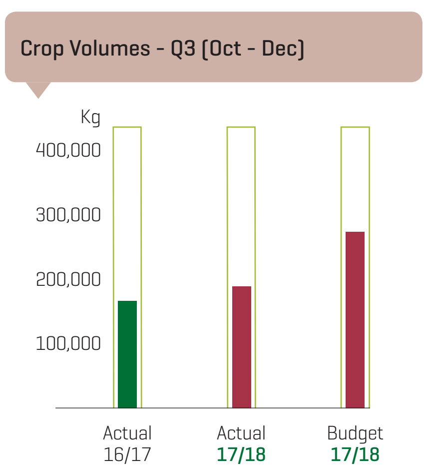
With unfavourable weather patterns, crop performance was well below the budgeted level, however, improved by 10 percent against the corresponding quarter in 2016/17.

Quarter 2



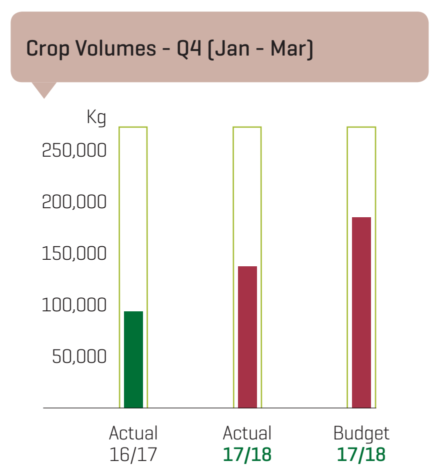
With weather conditions more favourable, crop volumes further improved by 27 percent as against the 2nd quarter of 2015/16 but remained below the budgeted level.

Quarter 3



Due to heavy rains, crop performance was lowest in the year, with volumes below the budgeted, but increased by 14 percent as against the 3rd quarter of 2016/17.

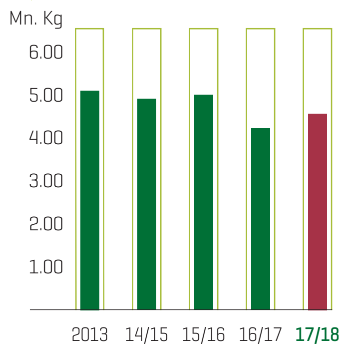
Quarter 4



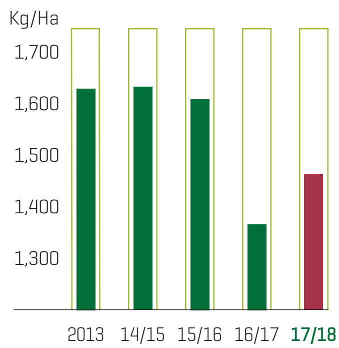
Crop volumes posted a 9.0 percent increase compared to the results of 4th quarter of 2016/17 but was lower than the budgeted.

High Grown Estate Leaf Production

High Grown Leaf Production



High Grown Yield

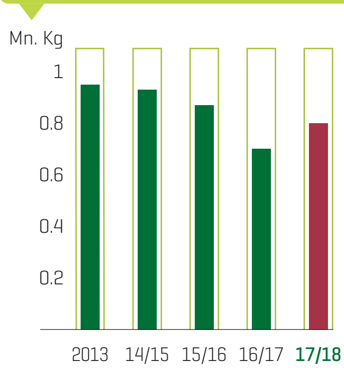


With 12 tea estates in Talawakelle and Nanu Oya regions, covering an extent of 3,117.84 hectares, high grown teas accounted for the highest share of 85 percent of the total estate level production and 75 percent share of the total tea production including bought leaf. Supported by more favourable weather patterns in the first and the last quarter, high grown tea production volumes reached 4.6 Mn kilograms, up by 10 percent over 4.2 Mn kilograms recorded in 2016/17. With a 54 percent share in terms of estate production, Talawakelle region managed to sustain the levels achieved in the preceding year. Recovering from the downward trends, Nanu Oya region saw higher production volumes—recording an increase of 7.0 percent and 31 percent share in terms of Estate Production.

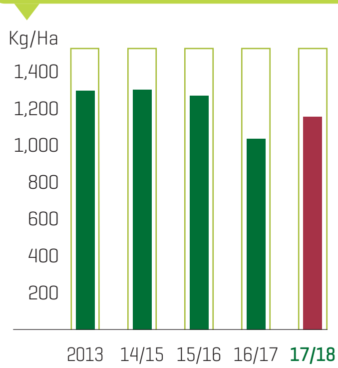
Tea yields in the high grown estates improved by 7.2 percent over the previous year to 1,463 kilograms per hectare as compared to 1,365 kilograms per hectare reached in 2016/17.

Low Grown Estate Leaf Production

Low Grown Leaf Production



Low Grown Yield

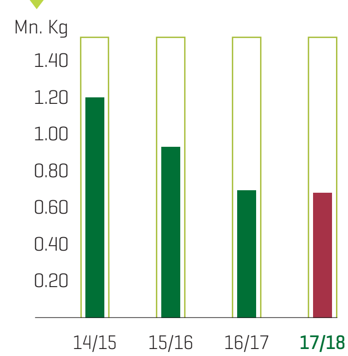


Note: 2014/15 – 15 months

With 04 estates in Deniyaya and Galle regions, in an extent of 693.50 hectares, low grown teas accounted for 15 percent of our estate leaf production. In terms of total production, the share stood at 13 percent. This reporting year, weather patterns, particularly in the fourth quarter, were more conducive for crop production compared to the adverse conditions that prevailed in the preceding year. This buoyed the low grown harvest in all four quarters compared to the corresponding quarters of 2016/17. The low grown crops reached 0.80 Mn kilograms, up by 14 percent vis-à-vis the depressed performance in the preceding year. Both Deniyaya and Galle recorded an improvement.

The low grown yields increased by 12 percent to 1,154 kilograms per hectare, from 1,033 kilograms per hectare in 2016/17.

Bought Leaf Production



With suppliers grapping to meet the required quality standards despite our support programmes and relatively favourable weather, the bought leaf operations continued to be subdued in the year under review. The total volumes fell short of the budgeted expectations and remained almost comparable to the volumes achieved in the preceding year. Bought leaf production stood at 0.69 Mn kilograms, with the share falling by a percentage point to 11 percent of the total tea production.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

TEA PRICES

"Positioned at the helm for finest quality teas, we fetched premium prices in a bullish marketplace."

PRICE RANKINGS COLOMBO TEA AUCTION 2017/18

- Mattakelle estate recorded 48 top prices out from 50 sales for the Dust1 grade
- Deniyaya estate ranked No.3 in Low grown category amongst other RPC marks
- Kiruwanaganga estate ranked No.1 in Low grown category amongst other RPC marks
- Mattakelle estate retained the All-Time record price for the Dust1 grade sold as at Rs. 950 per kilo
- Great Western estate archived the All-time record price for the BOP grade sold at Rs.1850 per kilo
- Mattakelle, Great Western, Bearwell, Dessford and Logie 5 Estates are amongst first 25 rankings in the high grown category
- Moragalla estate ranked No. 05 in Low grown category amongst other RPC marks

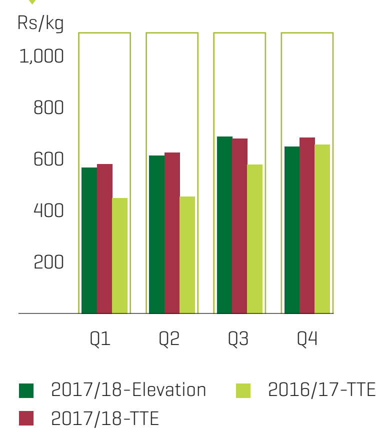
With bullish market trends since the mid of 2016, we saw the Colombo Tea Auctions perform exceptionally well in the year under review. The world commodity markets were buoyant and we saw our key export markets turn-around with better economic conditions. This propped the demand for 'Ceylon Teas' which together with the short-supply in the global markets spurred remunerative prices across all four quarters in both elevations.

Leveraging on the strength of our teas—well-reputed for the finest quality and standards—we succeeded to attract premium prices in the reporting year, above the elevation averages. We continued to be positioned amongst the top-tier Regional Plantation Companies, with high price ranking for our estate marks on the Colombo Tea Auctions.

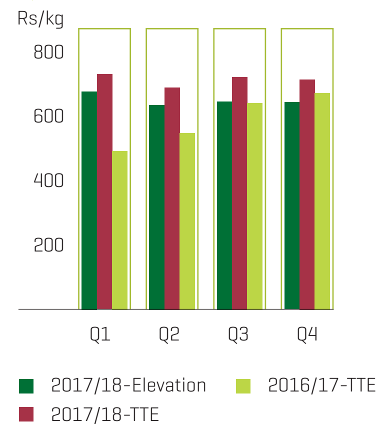
Performing above the elevation averages, our high grown prices trended upwards across all four quarters in the year under review. We saw best prices in the third and fourth quarters. Our price average for the year stood at Rs. 647.82 per kilogram. This was above the average of Rs. 550.57 per kilogram recorded in the preceding year.

The low grown tea prices in the year were outstanding. First, third and fourth quarters saw prices above Rs. 700 per kilogram. The average price in the year touched Rs. 713.60 per kilogram—surpassing the average of Rs. 599.90 per kilogram recorded in the previous year.

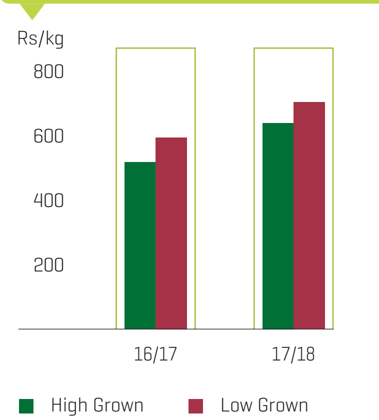
High Grown Quarterly Price Trends



Low Grown Quarterly Price Trends



Gross Sales Average (GSA)



With positive market trends on the Colombo Tea Auction, our GSA continued to trend upwards in both elevations during the reporting year. The Company GSA recorded an increase of 18 percent to Rs. 664.43 per kilogram compared to Rs. 562.64 per kilogram posted in the preceding year.

COST OF PRODUCTION

Our drive for productivity improvements underlined our management approach to keep our production costs at bay. The increase in the cost of production was limited to 6.0 percent.

We continued to be focused in our efforts to manage the rising cost of production at the estate-level. We closely monitored our costs to curtail unnecessary expenses and leakages. Yet, the wage bill remained our main concern, taking up a share of over 70 percent of the total cost of production. In the reporting year, the wage increase of 17 percent effected in October 2017 was realised for a full-year. Yet, this impact was less intense given the productivity factor which was introduced to the revised wage formula along with our focused efforts to improve productivity across the estates. This enabled us to curtail the excessive increase in the overall cost of production to just 6.0 percent to reach Rs. 555.78 per kilogram. The high grown estates saw the cost increase by 4.0 percent & Low grown estates together with Bought Leaf operations by 11 percent as against the previous year.

Complemented by higher production volumes across both elevations and remunerative prices fetched by our estate marks, the top-line across our estates registered a marked improvement. Although

ESTATE PROFITABILITY

“In a more favourable operating backdrop combined with a perceptive strategy led our estates to achieve stronger profitability levels.”

ESTATES MAKING PROFITS

	Total Estates	2017/18	2016/17	2015/16 (12 Months)	2014/15 (15 Months)	2013
High Grown	12	12	10	09	08	08
Low Grown	04	04	03	-	01	04

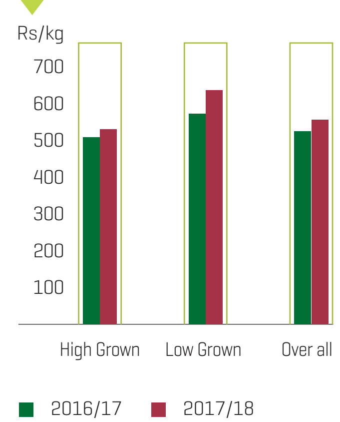
our costs of production recorded an increase, the top-line gains cushioned the estate level bottom-line. On a cumulative basis, our estates profits for the reporting year stood at Rs. 655.6 Mn. This corresponded to a noteworthy increase of 147 percent over Rs. 265.5 mllion recorded in the preceding year.

High grown estates took up almost 88 percent of the total estate profits with Rs. 582.1 Mn, an increase of 157 percent. The profits in the Talawakelle cluster, with 07 estates increased by 190 percent to Rs. 409 Mn—accounting for 70 percent share of the elevation profits. Nanu Oya cluster with 05 estates took up the balance and the profitability levels improved by 1,430 percent to Rs. 173 Mn. The profits in the region were strongest in the last two quarters of the year.

The low grown estates registered stronger profitability results in the reporting year. Profits improved by 87 percent to Rs. 73.5 Mn as against the preceding year. This accounted for 11 percent share of the total estate profits. Deniyaya cluster took up a share of 96 percent of the elevation profits with Rs. 70.7 Mn.

All of our 16 estates, recorded profits in the year. Bearwell estate ranked number one in terms of estate profitability, followed by Great Western and Somerset estates with second and third rankings respectively. Kiruwanaganga and Deniyaya estates in the low grown elevation also posted strong profits, contributing 11 percent to the total estate-level profits.

Cost of Production



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REGIONAL SNAPSHOT – HIGH GROWN – 2017/18 GRI Disclosure: 102-7

	Talawakelle Region	Nanu Oya Region
Estates	Mattakelle, Bearwell, Holyrood,	Calsay, Clarendon, Somerset,
	Great Western, Wattegodde,	Radella, Dessford
	Palmerston, Logie	
Total Extent	1917.44 Hectares	1200.40 Hectares
Total Factory Capacity	4.1 million kilograms	3.2 million kilograms
Factory Type	Orthodox black tea	Orthodox black and green tea
Certification		
Rainforest Alliance Sustainable Farm Certification	All Estates	All Estates
Ethical Tea Partnership	All Estates	All Estates
ISO 22000 : 2015 Food Safety Management Systems	Mattakelle, Bearwell, Holyrood, Great Western, Wattegodde	Somerset, Radella, Dessford
UTZ Sustainable Tea Certification	Wattegodde	Radella
ISO 14001 : 2015 Environment Management System	Great Western	
ISO 9001 : 2015 Quality Management System	Great Western	
Key Achievements:	Mattakelle estate recorded 48 top prices out from 50 sales for the Dust1 grade	Innovative tea Merit Award for Silver Bell and Abbotsford Special for Dessford estate
	Mattakelle estate retained the All Time record price for the Dust1 grade sold at Rs.950 per kilo	Small Scale category – Best Factory (Hatton/ N'Eliya Region) – 3rd Place, Dessford Estate
	Great Western estate achieved the All-time record price for the BOP grade sold at Rs. 1850 per kilo	
	5 Estates are amongst first 25 rankings in the high grown category Mattakelle, Great Western, Bearwell, Dessford, Logie	
	Holyrood estate achieved the All-Time record price for the BOPSP sold at Rs. 820/- per kilo	
	Small Scale category – Best Factory (Hatton/N'Eliya Region) –1st Place, Holyrood Estate	

Key Indicators	Talawakelle			Key Indicators	Nanu Oya		
Economic	2017/18	2016/17	% Change	Economic	2017/18	2016/17	% Change
Tea Production (Mn Kg)	2.9	2.6	12	Tea Production (Mn Kg)	1.70	1.50	13
Contribution to High Grown (%)	64%	64%	0	Contribution to High Grown (%)	36%	36%	0
Profit per hectare (Rs.'000)	213.4	113.0	89	Profit per hectare (Rs.'000)	144.1	9.5	1,417
Capital Expenditure (Rs.Mn)	73.3	54.6	34	Capital Expenditure (Rs.Mn)	32.60	43.70	(25)
Social				Social			
Registered Workers	3286	3430	(4)	Registered Workers	2,179	2,432	(10)
Resident Community (People)	22970	22649	1	Resident Community (People)	13,882	13,334	4
Health & Safety - Training Programmes	40	72	(44)	Health & Safety - Training Programmes	38	56	(32)
Environment				Environment			
Tea - New Clearing Planted (Hectare)	4	9.43	(58)	Tea - New Clearing Planted (Hectare)	-	3.00	(100)
Fulewood Replanted (Hectares)	24.5	30.8	(20)	Fulewood Replanted (Hectares)	3.00	13.97	(79)

REGIONAL SNAPSHOT – LOW GROWN – 2017/18

	Deniyaya Region	Galle Region
Estates	Deniyaya, Kiruwanaganga, Indola	Moragalla
Total Extent	Tea : 615.34 Hectares	Tea : 693.56
	Rubber : 60.97 Hectares	Rubber : 84.22
Total Factory Capacity	1.9 million kilograms	0.6 million kilograms
Factory Type	Orthodox black tea	Orthodox black tea
Certification		
Rainforest Alliance Sustainable Farm Certification	Kiruwanaganga, Deniyaya	
Ethical Tea Partnership	Kiruwanaganga, Deniyaya	
ISO 22000 : 2015 Food Safety Management Systems	Kiruwanaganga, Deniyaya	Moragalla
Key Achievements	Kiruwanaganga estate ranked No.1 in Low grown category amongst other RPC marks	Moragalla estate ranked No.5 in Low grown category amongst other RPC marks
	Deniyaya estate ranked No.3 in Low grown category amongst other RPC marks	Small Scale category – Best Factory (Galle Region) – 2nd Place, Moragalla Estate

Key Indicators	Deniyaya			Key Indicators	Galle		
Economic	2017/18	2016/17	% Change	Economic	2017/18	2016/17	% Change
Tea Production (Mn Kg)	1.1	0.6	83%	Tea Production (Mn Kg)	0.31	0.10	210
Contribution to High Grown (%)	85%	86%	(1)	Contribution to High Grown (%)	15%	14%	1
Profit per hectare (Rs.'000)	104.5	68.7	52	Profit/(Loss) per hectare (Rs.'000)	17.2	(37.4)	146
Capital Expenditure (Rs.Mn)	32.4	27.1	20	Capital Expenditure (Rs.Mn)	6.30	7.40	(15)
Social				Social			
Registered Workers	1000	878	14	Registered Workers	215	257	(16)
Resident Community (People)	4932	4910	0	Resident Community (People)	327	276	18
Health & Safety - Training Programmes	18	52	(65)	Health & Safety - Training Programmes	-	12	(100)
Environment				Environment			
Tea - New Clearing Planted (Hectare)	-	7	(100)	Tea - New Clearing Planted (Hectare)	-	-	
Fulewood Replanted (Hectares)	-	-		Fulewood Replanted (Hectares)	-	-	

RUBBER

Rubber turnover during the year was a loss of 14.8Mn compared to Rs. 13.3 Mn 2016/17. Total production in the year 50,271Kilograms, a 36 percent decrease from 78,688 kilograms in the previous year. Rubber prices averaged at Rs. 289.71per kilograms in 2017/2018 as against Rs. 249.67 per kilogram in 2016/17. The total extent was 145.19 hectares.

HYDROPOWER SECTOR

Our two subsidiary operations in the hydropower sector with three plants in Radella, Palmerstone and Somerset posted better results in the year under review. With a combined capacity of 2.2 MW, the plants operated at 90 percent capacity, given the dry weather conditions that prevailed for few months of the year. Capacity utilisation, however, was an improvement compared to 70 percent utilisation level in 2016/17. Total electricity generated and supplied to the national grid improved by 13.3 percent to 6.7 Mn kWh compared to 5.9 Mn kWh achieved in the previous year. The total revenue reached Rs. 52.5 Mn, representing a 27.2 percent decrease over the preceding year. Hydropower operations contributed 1.3percent to the consolidated revenue.

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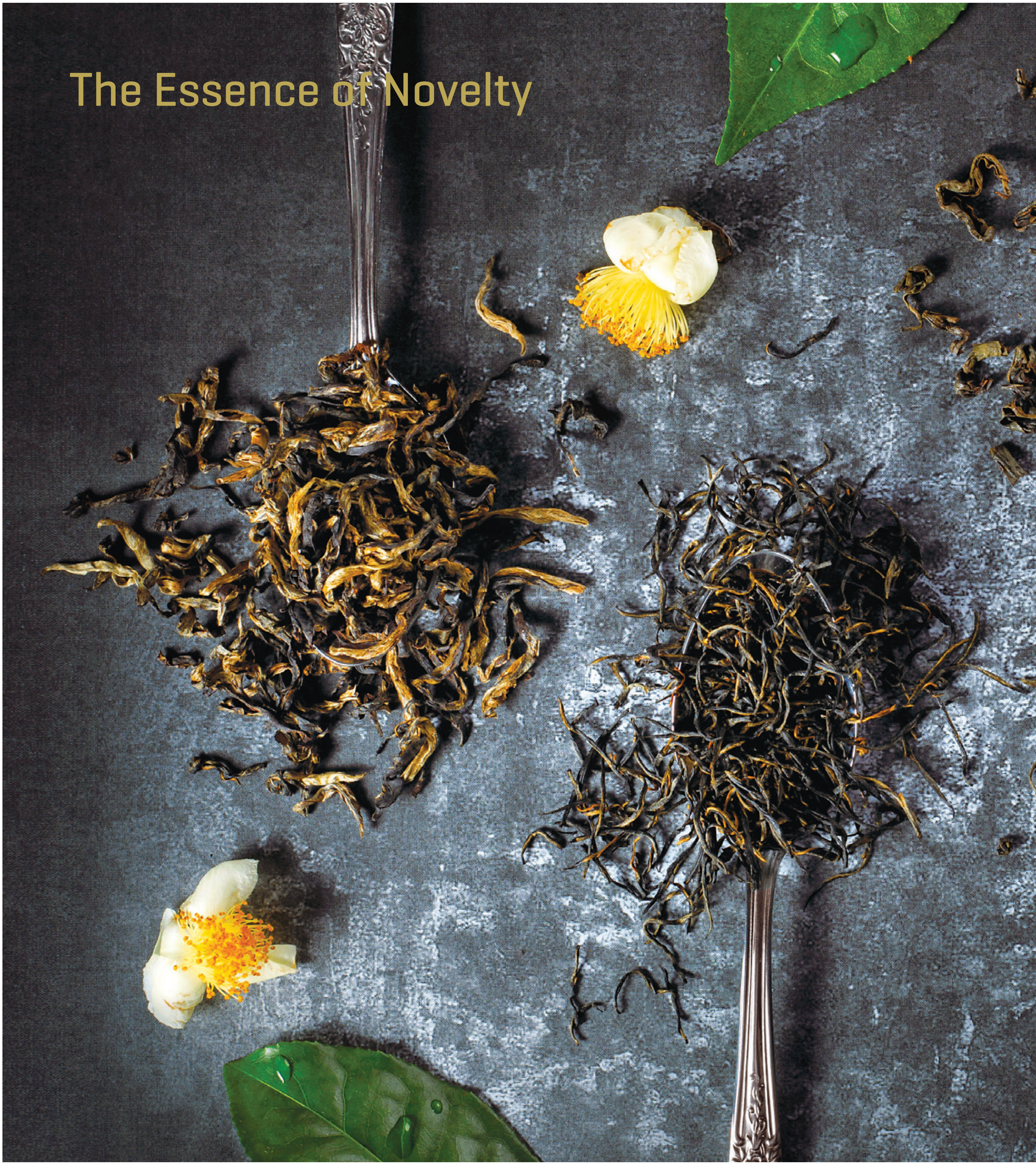


Focused on

Results

CAPITAL MANAGEMENT REPORTS

FINANCIAL CAPITAL

OVERVIEW

In a complex operating environment, perceptive financial capital management is imperative and is considered a critical success factor to uphold business viability and sustainability from a long-term perspective. This is more applicable to an industry such as ours where we are constantly called upon to manage the down-side risks so prevalent in the present-day context. This section herein seeks to highlight how we manage our financial capital to optimise value creation against a volatile business landscape; and how we strategically plan, scale up and consolidate our operations to deliver on our goals from a long-term perspective. The section also discusses in detail our financial performance for the financial year-ended 2017/18.

"Prudent financial management paved the way for the Company to achieve sound returns and consistently maintain solvency and liquidity."

Strategic Imperatives	Strategic Goals
Top-line Growth, Profitability and Returns	Drive for top-line growth responsibly to ensure sustainable earnings, profitability and remunerative returns on equity.
Treasury, Cash Flow and Financial Position	Maintain a healthy financial position and ensure positive cash flows to ensure adequate liquidity and solvency and sustain the operations as a going-concern.
Compliance with Laws, Rules and Regulations	Comply with relevant laws, rules and regulations along with prescribed standards in accounting, auditing and management to be a responsible corporate citizen.

KEY PERFORMANCE INDICATORS 2017/18

84%	13.7%	22.1%	13.16%	12.8 times	13.93%
Gross Profit Growth	Net Profit Margin	Return on Equity	Return on Assets	Interest Cover	Debt : Equity

MANAGEMENT APPROACH

FINANCIAL CAPITAL MANAGEMENT GUIDELINES AND PRINCIPLES

SRI LANKA ACCOUNTING STANDARDS
Institute of Chartered Accountants of Sri Lanka

COMPANIES ACT NO 07 OF 2007

SRI LANKA ACCOUNTING AND AUDITING STANDARDS
Act No 15 of 1995

CONTINUOUS LISTING RULES
Colombo Stock Exchange

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE
Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka

INLAND REVENUE ACT NO. 10OF 2006
Department of Inland Revenue of Sri Lanka

Our financial capital includes the equity investments of our shareholders; internal cash flows generated within the business; and debt raised from local banks and other financial institutions.

Sound management of our financial resources is critical to our value creation process. We stand focused in our efforts to utilise financial resources efficiently and create optimum value. In this endeavour, we have to look beyond the mundane finance functions and approach financial capital management from a broader perspective. This encompasses strategic planning, supporting business units to formulate coherent action plans and directing and guiding operations in plan implementation. Our management approach also gives precedence to performance monitoring and evaluating and reporting on outputs, impacts and outcomes to the senior management and Board of Directors for further review, deliberations and necessary action.

We are well-organised, disciplined and principled in the way we manage our financial capital. Our management across our operations are well aware and stands committed to bring in and follow through best practices and standards in accounting, auditing and management. We comply with laws, rules and regulations stipulated by the relevant statutory and regulatory bodies. We are also conscientious in applying effective risk management practices into our corporate decision-making process along with internal controls to bring the necessary checks and balances to our operations. This management approach has in effect paved a strong foundation, underlining our strength and stability amidst the volatilities widespread within our industry.

As an innate part of our corporate ethos, we have always believed in 'doing business within our means'. Upholding this spirit, we follow a sustainable top-line strategy. We are not merely driving for growth for short-term goals, but we are mindful and agile to make our decisions from a long-term standpoint. We blend best business practices and make due investments to ensure a sustainable top-line—in

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

terms of upholding good agricultural and manufacturing practices to produce quality teas that we are renowned for; looking into the well-being and empowering our workforce and our resident communities; and ensuring and adopting environmentally responsible measures across our estates.

Complementing our top-line approach, we are focused in our efforts to manage our costs optimally. We are cautious and have the necessary controls in place to minimise excessive spending and wastage and cap any leakages. We are prudent in our treasury and cash flow management—ensuring adequate liquidity, reducing our cost of funds and maintaining healthy gearing levels. We also focus on making the right investment decisions to have a best-fit between risks and returns. We are consistent and committed to ensure that we maintain a stable and robust financial position.

GRI Disclosure: 102-15

OPPORTUNITIES

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

RISKS

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

STRATEGY – FINANCIAL CAPITAL MANAGEMENT

Strategic Imperatives	Strategy	Performance Update 2017/18
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.	• Finalised a long-delayed wage negotiation in October 2017, taking the first step towards productivity related wage mechanism. • Posted a remarkable turn-around, with highest ever profits in the Company's history of Rs. 550.8 Mn. • Posted the lowest ever debt to equity gearing of 13.9 percent. • Finance income earned from investment of excess funds was 52.1 Mn. • Earnings per share improved by 127.3 percentage points to Rs23.19 per share. • Return on equity improved by 86.1 percentage points 22.15 percent. • Dividends totalled to Rs118.75 Mn with a payout ratio of 21.5 percent. • Total training and development cost was Rs.2.9 Mn including training on Financial Management, Accounting standards, Taxation and Economics. • Total of Rs. 164.7 Mn incurred on strengthening asset base of the company. • TTE PLC awarded Gold in the Annual Report Awards organised by CA Sri Lanka for the 4th consecutive year.
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 Laws, Rules and Regulations	• Comply with laws, rules and regulations prescribed by relevant statutory and regulatory bodies. • Comply with current prescribed accounting and auditing standards. • Comply with disclosure requirements in a timely manner.	

FINANCIAL PERFORMANCE REVIEW

Key Performance Indicators

We have always been focused and perceptive in managing our financial capital, seeking to ensure sustainable value to meet our stakeholder expectations. Underscored by our strong corporate values of transparency, accountability and professionalism, the following performance indicators reflect the strength of our organisation amidst multiple challenges within our operating backdrop.

GROUP - KEY PERFORMANCE INDICATORS – 2013-2017/18

Aspect	Measure	2017/18	2016/17	2015/16	2014/15*	2013
Revenue Growth	Turnover (Rs. Mn)	4,061.3	3,334.5	3,434.6	4,761.1	3,646.8
Profitability	Gross profit ratio (%)	18.6%	13.1%	9.2%	10.6%	11.6%
	Net profit ratio (%)	13.5%	7.2%	4.3%	5.6%	5.5%
Working capital Management	Current ratio (Times)	2.20	1.7	1.23	1.15	1.28
Liquidity	Cash flow from operations (Rs. Mn)	815.8	485.2	393.4	532.3	301.1
Asset Utilisation	Fixed Assets Turnover (Times)	1.22	1.01	1.03	1.43	1.47
Investments	Capital expenditure (as a % of total assets)	5.07%	4.03%	3.6%	6.5%	3.3%
Capital Structure	Debt/Equity (%)	13.5%	18.4%	29.7%	37.3%	51.8%
	Interest Cover (Times)	12.0	4.9	3.81	3.68	2.79

*Note: *fifteen months*

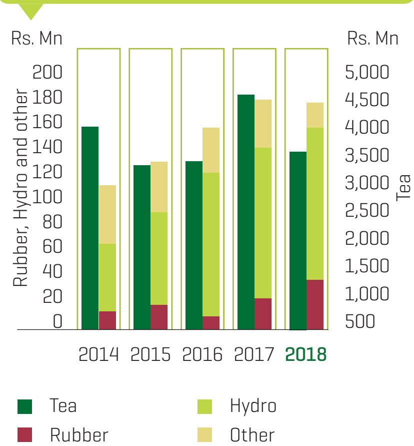
TURNOVER

The Company's turnover showed a steady increase of 22.9 percent, amounting to Rs. 4,009.0 Mn compared to the previous year. This increase was led by the tea sector whilst rubber revenue continuously declined year-on-year due to adverse market conditions. The tea sector recorded a revenue of Rs. 3,948 Mn in year 2017/18, showing an increase of 23.2 percent. The rubber segment dropped by 25.8 percent compared to the previous year. Revenue from other sources recorded an increase of 16.9 percent to Rs. 45.7 Mn. Befitting the 150th anniversary celebrated by the Sri Lankan tea industry, the year achieved an outstanding performance supported by favourable weather conditions and a buoyant tea market. Higher tea prices at the Colombo Tea Auction contributed significantly and the overall average price increased by 31.9 percent to Rs. 618.14 per kilogram. Hydropower revenue was affected by the reduced tariffs as per the SPPA agreement with the Ceylon Electricity Board despite the increase in units generated by 13.4 percent due to higher rainfall in the region.

OPERATING COST

Group administrative costs escalated only by Rs. 15.9 Mn recording 10.35percent increase, at a relatively slower pace than its top line growth. Cost structures had been carefully managed to obtain significant bottom line growth during the year.

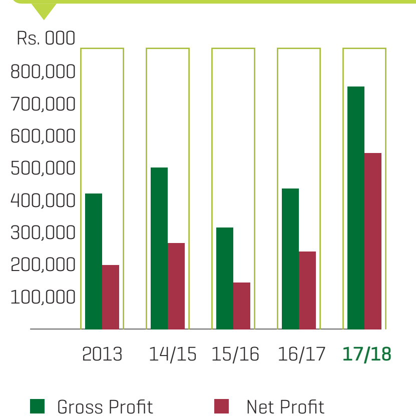
Segmental Revenue Analysis



PROFITABILITY

Gross profit during the financial year 2017/18 was impressive at Rs. 739.9 Mn—highest ever achieved—with a growth of 83.8 percent as compared to Rs. 402.5 Mn recorded in the previous year. Gross profit margin stayed at 18.5 percent, reflecting the efficiency in cost structures and marketing strategies to obtain premium prices for our teas. Cost of Production increased only by 14.3 percent while revenue increased by 22.9 percent. High grown estates recorded a gross profit of Rs. 639.37 Mn whilst low grown estates recorded Rs. 100.5 Mn. Mini hydropower plants contributed only Rs. 14.1 Mn to the overall gross profit and suffered a 58 percent decline during the year.

Profitability



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EARNINGS

Refer: Note 12 of the Financial Statements for the computation of basic earnings per share

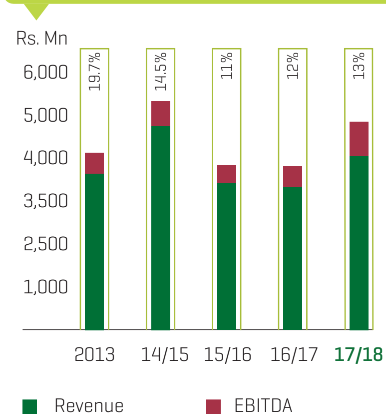
Earnings before Interest and tax (EBIT) stood at Rs.612.8 Mn compared to Rs.312.1 Mn in 2016/17, representing a 96.3 percent increase. Earnings before Interest, tax, depreciation and amortisation (EBITDA) increased by 74.7 percent to Rs. 801.1 Mn in the year 2017/18 compared to Rs. 458.5 Mn in 2016/17. Administrative expenses increased only by 11.5 percent. EBITDA margin increased to 20 percent from 14.1 percent in 2016/17. Dividend income received from mini hydro power plants dropped significantly, consequent to the poor profitability recorded in the year under review. Earnings per share (EPS) was doubled to Rs. 23.19 per share compared to Rs.10.20 per share recorded in 2016/17. Profit after Tax (PAT) stood at Rs. 550.8 Mn for the year 2017/18—recording a milestone of highest ever profits. In terms of the Company, PAT during this financial year doubled compared to Rs. 242.3 Mn recorded in 2016/17.

NET FINANCE INCOME

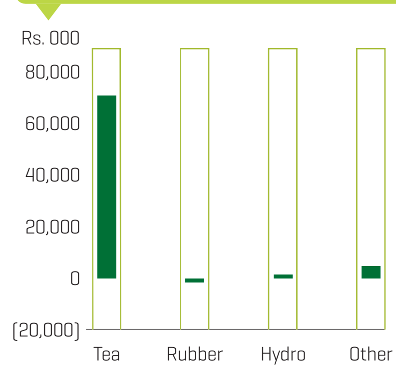
Debt servicing cost has been reduced by 41.4 percent compared to the previous financial year, recording Rs. 18.4 Mn in 2017/18. The Average Weighted Prime Lending Rate (AWPLR) stood at 11.74 percent at the beginning and closed at 11.1 percent by the financial year-end; maintaining a steady rate of interest throughout the year. However, we managed to maintain our average lending cost below the AWPLR—long-term interest cost averaged at 9.58 percent whilst short-term interest cost averaged at 12.22 percent. Interest cover increased to 12.80 times during the financial year compared to 5.18 times in 2016/17. Interest cost of the hydropower sector was maintained at the same level, recording a minor decrease of 0.5 percent as against the previous year.

Interest income increased to Rs. 52.1 Mn in 2017/18 from Rs. 8.1 Mn in 2016/17 due to a significant increase in short term investments from Rs. 226.7 Mn to Rs.702.4 Mn. During the year 2017/18, we managed to record a net finance income of Rs. 4.2 Mn for the first time in our history.

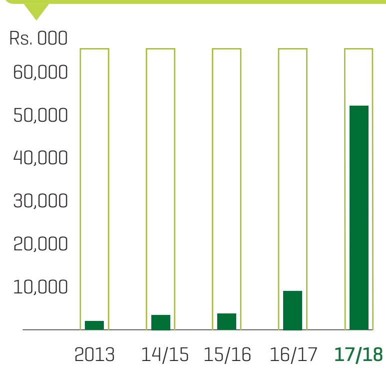
EBITDA to Sales Ratio



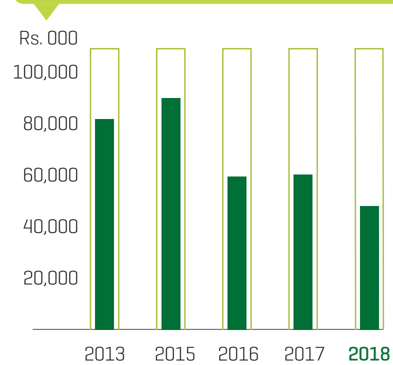
Segment Gross profit



Finance Income



Finance Cost



TAXATION

Refer: Note 11.4 of the Financial Statements for the reconciliation of accounting profit with tax expenses and Note 11.4 for the summarised computation of deferred tax.

Income tax expenses for the year under review stood at Rs. 66.2 Mn which comprised current and deferred tax expenses. Current tax expenses increased significantly by 134.3 percent due to higher taxable profits achieved during the year and deferred tax charge increased from Rs. 1.1 Mn in 2016/17 to Rs. 27.2 Mn in 2017/18. The effective tax rate of the Company against PBT (excluding the deferred tax effect) stood at 6.3 percent as against 6.4 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

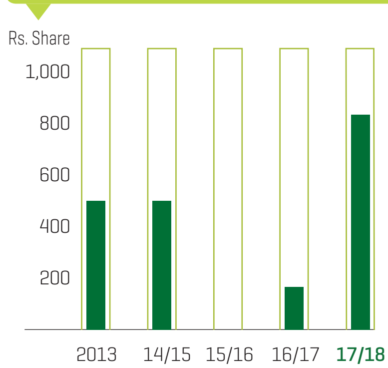
Given higher profitability levels, return on equity (ROE) increased to 22.15 percent during 2017/18 compared to 11.9 percent in 2016/17—demonstrating our ability to generate sound returns on investments despite the risks entailed. Net profit margin, asset turnover and financial leverage increased notably, boosting our ROE significantly.

CAPITAL EXPENDITURE

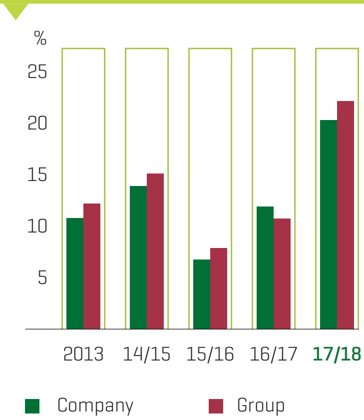
Investment on capital expenditure stood at Rs. 164.7 Mn, exceeding the previous year by Rs. 31.5 Mn, corresponding to 23.6 percent. Field development expenditure declined by 27.4 percent despite the notable increase in investment on property, plant and equipment by Rs. 55.8 Mn, corresponding to a 125 percent commitment over the previous financial year. Although our investment on field development reduced, we remained committed in following through with our planned replanting programme. Investment on motor vehicles, plant, machinery and equipment was the dominant feature in this year's capital expenditure plan.

ROE	Net Profit Margin	Asset Turnover	Financial Leverage
2017/18 22.15%	13.7%	1.3 times	13.9%
2016/17 11.9%	7.4%	1.1 times	18.4%

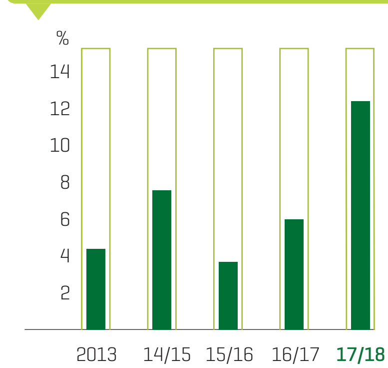
Dividend per Share



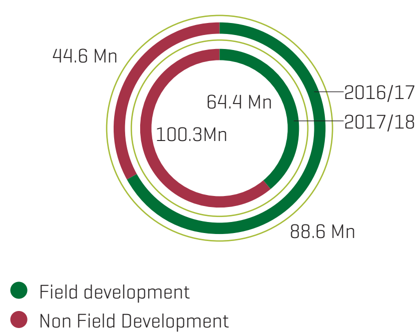
Return on Equity



Return on Assets



Capital Expenditure



MANAGEMENT DISCUSSION & ANALYSIS CONTD.

WORKING CAPITAL MANAGEMENT

The primary purpose of working capital management is to make sure that a company always maintains sufficient cash flows to meet its short-term operating costs and debt obligations. In 2017/18, working capital investment reduced by Rs. 44.6 Mn compared to the previous year by 29.2 percent. Current ratio improved to 2.27 times in 2017/18 from 1.75 times in 2016/17. Efficient working capital management supported the Company's financial operations and improved earnings and profitability. Management of working capital includes inventory management and management of accounts receivables and accounts payables.

CASH FLOW AND BORROWINGS

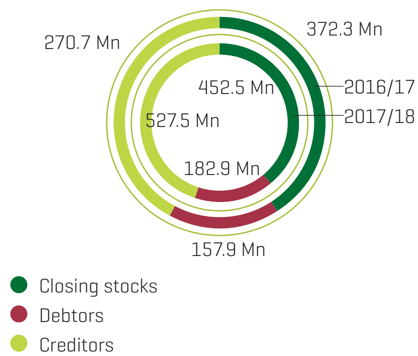
Free cash flow increased to Rs. 629.5 Mn compared to Rs. 319.3 Mn in the previous financial year. Net cash flow from operations stood at Rs. 794.1 Mn as against Rs. 452.5 Mn in the preceding year.

Net cash deficit from investing activities increased to Rs. 147.2 Mn from a deficit of Rs. 88.5 Mn in the year 2016/17. Financing activities absorbed Rs. 177.6 Mn compared to Rs. 79.8 Mn in the previous year. Overall net cash surplus reached Rs. 701.7 Mn compared to Rs. 232.3 Mn in the previous year; and consequently, bank borrowings recorded a decline during the year. As at the year end, 31st March 2018, the Company had adequate banking facilities to support its operations.

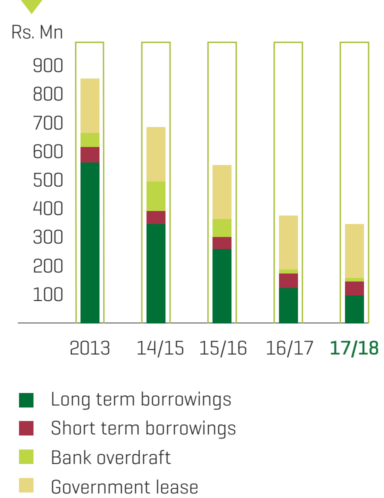
Our financial contractual obligations to financial institutions as at 31st March 2018 are given below:

Obligation	Amount due 2018	Amount due 2017	Due date
	(Rs. million)		
Long term borrowings	96.6	123.4	Equal monthly installments for 4 to 7 years
Short term borrowings	49.2	50.8	On maturity at terms ranging from one month to 12 months
Bank overdraft	13.4	13.3	On demand
Government lease	186.3	187.1	29 years from now

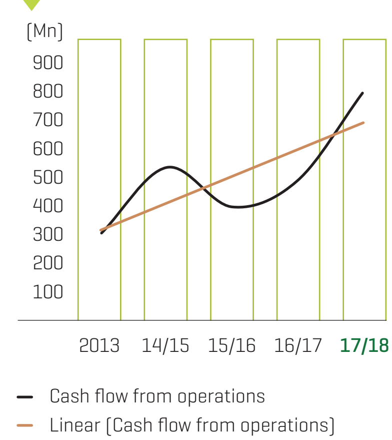
Working Capital



Composition of Borrowings



Cash Flow from Operations



CAPITAL STRUCTURE

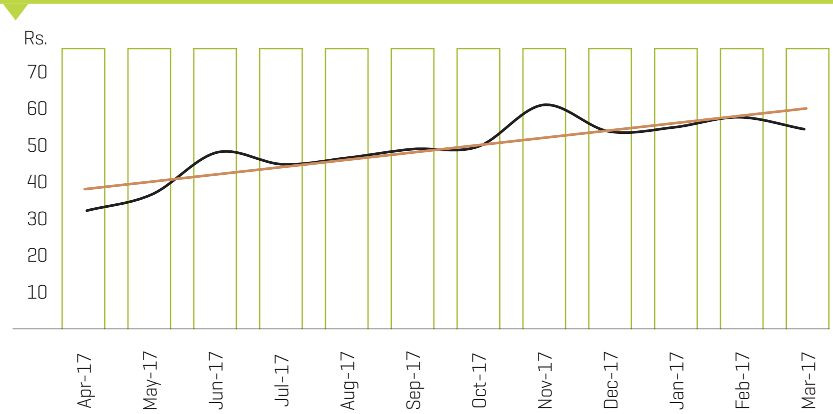
Refer: Annual Report of the Board of Directors regarding special rights attached to the Golden Share, page 198.

As was the case in the previous year, financial gearing was controlled in the year under review. Our equity consists of Rs. 23.75 Mn ordinary shares in issue including one Golden Share held by the Government of Sri Lanka with special rights. Total equity as at 31st March 2018 was Rs. 2.48 billion and debt was Rs. 346.5 Mn. Equity increased by 22.15 percent from Rs. 450.1 Mn whilst debt reduced by Rs. 49.2 Mn, representing a drop of 11.9 percent. The debt to equity ratio at 13.9 percent was the lowest ever recorded. Group equity and debt was Rs. 2.7 billion and Rs. 364.0 Mn respectively; and debt to equity ratio at the Group level improved to 13.5 percent from 18.4 percent in 2016/17.

PERFORMANCE OF SHARE

Talawakelle Tea Estates PLC's share is listed on the Main Board of the Colombo Stock Exchange under ticker symbol " TPL". TTE PLC reached its all-time highest share price of Rs. 61.20 on 01st November 2017 in a bullish tea market. Closing share price stood at Rs. 54.50 recording an increase of Rs. 22.50 during the year. Share price shows a 70.3 percent increase, reflecting a strong financial performance by the company.

Share Price Movement -TPL

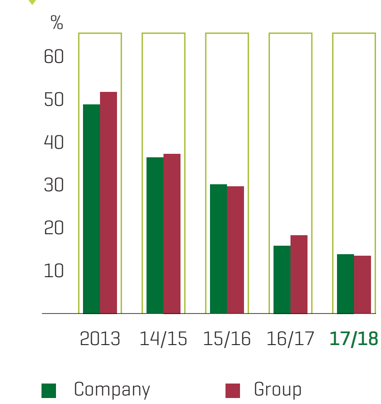


All Share Price Index (ASPI) increased year-on-year by 6.8 percent from 6061.94 to 6,476.78 as of 31st March 2018 whilst the Plantation Sector Index of ASPI improved significantly by 42.4 percent year-on-year from 641.18 to 913.17 in 2017/18. TTE PLC share outperformed both the ASPI and the Plantation Index, achieving a share price growth of 70.3 percent year-on-year.

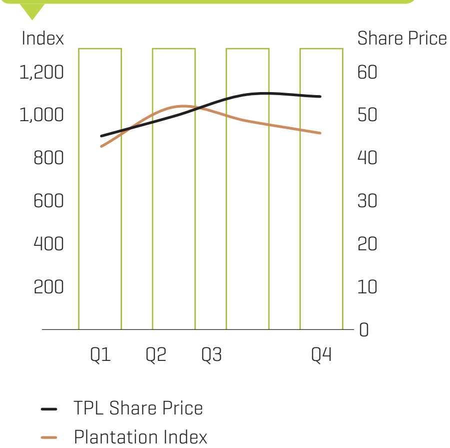
Market value added (MVA) is a measure of value creation—the difference between the current market value of the firm and capital invested by investors. Given the significant improvement in the share price of the Company, MVA reached Rs. 944.4 Mn at the end of the reporting year, representing an increase of Rs. 534.3 Mn.

Net assets per share increased by 22.1 percent from Rs. 85.71 in 2016/17 to Rs. 104.70 in 2017/18, corresponding to the higher financial performance achieved during the year. Price earnings ratio has shown a steady improvement, corresponding to the improved earnings per share of 2.36 times from 3.25 times in the previous year.

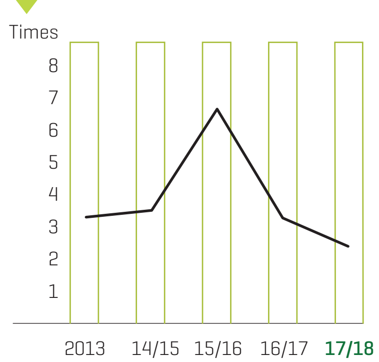
Debt to Equity Ratio



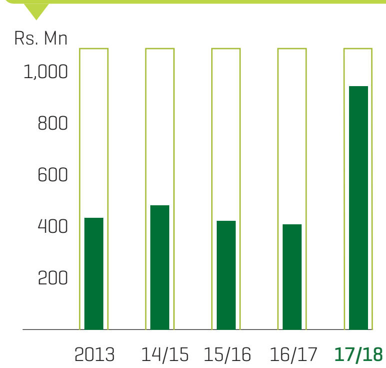
Quarter



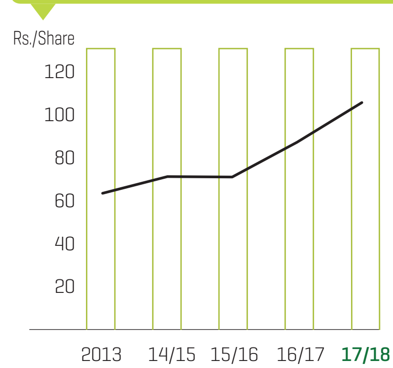
Price Earning Ratio



Market Value Added



Net Assets per share



MANUFACTURED CAPITAL

OVERVIEW

In today's challenging business backdrop with volatile markets, productivity issues and climate change, managing our manufactured capital pragmatically is critical to ensure sustainable value creation—particularly, given our extensive operations—and therefore, warrants strategic consideration and due investments. This capital is a significant value driver, underlining our operational efficiency, value addition; quality of teas; cost of production; and viability and returns. The section herein will seek to highlight our investments in capital expenditure (capex) and our practices and procedures of procuring machinery and equipment, maintaining factories and developing estate infrastructure.

Strengthening our value creation, we were perceptive in making investments on machinery and equipment, factory upgrades and developing social infrastructure.

Strategic Imperatives	Strategic Goals
Procure best-in-class machinery and equipment	Strategically invest in physical assets to boost operational efficiency and optimise return on investment.
Regular factory maintenance	Ensure well maintained factories with due upgrades to enable streamlined operations, lower costs and stay competitive.
Develop estate infrastructure	Align capex with strategic priorities and follow best practices to be in line with certification guidelines.

KEY PERFORMANCE INDICATORS 2017/18	Rs. 100.3Mn	Rs. 40.2Mn	Rs. 100.6Mn
	Capital Expenditure	New Machinery & Equipment	Estate Infrastructure Investment

MANAGEMENT APPROACH

Our manufactured capital broadly covers field and factory machinery and equipment, computer hardware, communication devices and other fixed assets. This capital also encompasses estate infrastructure including factory buildings, processing facilities, roads, water works, waste treatment plants and estate community-based infrastructure.

We are meticulous in our planning and strategic in our investments in managing our vast manufactured capital base, spanning 16 estates, 14 factories and our corporate office. We have in place a well-thought out and structured annual plan, reflecting our strategic priorities and aligned to our corporate policies and procedures. All capex is systematically carried out on the basis of this plan which is formulated after due diligence studies and feasibilities, taking into account physical requirements across operations, upgrading dynamics in terms of innovation and adopting new technology, cost-benefit analysis and available budgets.

We follow a need-based approach in making investment decisions on estate infrastructure. We rely on the findings of surveys, feasibilities and audits carried out periodically on estates and factories to ascertain current requirements of infrastructure. We are conscientious and we uphold best practices in our selection and awarding contracts. We are also focused, timely and consistent in maintaining our factories and careful in managing our spares in terms of quality, availability and stock control. We follow best practices in all procurement of machinery, equipment and spares.

We give careful consideration to sustainability facets, seeking to optimise the benefits from capex in terms of economic value creation, improving quality and standards, poverty alleviation inter-alia, whilst minimising its negative impacts on the environment. We are aware of how capex decisions can deplete resources, affect biodiversity, generate waste, contribute to carbon emissions and climate change. It is in this context that we seek to integrate environmental and social responsibility to our manufactured capital management process. This is reflected through the measures we adopt to opt for energy efficient and renewable resources-based procurement solutions; assess suppliers/manufacturers on environmental and social considerations prior to transactions; and uphold recognised certification programmes across operations.

GRI Disclosure: 102-15

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 commitment to integrate environmental and social responsibility to capex decision making.

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.
- Capex investments may contribute to environmental issues of resource depletion, emissions, climate change and loss of biodiversity.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Strategic Focus	Strategy	Performance Update 2017/18
Procurement of machinery and equipment	• Carryout due diligence and feasibility studies on operational requirements prior to procurement of machinery and equipment and ensure return on investment. • 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.	• Carried out ISO 22000 audits in all our factories on food safety management encompassing factory maintenance standards • Invested Rs100.6 million in estate infrastructure covering 12 estates • Invested a sum of Rs 14.3million for setting up solar-power infrastructure in the Bearwell factory as a pioneering initiative towards carbon neutrality.
Regular factory maintenance	• Undertake timely maintenance of factories with due upgrades to enable streamlined operations and lower costs. • Do a periodic check and ensure the availability of spares. • Follow manufacturer specifications in carrying out maintenance. • Extend relevant technical training opportunities and exposure to develop the engineering and technical team.	
Develop estate infrastructure	• Develop and up-keep estate infrastructure including community-based infrastructure on a need-based analysis.	

PROCUREMENT OF MACHINERY AND EQUIPMENT

Refer: Relationship Capital – Supplier

[GRI Disclosure 204: 'Procurement Practices' for further details, Page 111]

MACHINERY & EQUIPMENT PROCUREMENT EVALUATION CRITERIA COST

Cost

Capacity

Availability of Spares

Warranty Period

Manufacturer Credentials

Manufacturer Social and Environmental responsibility

Noise Level

Energy efficiency

Certifications

Emissions

Safety Features

All procurement of machinery and equipment follows standard procedures and guidelines set out in line with best practices. Three-quotations are called from the general list of suppliers we have developed for small-scale procurement. Public tenders are called for bulk and large-scale procurement and we follow due procedures and maintain discipline and professionalism in the tender process.

Our procurement evaluations are based on both cost and quality. We carry out background checks on our suppliers—their credentials, stability, integrity, their commitment to social and environmental responsibility and compliance with relevant rules and laws. We give precedence to suppliers/ manufacturers who have obtained due certifications for their products and processes from recognised certification bodies.

In the reporting year, the total investment on new machinery and equipment stood at Rs43million. Out of this, 93 percent accounted for factory and field operations whilst the balance 7 percent was for ICT equipment for both the corporate office and the estates.

MAINTENANCE OF FACTORIES

Maintenance is a critical facet of managing our manufactured capital base. We are well aware of the significance of being timely, consistent and systematic in the way we manage our maintenance work including periodic servicing and replacement of spare-parts. We follow, in most instances, the procedures set out by the manufacturers' specification manuals and guidelines. We have in place a well-qualified and experienced team of engineers and technical staff to carry out our maintenance work across our operations.

The ISO 22000 certification on food safety management implemented across all our factories encourage to follow best practices in maintenance work. The audits carried out under this certification enabled our team to further improve maintenance procedures. In the reporting year, our factory operations maintained an average 81percent capacity, comparable with the capacity achieved in the preceding year.

ESTATE INFRASTRUCTURE DEVELOPMENT

Refer: Social Capital
[GRI Disclosure 413: 'Local Communities for further details, Page 149]

Our scope in infrastructure development covers factory buildings and processing areas along with roads, community housing, water, sanitation, education, healthcare, recreation facilities etc. Our infrastructure development is carried out by reputed contractors selected through formal tender procedures. Our resident communities along with plantation sector-based government and non-government organisations, collaborate with us in this regard.

In the reporting year, we incurred a sum of Rs100.6.million on estate infrastructure out of which, community housing took up the share of 56 percent.

CAPITAL EXPENDITURE

Our capital expenditure in the financial year 2017/18 stood at Rs100.3 Mn, corresponding to a 153 percent increase against Rs 39 million incurred in the the preceding year 2016/17.

CAPITAL EXPENDITURE

Cost Component	2017/18	2016/17
	Rs Mn	
Machinery & Equipment		
Machinery & Equipment Factories	24.9	4.20
Equipment – Field Operations	15.2	7.80
IT Hardware & Software	2.9	1.20
Estate Infrastructure Development	1.5	17.40
Other	55.8	8.40
Total Machinery and Equipment	100.3	39.00
Estate Infrastructure Development		
Housing Constructions	55.3	11.90
Water & Sanitation	6.4	23.80
Road Construction rehabilitation & Maintenance	3.6	4.20
Other Infrastructure	35.3	3.90
Total Estate Infrastructure Development	100.6	43.80

MOVING TOWARDS RENEWABLE ENERGY CAPEX

Demonstrating our commitment to be environmentally responsible, we converted one of our factories in the high-grown region 'non-renewable energy' to operate on solar power energy. The capacity of the solar grid installed stood at 108.24Kw. This initiative which was launched in January 2018 generated a total of 34,371.44Kwh electricity and gave back to 100Kw to the national grid under the net metering scheme. The emissions saved stands at 20 tCO2e and thus, significantly contributing to our efforts to be a carbon neutral. Our capex investment in this regard amounted to Rs 14.3Mn.

This is an initiative under '100 MW Surya Bala Sangramaya', a national programme under the Ministry of Power and Renewable Energy.

INTELLECTUAL CAPITAL

OVERVIEW

In an intensely competitive and a volatile business landscape, it is critical that we stay focused on upholding our unique value proposition, underlined by our commitment to sustain premium quality and standards in our operations. This has essentially secured our positioning at the forefront of the plantation industry, setting us apart from the competition. In this regard, we have to give careful consideration in our strategy and be proactive and responsive in managing our intellectual capital base, entailing intangible assets. In this section, we will discuss our management approach and our strategy to build on our intangible assets and how we seek to optimise the performance results and thereby, buttress our value proposition in the industry.

"Our intangible assets fortified our positioning and complemented our value proposition to uphold and be acclaimed for our finest quality teas."

Strategic Imperatives	Strategic Goals
Sound reputation and brand image	Differentiate the product on quality and standards and leverage the brand to secure a solid market positioning and attract premium pricing.
Ethical and sustainable management systems	Align the business with economic, social and environmental standards set by well-acclaimed certification bodies to reach long-term viability.
Tea manufacturing know-how and processes	Improve the effectiveness of current processes and create a learning culture to ensure quality in value creation.
Market intelligence	Bolt on market knowledge to make timely and perceptive decisions on the product, marketing and sales.
Performance monitoring system	Closely monitor performance to improve productivity levels of the workforce
Research and development	Develop value-added products to break-through to new market segments.

KEY PERFORMANCE INDICATORS 2017/18

No. 02	146	15	27
Overall GSA Ranking	Top Prices of Colombo Tea Auction	Certified Estates	Corporate Awards

MANAGEMENT APPROACH

Our intellectual capital base underlines our unique value proposition. We are well aware of the significance, particularly, in a competitive business backdrop, to nurture this capital, our intangible assets, which serve as our critical value drivers. In our management approach, we have identified five strategic areas—corporate image; tea manufacturing expertise and processes; management systems; performance-oriented workplace culture; and market knowledge—if nurtured would bring in efficiency and sustainability to our value creation process and in turn, boost our leverage in the marketplace.

We have in place a focused strategy and well-structured action plans that give due precedence and allocation of resources to navigate through risks and opportunities and enhance the identified strategic areas. In this regard, we give top priority to strengthen our corporate brand built on premium quality that we maintain in producing our teas; meticulously follow through and uphold the guidelines recommended by well-acclaimed certification programmes to ensure sustainable management; extend skills training, invest in research and development and initiate process improvements to enhance our expertise; and drive for performance across operations to boost our productivity levels. We also rely on market intelligence to support our strategic planning process and to enable our day-to-day management with pragmatic decision making.

GRI Disclosure: 102-15

OPPORTUNITIES

- Senior management commitment to ensure long-term viability upholding best business practices.
- Competent operational team to implement effective management systems and follow through guidelines set by certification bodies.
- Availability and access to market information, buyer profiles and preferences 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 bring in a performance culture.
- Due technology and data analytics team in place to implement the performance monitoring mechanism effectively.

RISKS

- Impacts of changing demographics, perceptions and expectations of stakeholders on the brand positioning.
- Impacts of down-turn economic conditions on demand for quality teas, undermining TTE's unique selling proposition.
- Plantation industry issues may discourage adopting best practices and continuing with certification programmes.
- General reluctance across the industry to tie up performance results to remuneration and rewards.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

STRATEGY - INTELLECTUAL CAPITAL MANAGEMENT

Strategic Imperatives	Strategy	Performance Update 2017/18
Sound Reputation and Brand Image	• Build strong ties with buyers, brokers and customers by leveraging on TTE brand reputation for quality teas. • Comply with recognised certification standards to showcase and demonstrate the commitment to best practices and thereby, differentiate the product offer.	• Organised familiarisation tours for buyers to showcase the quality and standards maintained at estates and factories. • Clinched 28 coveted awards from 13 awarding bodies for business excellence, sustainability, product responsibility and reporting initiatives. • Maintained internationally acclaimed certifications in all estates and factories. • Great Western estate upgraded and revamped in line with ISO 14,001:2015 & ISO 9001:2015 integrated certification as the only tea factory in the country to comply with this standard in integrated manner. • Invested Rs. 11.5 Mn on research and development with respect to nursery development, value-addition and new products • Launched new product 'Liquid Gold Collection' • Invested Rs. 3.8 Mn to bring in process improvements. • Invested Rs. 2.98 Mn in training at estates, factories and the corporate office. • Assessed 100 percent of the permanent cadre on performance. • Extended Rs. 21.4 Mn as performance incentives for the cadre
Ethical and Sustainable Management System	• Reinforce our management systems with best and sustainable practices in field and non-field operations to uphold quality and standards of the teas produced. • Strengthen operational systems and processes by adopting and following through with guidelines prescribed by recognised certification bodies.	
Tea Manufacturing Know-How and Processes	• Engage in due diligence studies and invest in research and development to reinforce TTE'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. • Nurture a learning culture within the workplace, develop skills and empower the workforce.	
Market Intelligence	• Be savvy with current developments in the tea industry and follow changing consumer patterns, market trends and 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.	

INTELLECTUAL CAPITAL - TARGETS AND ACTUAL PERFORMANCE

Key Indicators	Unit	Target	Actuals	
			2017/18	2016/17
Repeat Buyers	Number of Buyers	108	155	108
Overall Gross Sales Average Ranking	Ranking	1	2	1
Top Price Ranking	Number of Top Prices	160	146	160
Certification Coverage	Number of Estates	All Estates	15	15
Percentage of Operations wise	Rainforest Alliance	100%	88%	88%
	ISO 22000:2005	100%	80%	80%
	ETP	100%	88%	88%
	UTZ	13%	13%	13%
	ISO 9001:2015	10%	7%	0%
	ISO 14001:2015	10%	7%	0%
Certification Audits	Number of Estates	All Estates	15 out of 16	15 out of 16
Internal Audits	Number of Estates	All Estates	16 out of 16	16 out of 16
Labour Productivity	Kilograme/worker	2.70	2.65	2.64
Investments on Technology and Process Improvements	Rs. Mn	4.5	3.8	4.5
Research and Development	Rs. Mn	6.0	11.5	4.4
Training Investment	Rs. Mn	2.5	2.98	2.2
Training - Estate and Factory Workforce	Number	14,500	14,153	16,454
Training - Overall	Number	15,000	14,336	16,520
Performance Evaluations	Percentage of Permanent Cadre	100	100	100
Performance Evaluations	Percentage of Estate and Factory Workforce	100	100	100

CORPORATE BRAND IMAGE

Refer: Relationship Capital – Buyer, Broker and Customer (Page 102)

OUR TEA GRADES


Black Tea - OP 1


Green Tea - Gun Powder Special


Speciality Tea - Golden Tip

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

For nearly three decades, we have stood committed to uphold best practices and strived hard to deliver operational excellence, gaining the confidence of the market for quality teas. Our brand is now well-positioned at the helm, commanding a competitive edge at the Colombo Tea Auctions and fetching premium prices—surpassing the elevation averages and even championing bearish market conditions.

The accolades we have received over the years at the national, international and at the industry level clearly demonstrate our corporate standing amongst the Regional Plantation Companies. This year, too, we were honoured to be recipients of top awards for operational excellence, product responsibility, environmental and social sustainability, reporting initiatives and corporate stewardship. The National Chamber of Commerce, The Institute of Chartered Accountants of Sri Lanka, Institute of Certified Management Accountants and Planters Association were some of awarding bodies that recognised and awarded our efforts. The detailed list of awards received are listed out below:

National Business Excellence Awards 2017,
National Chamber of Commerce
Excellence in Environmental Sustainability, ...

CA 53rd Annual Report Awards 2017,
The Institute of Chartered Accountants of Sri Lanka
Plantation Sector,
Gold Award

CMA Excellence at Integrated Reporting Awards 2017,
Institute of Chartered Management Accountants of Sri Lanka
Ten Best Integrated Annual Reports

ETHICAL AND SUSTAINABLE MANAGEMENT SYSTEM

Refer: Relationship Capital – Buyer, Broker and Customer
[GRI Disclosure 416: 'Customer Health and Safety' for further details, page 104]

Advocating socially and environmentally responsible corporate management, we have systematically and progressively paved the way towards achieving sustainable value creation. Our management systems are well structured to factor in and address sustainability considerations in strategy formulation, planning and in our daily operations. We are conscientious and we have effective systems in place to assess our operational performance progress in line with our sustainability policies and goals. We have obtained internationally recognised certifications for our systems and processes. Independent audits are carried out periodically as part of these certification programmes. The audit findings are deliberated by the management at the estate level and subsequently, at the corporate office level. Necessary steps are taken to further fine tune our management systems and processes and thereby, ensure current and best practices for long-term viability.

INTERNATIONAL CERTIFICATIONS AND ACCREDITATIONS 2017/18

Rainforest Alliance-Sustainable Farm

Scope:

- Ecosystem conservation
- Wildlife protection
- Climate change
- Fair labour practice
- Human Rights
- Food and farming and communities
- **12 high grown estates certified**
- **2 low grown estates certified**

Ethical Tea Partnership

Scope:

- Social and environmental standards
- Climate and environment
- Tea smallholders
- Well-being of tea workers and communities
- **12 high grown estates certified**
- **2 low grown estate certified**

ISO 22000: 2005 Food Safety Management Systems

Scope:

- Food safety
- Food quality assurance
- Food hygiene
- **9 high grown factories certified**
- **3 low grown factories certified**

UTZ Sustainable Tea

Scope:

- Farm practices
- Farm management
- Social and living conditions
- Environment
- **2 high grown estate certified**

ISO 9001:2015

Scope:

- Quality management system of the overall process
- Total quality management practices
- Process improvement in continual approach
- Business Risk and Opportunity identification and process integration
- **01 high grown factory certified**

ISO 14001:2015

Scope:

- Environmental management system
- Environmental protection on product life cycle
- Sustainable use of Water, Energy and other resources
- Reduction of waste water, Solid waste and emission
- **01 high grown factory certified**

TEA MANUFACTURING KNOW-HOW AND PROCESSES

Refer: Human Capital,
GRI Disclosure 404 – Training and Education, Page 145.

We have always been recognised for our expertise to produce premium quality black and green teas in both low grown and high grown elevations. It is embedded to our business model as our value proposition and we have firmly secured our brand positioning at the top amongst the Regional Plantation Companies.

Over the years, we have nurtured a solid operational platform with focused strategy to develop our workforce, enhance our expertise and our processes to ensure that we uphold quality and standards in both field and factory operations, in keeping with our brand reputation. We are responsive and strategic in our investments, seeking to modernise and streamline our processes, add value and develop new products. We give due precedence to research and development initiatives and actively collaborate with the Tea Research Institute in this regard. This reporting year, we invested Rs. 9.8 Mn on research to develop new cultivar in the nurseries, value addition and new products.

As will be discussed in detail under the 'Human Capital' section, we were steadfast in our efforts to bring in a learning culture to empower our workforce. This year, we carried out comprehensive training across operations and we invested a sum of Rs2.98 Mn in this regard.

We are careful and continue to be conscientious in upgrading our factories and maintaining our processes as per the guidelines given by ISO 22000 Food Safety Management Systems and Sri Lanka Tea Board. Our aim is to increase our production volumes and the share of main grade teas within our product mix. This underlines the quality of our teas, in turn, attracting premium prices at the Colombo Tea Auctions. We incurred a sum of Rs. 3.8 Mn on factory process upgrades in the year under review.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

RESEARCH AND DEVELOPMENT

Agricultural Management Information System

Leveraging on the latest technology, we looked at adopting an Agricultural Management Information System (AMIS) to further strengthen our operations and enhance the efficiency in our decision-making process. We invested on this system for our first pilot project at the Deniyaya estate.

AMIS is connected to the geographical information system and uses remote sensing technology, enabling access to remote information through drone devices. Widely used across the developed nations like United States, Japan, China and Finland, this supports to digitise agricultural processes and enables the management to have easy access to information on field operations across the tea estates. This System is expected to complement our efforts to identify estate boundaries; generate digital maps for estates; monitor the plant health; and carry out data analytics in terms of planting, crop yields, fertiliser and chemical applications and soil nutrition.

The project is proposed to be rolled out in three phases:

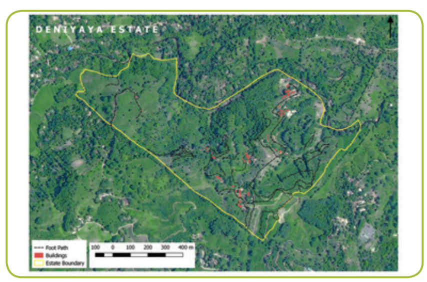
1. Preliminary database development
2. Conducting the drone survey
3. Identification of crop variability

The total cost of the project is estimated to be Rs. 19.24 Mn. This reporting year, we invested a sum of Rs. 1.71 Mn in this regard.

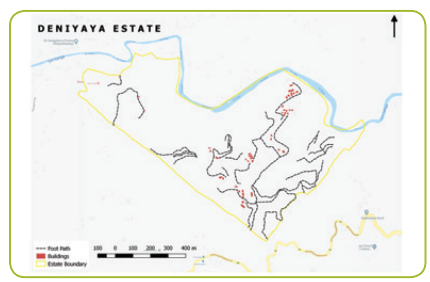
"Multispectral camera sensors in drones use Green, Red, Blue and near Infrared wave band to capture both visible images of vegetation and crops. Normalized difference vegetation index imageries help to identify crop variability and asses the plant health."

Research output - Deniyaya Estate

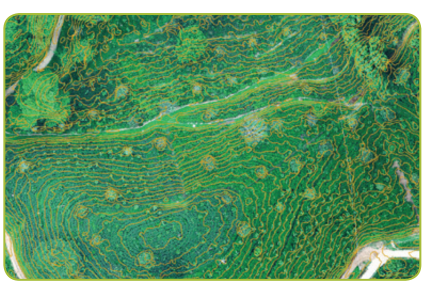
Image of the Drone



Aerial view of Deniyaya Estate with the boundary

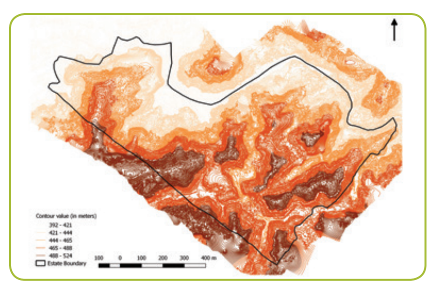


Important Landmarks of the Deniyaya Estate with the boundary



Snippet of the Drone View with contours displayed in QGIS software

Snippet of the Drone View displayed in QGIS software



Elevation of Deniyaya Estate

NEW PRODUCT DEVELOPMENT

Domestic Tea Operations

With greater focus on research and development, we continued to expand our local sales operations. Adding to our specialty product range, we introduced a new set of single origin packs as 'Liquid Gold Collection' in October 2017. The collection offers six origins including 'Bearwell, Dessford, Great Western, Holyrood, Mattakelle and Somerset' as BOP and BOPF loose teas in 100g packs, BOPF 25 tea bag Pack, Six in One Gift Collections and Tea Book.

BOP - Single Origin Tea (loose tea)

From estates located in six different origins Bearwell, Dessford, Great Western, Holyrood, Mattakelle and Somerset

BOPF - Single Origin Tea (loose tea)

From estates located in six different origins Bearwell, Dessford, Great Western, Holyrood, Mattakelle and Somerset

TEA BAGS - Single Origin Tea

From estates located in six different origins Bearwell, Dessford, Great Western, Holyrood, Mattakelle and Somerset

SIX IN ONE (Gift Pack)

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

TEA BOOK (Gift Pack)

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

Black Tea - BOPF Pack

A unique blend of selected BOPF from high grown estates packed in alu-foil

Green Tea - Radella Estate

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

Abbotsford Special - Dessford Estate

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

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

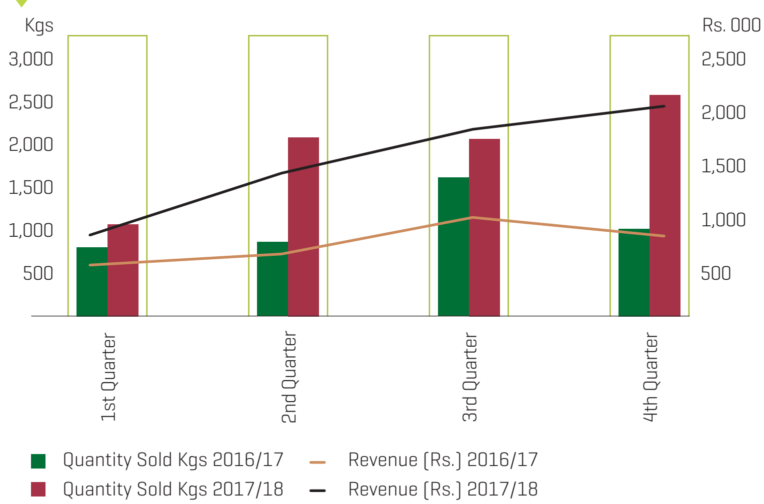
Liquid Gold Collection Launch

DOMESTIC PERFORMANCE

Bracing on market demand and progressively expanding our customer base, we recorded sales of 7,820.26 kilograms for the financial year. This corresponded to a growth of 81.5 percent over the previous year. We managed to increase our customer base from 189 to 330—a remarkable growth of 74.6 percent.

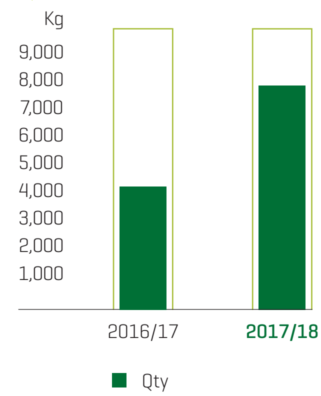
Throughout the current financial year, we sought to progressively increase our sales through focused marketing campaigns. We participated at the CRT Trade Fair and showcased and promoted our brand to win the confidence of new buyers. Given our efforts, we were able to sell 2,585.1 kilograms and recorded the highest revenue of Rs. 2.06 Mn in the last quarter. Recorded a revenue of Rs. 1.39 Mn and Rs. 1.83 Mn in the second and third quarters respectively. We managed to earn a total revenue of Rs. 6.05 Mn recording a growth of a 113.5 percent as against 2.83 Mn in the corresponding year. This exceeded our target for the year of Rs. 6.0 Mn.

Local Sale - Quantities & Revenue Quarterly 2016/17 & 2017/18

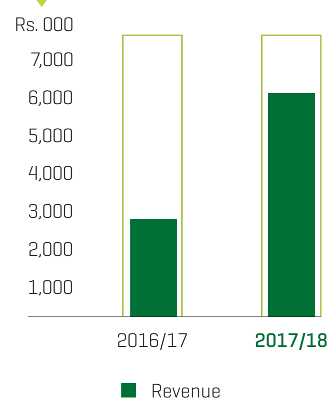


In the year ahead, we plan further to expand our local sales and its contribution to the overall Company revenue. We also plan to take our new product range of 'Liquid Gold Collection' to the export market.

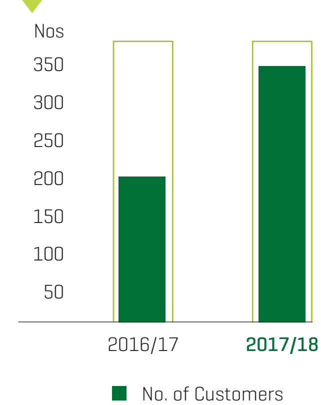
Quantity Growth



Revenue Growth



Customer Growth



	Target	Achievement	%
Revenue (Rs)	6,000,000	6,047,945	101%
Customers (Nos)	300	330	110%
New Products to Market	Launch & Sell	Sold 3,512 Packs	100%

Local Sale Promotion

MARKET INTELLIGENCE REPORTS

Product
- Tea Market Reports
- Product substitute comparisons
- Grade Mix

Market
- Macroeconomic trends
- SWOT Analysis
- Demand trends
- Market size
- Market share
- Market forecasts

Buyer
- Brand awareness
- Buyer requirements
- Purchasing patterns
- Human Rights
- Trade Unions
- Compliance with Labour Laws and Regulations

MARKET INTELLIGENCE

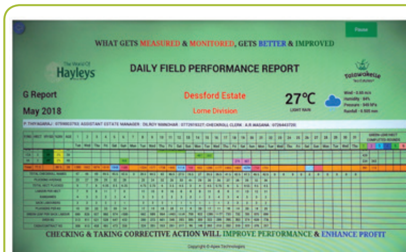
We operate in a dynamic business environment with evolving trends from a socio-economic, political and technological standpoint. In this backdrop, it is crucial that we are aware, understand and have a feel of the risks and opportunities present in our marketplace and be geared to take up the challenges entailed therein. Market intelligence, in this light, plays a pivotal role, supporting us in our strategic planning endeavours and enabling us to be smart in our day-to-day decision making.

We have in place a well organised mechanism to gather market intelligence. We carry out extensive desk research including online research to gather market information as well as to establish the global and national economic trends and geopolitical developments. We also rely on the Weekly Tea Auctions, road shows, trade fairs, one-to-one discussions with buyers and networking with the industry and trade associations to ascertain, information on our key markets, buyer purchasing patterns, substitute products and competitor behavior. The market intelligence thus gather is set out as research reports for the management perusal and deliberations.

PERFORMANCE MONITORING MECHANISM

Refer: Human Capital,
GRI Disclosure 404, Productivity and Performance Management, Page 149.

As a labour-intensive operation, nurturing a performance-based workplace is considered highly warranted and given strategic precedence. To this end, we have established a well-structured performance management system, inspiring our workforce to reach out to higher levels of productivity and thereby, support our quest to meet targets and goals in both field and factory operations.



Our performance management system is backed by the necessary systems and processes with real-time information and data communication, covering our operations in the estates and in the corporate office. We have a talented team well-versed in data analytics to track and monitor performance against targets. The performance results culminate in performance dashboards and used to generate other management information reports. These performance-oriented reports enable the management to make perceptive decisions on the workforce—their promotions, increments, incentives and recognition. This indeed underscores the productivity improvements across the estates, enhancing our competitiveness in the marketplace.

RELATIONSHIP CAPITAL - BUYERS, BROKERS AND CUSTOMERS

OVERVIEW

As one of the most trusted regional plantation company, we continue to give top strategic priority to produce premium quality teas. For decades, we have mastered the art of making finest tea, with best agricultural and manufacturing practices across our estates and factories. This is our value proposition—our forte—earning the confidence of our buyers, brokers and customers. The remunerative prices we fetch for our estate marks at the Colombo Tea Auctions stand as a testimony in this regard. The section herein will highlight our focused efforts to engage our buyers, brokers and customers and our commitment to uphold product responsibility.

"We engaged and nurtured strong and long-lasting relationships with our buyers, brokers and customers—building their confidence and reinforcing our positioning for finest quality teas."

Strategic Imperatives	Strategic Goals
Proactive Engagement and Satisfaction	Closely engage buyers, brokers and customers to secure market positioning as a trusted organisation for finest quality teas.
Product quality and standards	Closely follow quality and food safety standards to ensure customer health and safety.
Product Information and Labelling	Disseminate information on product quality and standards and comply with labelling requirements to secure buyer confidence.
Marketing Communications	Showcase best practices in business to reinforce the brand promise and market positioning for quality teas.
Compliance	Adopt and follow best practices in business to comply with relevant laws, rules, regulations and codes on product responsibility.

KEY PERFORMANCE INDICATORS 2017/18

76%	46	100%	No. 02
Customer Satisfaction Index	Audits on Quality and Standards	Repeat Customers	Amongst RPCs

GRI Disclosure – 102-9

QUALITY AND FOOD SAFETY POLICY - SALIENT FEATURES

"As one of the market leaders in the production of finest quality tea, we are committed to ensure quality and food safety of the product."

Maintain good agricultural and manufacturing practices

Upgrade and improve production facilities and manufacturing processes to comply with stringent global food safety standards

Ensure employee well-being, uplift their quality of life and enhance their job satisfaction

Extend intensive training to develop employee skills

Execute the Food Safety Management System with consistent communications across all levels

Comply with relevant statutory and regulatory requirements

BUYERS, BROKERS CUSTOMERS RELATIONSHIP MANAGEMENT GUIDELINES AND PRINCIPLES

- Company's Quality and Food Safety
- ISO 9001:2015 Quality Management System
- ISO 22000:2005 Food Safety Management Systems
- ISO 3720:2011 Black Tea
- ISO 14001:2015 Environmental Standard
- Rainforest Alliance Sustainable Agriculture Network
- Ethical Tea Partnership
- UTZ - Sustainable Tea
- Sri Lanka Tea Board
- Ceylon Tea Traders Association

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

GRI STANDARDS 103-1, 103-2, 103-3

MATERIAL ASPECT:
- GRI 416 - Customer Health and Safety
- GRI 417 - Marketing and Labelling

- **Materiality Basis:** Maintaining quality and standards in producing tea is critical to ensure customer health and safety, thereby, sustain buyer confidence and attract premium pricing. As a trusted tea plantation company, it is also important to communicate and promote the product responsibly.

- **Boundary:** Estates, Factories, Corporate Office

Management 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 in manufacturing know-how and processes to make best quality teas.
- Ensure responsible marketing communications and product promotions through direct marketing initiatives.
- Comply with relevant laws, rules and regulations on labelling requirements.

GRI Disclosures: 416-1 &2; 417 -1,2 & 3

GRI Disclosure: 102-15

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

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

GRI Disclosure: 102-6

Our key markets include Turkey, Iraq, Russia, Iran and UAE in the Middle East. Accounting for 52% percent of our earnings, Middle Eastern markets prefer low grown teas whilst Russian market prefers our high grown blends.

Aligned to our 'Quality and Food Safety Policy', our management approach focuses on delivering a responsible and an ethical product. This is the underlining premise of our business and our efforts to engage and build positive relationships with our buyers, brokers and customers. We give due precedence with proactive and consistent measures and systems and processes in place, to ensure that we maintain highest standards of food safety and quality of our products across our value chain. We also give high priority to fair trading practices including due emphasis on disseminating product information, meeting labelling requirements and ensuring responsible marketing and brand communication to promote our products. Our five strategic imperatives clearly set the platform to be buyer-centric and responsible in our product delivery.

We have pledged our allegiance to some of the world-renowned certification programmes that guide and support our endeavours to maintain good agricultural and manufacturing practices in our operations. Our quality management system is well-structured to ensure that we maintain best practices in line with the principles set out by our certification programmes. We also comply with national food safety policies, laws and regulations.

We rely on our well-structured monitoring mechanism with internal and external audits, monthly factory visits, weekly checks on product quality and our level of compliance with the certification guidelines along with the regulatory requirements. This monitoring process enables us to identify, take due precautionary and corrective measures to address operational deficiencies, lapses and malpractices, so that we do not have to compromise on our commitment to product responsibility.

STRATEGY - RELATIONSHIP CAPITAL

Buyers, Brokers and Customers

<table>
<tr><th>Strategic Imperatives</th><th>Strategy</th><th>Performance Update 2017/18</th></tr>
<tr><td>Proactive Engagement and Satisfaction</td><td>- Engage and network with buyers, brokers and customers to build strong and loyal ties.
- Reduce customer complaints and improve customer satisfaction index.</td><td rowspan="5">- Great Western, leading estate adopted ISO 14001 Environmental Management System and ISO 9001 Quality Management System as the first amongst regional plantation companies.
- Carried out a formal customer satisfaction survey with a sample of Ten key Buyers
- Carried out 46 audits on product quality and standards in line with certification guidelines.
- Participated and promoted Talawakelle teas at Tea trade fairs in China
- Organised site visits and familiarisation tours for buyers.
- Mattakelle estate recorded 48 top prices out from 50 sales for the Dust1 grade
- Mattakelle estate retained the All Time recorded price for the Dust1 grade sold at 950 per kg
- Great Western estate, All Time record price for the BOP grade Rs. 1,850 per kg
- Holyrood estate, All Time record price for the BOPSP grade Rs. 820 per kg</td></tr>
<tr><td>Product Quality and Standards</td><td>- Sustain product quality by adhering to the ‘Quality and Food Safety Policy.
- Consolidate and collaborate with certification bodies to strengthen harvesting and product processes to be in line with the principles stipulated on quality and standards.</td></tr>
<tr><td>Product Information</td><td>- Comply with product labelling standards as prescribed by the relevant regulatory bodies.</td></tr>
<tr><td>Marketing Communications</td><td>- 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 road-shows and in collaboration with Sri Lanka Tea Board.</td></tr>
<tr><td>Compliance with Rules, Regulations & Voluntary Codes</td><td>- Carry-out annual and periodic audits on field and factory operations to ensure compliance with relevant laws, regulations, voluntary codes and standards.</td></tr>
</table>

RELATIONSHIP CAPITAL – BUYERS, BROKERS AND CUSTOMERS

Targets and Actual Performance

Key Indicators	Unit	Target	Actuals	
			2017/2018	2016/2017
Buyers	Number	112	155	108
New Buyers	Number	11	47	6
Increase in Buyers	% Increase	10%	44%	6%
Highest Tea Prices - High Grown	Rupees	1,700	1,850	1,650
Highest Tea Prices - Low Grown	Rupees	4,950	3,100	2,300
Customer Complaints	Number	0	7	7
Customer Satisfaction Index	Percentage	100%	76%	73%
Overall Rank Amongst RPC’s	Number	1	2	1
Rank - High Grown	Number	1	2	1
Rank - Low Grown	Number	1	1	1
Certification Coverage	% of total operations	Rainforest Alliance – 100%	88%	88%
		ISO 22000:2005 – 100%	80%	80%
		ETP – 100%	88%	88%
		UTZ – 15%	13%	13%
		ISO 9001:2015 – 10%	7%	0%
		ISO 14001:2015 – 10%	7%	0%

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

ENGAGEMENT AND SATISFACTION

Positioned as a top-tier plantation company, we have always given precedence and closely engaged and networked with our buyers, brokers and customers to build and nurture strong and long-standing relationships with them. We are proactive and responsive, seeking to meet their needs and preferences with due emphasis on best practices in manufacturing teas. Consistent feedback is obtained formally through structured surveys carried out periodically as well as informally during networking events.

The findings during these engagements are deliberated at the estate level as well at the corporate level. These findings underline our efforts to be buyer centric and support us to meet their requirements for quality and versatile products.

We are also proactive in our efforts to address and manage buyer grievances. We have a structured process in place to deal with their complaints and concerns. We maintain a consistent dialogue with them and ensure our support and remedial action to address all their concerns and issues. In the reporting year, we did not record any substantiated customer complaints.

We continued in the year to monitor customer satisfaction through our annual survey targeting a sample of ten key buyers, brokers and customers. The customer satisfaction index computed on the survey results in the year stood at 73 percent, comparable with the satisfaction level achieved in the preceding year.

PRODUCT QUALITY AND STANDARDS

GRI Disclosure: 416 - 1 & 2

QUALITY & STANDARDS AUDITS - 2017/18

Audit	Location of Audit	Areas Audited	Salient Findings & Recommendations
External audit - ISO 22000:2005 by SLSI and DNV.GL on Food safety management system	Dessford, Somerset, Radella Green Tea Factory, Wangioya reprocessing centre, Mattakelle, Bearwell, Holyrood, Wattegoda, Great Western, Deniyaya, Kiruwanaganga and Moragalla	All standards specified for food safety management	Further improve traceability and daily housekeeping practices to ensure optimal food safety and quality standards.
External audit by SGS Lanka Pvt Ltd on ISO 14001:2015 Environment Management System	Great Western Estate	All standards specified for environmental management	Integrate ISO 14001:2015 with the business process and day-to-day operations. Implement measures to mitigate environmental impacts throughout the product life cycle.
External audit by SGS Lanka Pvt Ltd on ISO 9001:2015 Quality Management System	Great Western Estate	All standards specified for quality management	Further improve the total quality management on continuous basis Focus on identifying risk and opportunity to add value to business processes.
Standard Audit for Rainforest Alliance Sustainable Agriculture initiated by the certification body.	Bearwell, Great Western, Holyrood, Logie, Mattakelle, Palmerston, Wattegoda, Calsay, Clarendon, Desford, Radella, Somerset, Deniyaya and Kiruwanaganga estates and Wangioya reprocessing centre	biodiversity conservation, natural resource conservation, improved livelihoods and human well-being	Adopt a six-year continuous improvement system on sustainability performance. Focus on climate smart agriculture and agro chemical management.
UTZ audit by Sri Lanka Standard Institution	Radella green tea factory and Wattegodde estate	Sustainable farming and better opportunities for farmers, their families and planet.	Focus on better agricultural methods Further improve estate work conditions, child care and the environment
Internal audits by the internal audit team under the sustainability governance structure	All 16 Estates	Compliance with certification standards on food safety, environment management and quality management	Further integrate management systems with business processes. Continuous improvements to all process and sub processes with consistent monitoring

Committed to product responsibility, we maintain highest standards of food safety and quality across our value chain—from our tea nurseries in developing our cultivar; planting and harvesting in our fields; to the manufacturing process in our factories. We comply and follow the guidelines under the HACCP/ISO 22000 food safety criteria in harvesting and transporting of green leaf through to its manufacture, packaging and sale. All products go through stringent quality checks including 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 3720:2011 Black Tea standard.

We also ensure that our product quality reflects best practices that we uphold in managing our estate workforce, suppliers, resident communities and the environment. Most of our certification programmes guide and support our initiatives to ensure social and environmental responsibility across our operations, in turn, complementing our commitment to uphold product responsibility.

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

PRODUCT INFORMATION AND LABELLING

GRI Disclosure: 417-1 & 2

Transparent and accountable, we are conscious of our customers' rights to make informed decisions on their product choices that 'best-fit' their needs and their values. Therefore, we stand committed and conscientious in disseminating right product information, duly guiding and directing our buyers, brokers and customers to be well-informed and aware on quality and standards of our teas including health and safety aspects as well as commercial information. We adhere with the guidelines set out by the Sri Lanka Tea Board and the Ceylon Tea Traders Association regarding labelling requirements. Our packaging entails the required product information to support our customers in ascertaining the quality of our teas.

We have not received any incidents of non-compliance with regulations concerning product labelling during the reporting year.

MARKETING COMMUNICATIONS

GRI Disclosure: 417-3

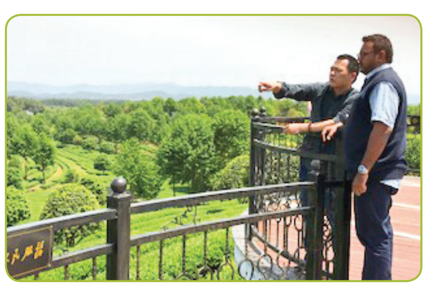
We are organised and perceptive in our marketing communication initiatives. We rely on direct marketing through trade fairs, road shows and networking events. We extend invitations, sponsorships and facilitate site-visits and familiarisation tours to our buyers and customers to visit our tea plantations and factories. During these visits, we take the opportunity to showcase our tea production process. We educate them on the best and current practices in place and measures we have adopted to produce our teas to meet the highest standards. Such visits encourage strong ties with them, building relationships through common understanding and shared experiences. We also have in place a full-range of well-designed and thought out product brochures and leaflets to support our marketing initiatives.

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

COMPLIANCE

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

Visit to XF Tea Company, one of our main clients in Changsha, Hunan, China



MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Trade Fairs / Events Participated



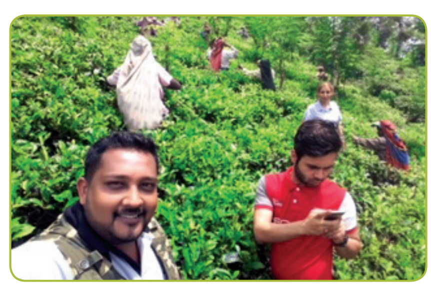
China International Tea and Tea Exhibition - April 2017


Colombo International Tea Convention 2017

Promotions and familiarisation programmes





Quality assurance activities



Tea tasting Sessions



Quality manufacturing practices and fine-tuning




Buyers and Brokers visits

Peter Kuruwita, the Master Chef, visits Somerset Estate

RELATIONSHIP CAPITAL - SUPPLIERS

OVERVIEW

As a plantation company, we have a large supplier base supporting our extensive operations. We have always strived to build and maintain mutually beneficial and long-standing relationships with all our suppliers. We follow best practices to ensure that we are fair, responsible and accountable in all supplier related dealings. In this section, we will discuss on our procurement practices, our engagement with our suppliers and our efforts to instill best practices in their businesses.

"Continuing to support, we engaged our suppliers and extended a solid platform to add value across our supplier chain."

Strategic Imperatives	Strategic Goals
Supplier relationships	Closely manage and secure suppliers within the value chain to ensure a streamlined procurement process
Local Procurement	Ensure greater trickle-down benefits to society through local procurement
Supplier Business Practices	Advocate best business practices amongst suppliers to ensure sustainable value creation

KEY PERFORMANCE INDICATORS 2017/18

1,600	11	99%	95%
Tea Smallholder Suppliers	Bought Leaf as % of Total Production	Local Suppliers	Quality Standard

GRI Disclosure – 102-10

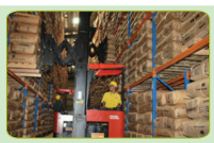
SUPPLY CHAIN

Field Operations
- Tea Smallholders
- Agro-chemical
- Fertiliser

Tea Processing Operations
- Firewood
- Fuel
- Factory Machinery and Equipment
- Service Providers

Packaging
- Packing Material
- Packing Machinery and Equipment

Storage
- Warehousing



Distribution
- Logistic Providers
- Transporters

Buyers
Colombo Tea Auction

GRI STANDARDS 103-1, 103-2, 103-3

MATERIAL ASPECT:
- GRI 204 - Procurement practices
- GRI 308 - Supplier environmental assessment
- GRI 414 - Supplier social assessment

- **Materiality Basis:** Materiality Basis: With extensive operations in both high and low gown regions, our supply chain assumes a critical role within our value creation process. Therefore, we have to give due consideration and strategic priority to procurement practices and to build and nurture sound relationships with our suppliers.

- **Boundary:** Estates, factories and corporate office

Management Approach
- Select new suppliers based on a screening process on their business practices
- Give preference to long standing and local suppliers
- Follow guidelines given by certification bodies in dealing with suppliers
- Guide and monitor supplier business practices
- **Evaluation:** Certification audits/ internal control/estate-level and corporate office monitoring

GRI Disclosures: 204-1; 308-1 & 2; 414-1 & 2

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

As a responsible plantation company, we uphold best practices in our supplier engagement process. We treat our suppliers with due respect and stand committed to ensure professionalism in all our transactions with them. We are consistent, reliable and timely in meeting our payments and other contractual obligations.

Our approach to procurement is pragmatic and fair. We give top priority to quality, flexibility, timeliness and costs. All suppliers are selected after a due diligence study and most often, through a stringent screening process, taking into account the legality and the nature of their business operations and their work ethics. We also give preference to suppliers who integrate environmental and social responsibility aspects into their businesses. Our certification programmes including ISO, Rainforest Alliance and Ethical Tea Plantations give clear guidelines on supplier engagement and support us in our endeavours to instill best practices within our supply chain. We also follow the ten principles of the UN Global Compact in engaging suppliers.

In this regard, we work closely with our suppliers in our daily interactions. We also carry out structured awareness building programmes on a periodic basis. We have in place an effective monitoring mechanism to monitor our engagement with our suppliers. Internal audit and certification audits monitor supplier businesses and our dealings with them. Estates and the corporate office also monitor supplier performance as part of their daily operations.

GRI Disclosure: 102-15

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

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

STRATEGY – RELATIONSHIP CAPITAL MANAGEMENT – SUPPLIER

Strategic Imperatives	Strategy	Performance Update 2017/18
Supplier Relationships	• Give precedence to long-standing supplier relationships • Ensure timely, due payments and uphold contractual obligations • Ensure maximum earnings for bought-leaf suppliers • Support suppliers with technical know-how	• Our supplier payments reached Rs. 1,078 Mn including Rs. 1,071 Mn for local suppliers. • Maintained relationships with 1,600 tea smallholders in the low grown elevation. • Organised 15 awareness building programmes on quality leaf supply for 1600 suppliers. • Providing free advices on good agricultural practices. • Supply fertilisers and quality tea plants at subsidised rates. • Financial assistance is given to smallholders in terms of Cash Advances and loans at nominal interest.
Local Procurement	• Give preference to local suppliers if the procurement criteria are 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	

LOCAL PROCUREMENT

GRI Disclosure - 204-1, 308-1 ,2

We give preference to local suppliers in our procurement process, as and when considered practical and appropriate. In year under focus, 2017/18, out of Rs855 Mn procurement expenditure on material supplies for operations, nearly 99 percent was spent on local suppliers whilst the balance 1 percent was spent on foreign suppliers on machinery and equipment.

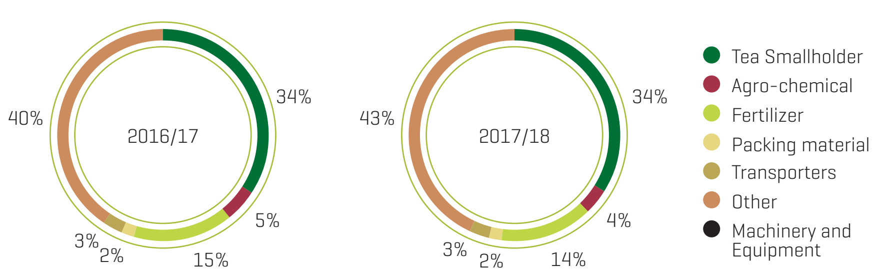
For the Y.E	2017/18		2016/17	
	Rs Mn	%	Rs Mn	%
Local Suppliers				
Tea smallholders	366	38.3%	314	40.2%
Agro-chemical	42	4.4%	43	5.5%
Fertiliser	152	15.9%	136	17.4%
Packing material	19	2.0%	19	2.4%
Transporters	29	3.0%	26	3.3%
Other	340	35.6%	238	30.4%
Foreign Suppliers				
Machinery and equipment	7	.7%	5	.6%
Total	**955**		**781**	

RELATIONSHIP CAPITAL – SUPPLIER

Targets and Actual Performance

Key Indicators	Unit	Target	Actuals	
			2017/18	2016/17
Local suppliers	Percentage of total	100%	99%	99%
Tea smallholders	Number	1700	1600	1365
Bought-leaf	Percentage of total production	15%	13%	12%
Supplier audits	Number	5%	05	05
Quality standard	Percentage	100%	99%	99%

Suppliers



We have well-established long-standing relationships with most of our suppliers. Our close supplier engagement enables us to ascertain information and assess their businesses and their work ethics. We are well aware and have a good understanding about the nature of their businesses and their workplace practices.

We are proactive in our engagement with our tea smallholders. We maintain a regular dialogue and carry out awareness building programmes on environmental and socially responsible practices including, labour and human rights, particularly, under our certification programmes viz. ISO, Rainforest Alliance and Ethical Tea Plantations.
Our monitoring mechanism under these certification programmes evaluates tea smallholders on their environmental and social related activities and practices. Tea smallholder operations also fall under the purview and are monitored by the Tea Smallholders Authority.

Our fertiliser and agro-chemical suppliers are certified under ISO 14001:2004 Environmental Management System and ISO 9001:2008 Quality Management System. Our packing material suppliers also comply with ISO standards. Our purchasing division at the corporate office is responsible and carries out periodic audits on the validity of these certifications. In the year, our fertiliser, agro-chemical and packing material suppliers continued to hold valid ISO certifications.

With respect to firewood suppliers, we collect information periodically through a structured questionnaire; ascertaining if they maintain necessary licenses to supply firewood and if they meet the required laws and regulations. This year, we assessed 100 percent of our fuelwood suppliers.

With regard to machinery and equipment suppliers as discussed at length under the 'Manufactured Capital' section, we are conscientious in our assessments and selections, giving due precedence to environmental and social considerations.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

GRI Disclosure - 308-1, 2, 414-1, 2

In the reporting year, we have not identified any supplier as having significant actual or potential negative environmental impacts. We also did not record any negative social impacts along the supply chain.

We did not record any incidents of suppliers with child and forced labour and violations of human rights, the rights to exercise freedom of association and collective bargaining.

We have not engaged any new suppliers in the year under review.

BASIS OF SUPPLIER ASSESSMENTS

Business Considerations
- Legality
- Nature of Business
- Governance
- Corporate Credentials

Environmental Considerations
- Green House Gas Emissions
- Resource Management
- Waste Management
- Compliance with Environmental Laws and Regulations

Social Considerations
- Working Conditions
- Child Labour
- Forced Labour
- Human Rights
- Trade Unions
- Compliance with Labour Laws and Regulations

SUPPLIER CERTIFICATION AND ASSESSMENTS

Material Supplies	Suppliers	Standards Maintained
Fertiliser and Agrochemical	Hayleys Agro-fertilizer (Pvt) Ltd	ISO 14001:2004 EMS ISO 9001:2008 QMS
Packing Material	ST. Regis Packaging (PVT) Limited	Environmental Sustainability Assessment and Carbon conscious certificate (Carbon Constancy Company) FSSC 22000 - Food Safety System certification SLS 1492:1492 - 3 Ply Multiwall paper tea sacks
	Uni-Dil Packaging Ltd Uni-Dil Packaging Ltd Uni-Dil Paper sacks (Pvt) Ltd	ISO 14001:2004 – EMS ISO 22000:2005 – FSMS ISO 9001:2015 - QMS
Fuelwood	Fuelwood suppliers	Periodic evaluations by TTE's staff on their legality and environmental practices

RELATIONSHIP CAPITAL - INVESTORS

OVERVIEW

As a leading plantation company on the public domain for over two decades, we are responsible and accountable to our investors. Our expertise and focused efforts to adopt best practices in both field and factor operations have underlined our positioning at the forefront of the industry. The section herein will demonstrate our commitment to navigate through the adversities of our operating backdrop to post sound returns for our investors; the key measures we have adopted to be transparent and accountable in our investor dealings; and our unwavering efforts to be responsible in our communications and disclosures.

"Upholding best practices in business and leveraging on our positioning at the forefront of the tea industry, we posted sound returns for our valued investors."

Strategic Imperatives	Strategic Goals
Financial Viability and Returns	Leverage on the expertise and adopt best business practices in value creation to ensure sustainable profits, healthy financial position and positive cashflows.
Investor Communications	Uphold transparency and accountability in all communications to facilitate informed decision making.
	Boost corporate credibility and attract and retain long-term investors.
	Sustain investor goodwill by addressing their needs and grievances.
Mandatory and Voluntary Disclosures	Be in line and comply with the relevant laws, rules, regulations and directives set by the statutory and regulatory bodies.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

KEY PERFORMANCE INDICATORS 2017/18

570.3%	1,294 Mn	Rs.54.50	Rs.23.19	Rs.5	2.36%
Growth Shares Traded	Market Capitalisation	Market Value	Earnings per Share	Dividends Per share	Price Earnings Ratio

Celebrating Responsible Reporting

CA 53rd Annual Report Awards
Gold Award Excellence in Reporting
Plantation Sector
Institute of Chartered Accountants of Sri Lanka

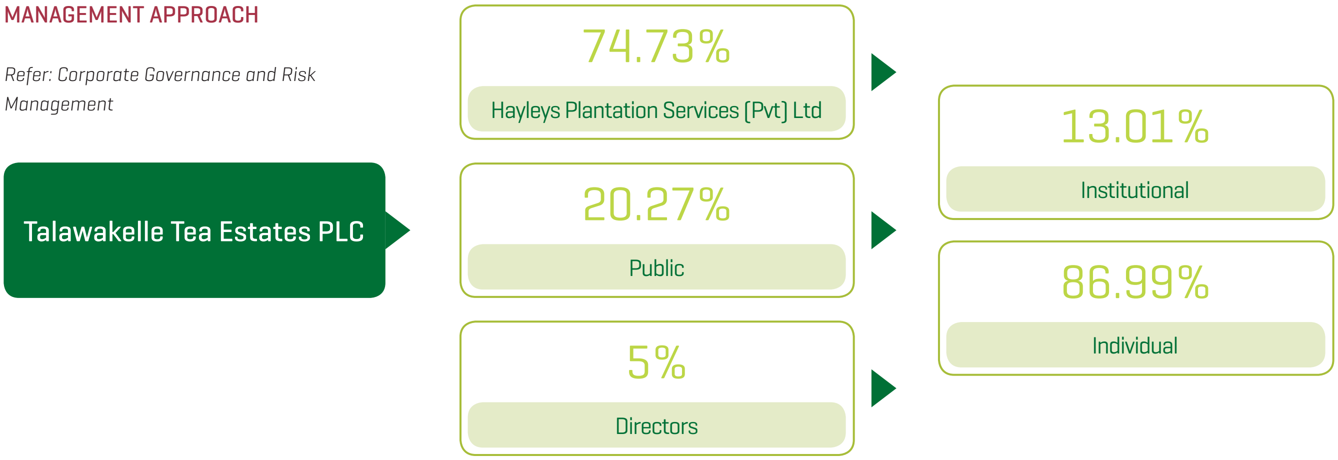
CMA Excellence in Integrated Reporting 'Ten Best Integrated Reports'
Institute of Certified Management Accountants of Sri Lanka

Best Presented Annual Report Awards and SAARC Anniversary Awards Second Runner-up Corporate Governance Disclosures 2016
Agriculture Sector South Asian Federation of Accountants

Asia Sustainability Reporting Awards- Asia's Best Integrated Report- Highly Commended

MANAGEMENT APPROACH

Refer: Corporate Governance and Risk Management



INVESTOR RELATIONS GUIDELINES AND PRINCIPLES

- Company's Act of 2007
- Corporate Code of Ethics
- Corporate Governance Code 2017 Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka
- Continuous Listing Rules Colombo Stock Exchange

With a strong presence on the Colombo Stock Exchange, we give due strategic precedence to build and foster solid relationships with our shareholders and potential investors. We are well aware of our duty and responsibility to follow through a focused strategy, manage our operations with business foresight and ensure optimum returns for our shareholders.

We are open, transparent and accountable in the way engage and deal with our investors. We continue to hold a regular dialogue through our correspondence, general meetings, quarterly and annual reporting. We are committed to provide accurate and relevant information on the Company, its affairs as a going concern—enabling our investors to make effective decisions on their investment. We are responsible in our reporting initiatives and our financial statements are prepared in accordance to the relevant accounting standards with accuracy and clarity. The annual financial statements are externally assured by independent auditors.

Our investor relations are managed by our Company Secretaries, Hayley's Group Services (Pvt) Ltd. This company is responsible to support our investors with their information requirements; respond to their queries; and resolve any issues or grievances in a timely manner. It is also responsible to plan and roll-out investor programmes periodically.

We are conscientious in our approach to compliance. We are timely and responsible in meeting our disclosure obligations and filing material information on the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka. We comply with the 'Continuous Listing Requirements' under the capital market regulatory framework. We take due precautionary measures and stand responsible in dealing with sensitive information to avoid insider trading. We are also careful in our approach to deal with related party transactions and we encourage all concerned to duly disclose as per the regulatory requisites.

Advocated at the Board level, we comply with the Code of Governance updated in 2017 jointly issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and follow and adhere to our internal code which sets out our ideals in governance and business ethics. We also have a comprehensive risk management mechanism in place with due internal controls to manage our risks efficiently and take on the emerging opportunities.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

GRI Disclosure: 102-15

OPPORTUNITIES

- Sound corporate standing and reputation and the strength and backing of the parent, Hayleys PLC
- Long-standing and well established presence on the Colombo Stock Exchange.
- Competent Company Secretariat to cater to 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 laws, regulations and directives

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, laws, rules and regulations may result in the loss of investor confidence.
- Bearish trends on the Colombo Stock Market may reflect adversely on the plantation sector and company stock performance.

STRATEGY – RELATIONSHIP CAPITAL MANAGEMENT - INVESTOR

Strategic Imperatives	Strategy	Performance Update 2017/18
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. • Support the Company Secretaries to disseminate information to investors, file disclosures and resolve investor grievances.	• Successfully organised our 25th Annual General Meeting to reflect on the financial year 2016/17. • Traded 2.4 Mn shares, corresponding to 10.2 % of our total shares. • Share price stood at Rs. 54.5 per share as at year-end, up by 70.3percent over 2016/17. • All time highest share price of Rs. 61.20 was achieved during financial year. • TTE market capitalisation took up a share of 4.09 percent of the plantation market capitalisation and 0.04percent of the total market capitalisation. • Dividends for the year are estimated to reach a total of Rs.118.75 Mn.
Financial Viability and Returns	• Follow a focused strategy to improve on land and labour productivity to boost tea production yields and volumes. • 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 cashflows 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 with the 'Continuous Listing Requirements. • Closely monitor compliance with relevant laws, regulations, directives and codes.	

RELATIONSHIP CAPITAL - INVESTORS

Targets and Actual Performance

Key Indicators	Unit	Target	Actuals	
			2017/18	2016/17
Growth - net profit after tax	Percent	25%	125.9	67.8
Dividend payout ratio	Percent	15	21.5	9.8
Dividend per share	Rupees	2	5	1
Dividend yield	Percent	6	9.17	3.13
Dividend cover	Times	6	4.64	10.20
Return on equity	Percent	6	22.15	11.9
Net asset value per share	Rupees	90	104.70	85.71
Earnings per share	Rupees	12	23.19	10.20
Price earnings ratio	Times	3	2.36	3.25
Shareholders	Number	13,500	13,490	13,529
Share of local shareholders	Percent	99.5	98.06	99.73
Public shareholding	Percent	20	20.27	20.27
Total shares traded	Number	500,000	2,436,347	363,435
Company market capitalisation	Rupees (Mn)	831	1,294	760
Company share turnover	Rupees (Mn)	80	129.1	13
Market value	Rupees	35	54.50	32

INVESTOR COMMUNICATIONS

Closely engaging our shareholders and potential investors, we continued in the year to be transparent about our business affairs. It was imperative and we took our obligation seriously to keep our investors well-informed of the industry issues and the downside risks along with our strategy adopted to mitigate these complexities and ensure our viability from a long-term standpoint. We duly filed our quarterly financials and disclosures on the Colombo Stock Exchange and published several press releases on the mainstream newspapers on key events and milestones achieved. We also met our disclosure obligations in the year under review.

We held our 25th the Annual General Meeting to discuss and deliberate on the financial year 2016/17 with the participation of our Chairman, the Board of Directors and the senior management. Nearly 81 shareholders attended the meeting and we encouraged their active participation in adopting key resolutions. Apart from this, Company Secretaries also interacted with our investors on a one-to-one basis to support their information queries and to address and resolve their grievances. The secretariat handled 36 investor queries during the year.

Our reporting initiatives in the year remained focused on reaching out to our stakeholders. We sought to further refine our content and design with greater clarity and relevance. We reinforced our integrated approach to reporting with equal prominence to economic, environmental and social facets of our operations. This year, we also furthered our sustainability reporting—following the latest guidelines as set out by the GRI Standards. Our Annual Report 2016/17 themed 'Surmounting A Watershed Year' was recognised for reporting excellence both at the national level as well internationally. We clinched top awards for our initiatives, including the Gold under the plantation sector category at the 53rd Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka.

FINANCIAL VIABILITY AND RETURNS

Refer: Financial Capital

We continued to operate in complex business landscape. Yet, the year witnessed greater optimism compared to the previous year, complemented by higher production volumes and remunerative prices at the Colombo Tea Auctions. Following through a focused strategy, we were able to leverage on the upside trends in the industry and achieve sound top-line results in the reporting year with group net profits after tax of Rs. 547.6 Mn. This year, we propose to declare dividends totalling of Rs. 5 per share, estimated to reached a total of Rs. 118.75 Mn. Our dividend payout ratio stood at 21.5 percent, corresponding to an improvement of 119.9percent over the ratio recorded in the preceding year. Return on equity stood high at 22.15 percent, whilst our earnings per share touched all time high of Rs. 23.19, up by 127.3 percent over the previous year.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

COMPANY SHARE PERFORMANCE

CAPITAL MARKET PERFORMANCE

Key Indicators	2017/18	2016/17
All Share Price Index	6,476.78	6,061.94
S&P SL 20 Index	3650.1	3496.4
Market Capitalisation (Rs Bn)	1294.4	760.0
Average Daily Turnover (Rs Mn)	915.3	732.2
Net Foreign Investments (Rs Bn)	17.7	0.39
Plantation Sector Index	913.17	641.18

Source: Annual Report 2017 Central Bank of Sri Lanka and Colombo Stock Exchange

Despite the imbalances in the macroeconomic and socio-political environment, the Colombo Stock Exchange in the year under review was relatively buoyant. We witnessed a tighter stance in monetary policy with higher market interest rates; rupee further depreciated against the US dollar. Yet, greater foreign inflows cushioned the market performance. Both price indices—ASPI and S&P SL20—recorded an improvement along with the market capitalisation and turnover. The Plantation Sector Index also performed notably, well ahead of the previous year.

Mirroring the stock market trends, our share market performance was buoyant compared to the preceding year. For the year ended 31st March 2018, 2.4 Mn of our shares were traded. Our daily average turnover touched Rs. 0.3 Mn whilst our market capitalisation stood at Rs.1294.4 Mn, accounting for 4.09 percent of the plantation industry market capitalisation and 0.04 percent of the overall market capitalisation.

Our share price performance was steady. Our share price closed at Rs.54.50per share as at 31st March 2018, compared to the closing price of Rs.32 per share in the previous year. The highest price in the year stood at Rs. 61.20 per share whilst the lowest was Rs. 31.30 per share.

MANDATORY AND VOLUNTARY DISCLOSURES

Following the Continuous Listing Requirements, we continued to be prompt and accurate in filing the mandatory as well as voluntary disclosures at the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka. In the reporting year, we filed all required disclosures including our financial statements and compliance status.

SOCIAL CAPITAL

OVERVIEW

Spanning across a vast area of operations, we have a large community base with the majority living as residents within our estates. They together with our neighbouring village communities are an intrinsic part of our business. Ensuring their well-being, therefore, is a critical success factor for our viability and long-term sustainability. We stand committed to engage them, address their concerns, and be supportive of their collective needs, with cascading benefits to the entire society. This section will primarily discuss on our engagement with our communities under our dedicated community development programme. We also highlight our role in policy advocacy within the industry and our efforts to mitigate any potential negative social impacts from our operations as a responsible corporate citizen.

"We remained steadfast in our dedicated efforts to support our resident communities with basic amenities, health and nutrition facilities and capacity building and thus, uplift their quality of life."

Strategic Imperatives	Strategic Goals
'Home for Every Plantation Worker' Programme	Improve community living standards to ensure healthy and balanced workforce for higher productivity. Develop good-will and strong bonds with communities for good industrial relations and sustainability in operations.
Public Policy	Advocate best practices and policies to address industry issues and pave the way forward for long-term sustenance.
Negative Social Impacts	Take proactive measures to mitigate potential negative social impacts from our business activities.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

KEY PERFORMANCE INDICATORS 2017/18

Rs.100.6 Mn	Rs.126.9 Mn	214,397
Investment Community Infrastructure	'Home For Every Plantation Worker' Programme	Beneficiaries 'Home For Every Plantation Worker' Programme

CELEBRATING COMMUNITY RESPONSIBILITY

Excellence in Community Service 1992-2017
'In appreciation for the unstinted support and co-operation extended and dedicated service towards the plantation community'
Plantation Human Development Trust

National Business Excellence 2017
'Excellence in corporate social responsibility'
National Chamber of Commerce

MANAGEMENT APPROACH

SOCIAL CAPITAL POLICY SALIENT FEATURES

- Consult and engage local communities
- Plans for new projects
- Constructions
- Diversifications
- Change of ownership
- Any other operational changes

- Community concerns, views and their expectations are factored into the decisions making process.

- Give precedence to local workers for training and employment on estates.

COMMUNITY DEVELOPMENT PARTNER AGENCIES

- Estate Worker Housing Cooperative Societies
- Ministry of Plantations
- Plantation Human Development Trust
- Plantation Development Project
- National Housing Development Authority
- Ministry of Livestock and Rural Community Development
- MJF Foundation
- T-Field Child Development Foundation
- Berendina
- Save the Children International
- World Bank

GRI STANDARDS 103-1, 103-2, 103-3

MATERIAL TOPICS:

- GRI 413 - Local Communities
- GRI 415 - Public Policy
- GRI 419 - Socio-economic Compliance

- **Materiality Basis:** We have over 42,000 people living within our estates, mainly in the high grown region. Majority of our estates source their labour from the local communities, taking up over 93.6% of the workforce. Our bought-leaf suppliers are also from the local communities. Therefore, engaging communities and supporting to uplift their living standards are not limited to just philanthropic goals, but, strategic and essential to keep our estates operational, viable and sustainable. It is vital for a front-runner organisation such as ours to be responsible to society, to gain their trust, confidence and good-will.

- **Boundary:** Estates, Corporate Office

Management Approach

- 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 programme
- Align our operations in line with certification guidelines
- Take up policy advocacy role as a leading plantation company
- Be committed to mitigate any negative impacts from our operations and ensure compliance with law, rules and regulations

GRI Disclosures: 413-1 & 2, 415-1, 419-1

GRI Disclosure: 102-15

OPPORTUNITIES

- Positive corporate recognition and brand enhancement for social responsibility
- 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 programme

RISKS

- Out-migration of estate residents 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, political and technology trends inciting community unrest

As a Regional Plantation Company, we are aware of the dynamics of our communities and the vital role they play in our business viability and sustenance. It is crucial to maintain sound relations with our resident communities as well as with our village communities in both high and low grown elevations. In our management approach, we focus on closely engaging our communities with pragmaticism and responsibility. We are well-organised in our approach, seeking to integrate community engagement and our social values to our business strategy and to the related action plans. Our Social Policy along with our certification programmes give us clear guidelines and standards to ensure that we uphold best practices in engaging our communities.

We have a well-structured and dedicated community development programme, 'A Home for Every Plantation Worker' to support and uplift the lives of our communities living within the estates and thereby, improve their quality of life. This programme carries out diverse initiatives focused in four key areas identified as vital for community wellbeing-improving the living environment through infrastructure development of basic amenities; capacity development; health and nutrition; and youth empowerment. We also engage our village communities and support in their community building initiatives. Our estates support religious ceremonies and festivals, sports activities, medical camps, recreational events and also participate with them in their efforts to keep the environs clean and beautiful.

Apart from our community initiatives, we are also passionate in taking up our public role-working in concert with all stakeholders including the government and non-government agencies to formulate and lobby for 'right policies' to face up to the challenges and carve out a better future for the plantation industry. As a top-tier Regional Plantation Company, we are well-respected in the industry and therefore, we have the power to influence our stakeholders and make an impact on the industry and our society. We are also conscientious to carefully mange and mitigate any potential

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

negative impacts from our operations. We rely on our certifications and well-structured community related programmes to balance our operations and minimise the potential for negative impacts.

STRATEGY - SOCIAL CAPITAL MANAGEMENT

Strategic Imperatives	Strategy	Performance Update 2017/18
'A Home for Every Plantation Worker' Programme	**Improving the Living Environment** • Develop community infrastructure including housing, water, sanitation, recreation and learning facilities in collaboration with relevant government and non-government organisations • Support children through child development programmes • Carry out auxiliary medical services including medical camps and eye clinics **Health and Nutrition** • Create awareness on preventive healthcare and on communicable and non-communicable diseases • Carry-out a comprehensive immunisation programme • Create awareness and carry out programmes on nutrition • Carry out programmes on antenatal and postnatal well-being for female residents **Community Capacity Building** • Collaborate with Estate Worker Housing Cooperative Societies on their capacity building activities • Extend training opportunities and create awareness on livelihood options, saving habits, loan schemes and financial management. **Empowerment of youth** • Create awareness and extend vocational training and employment opportunities to the estate youth	• Invested Rs.100.6 Mn on community infrastructure to provide water, sanitation, built new houses, upgrading CDCs, field rest-rooms, staff quarters, playgrounds & road rehabilitations • 27,822 were benefited under preventive health care (immunisation & awareness) • 85,360 were benefited under nutrition (feeding & awareness) • 25,373 were benefited under antenatal & postnatal care • 44,840 were benefited from early childhood development • 25,372 were benefited through auxiliary medical service • Saving schemes were introduced for Rs. 5.4 Mn • Housing loans were granted for Rs. 10.8 Mn • 14,175 were benefited under empowerment of youth (vocational & awareness) • Created social responsibility • Reduced community issues • Secured employees • 100 percent of our senior management hired locally.
Public Policy	• Take a proactive role in addressing and lobbying for industry issues with relevant government and non-government agencies • Senior management of the Company will be hired locally	
Negative Social Impacts	• Mitigate negative impacts through comprehensive programmes to ensure quality work-life and well-being of the estate workers and communities • 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	

SOCIAL CAPITAL TARGETS AND ACTUAL PERFORMANCE

Key Indicators	Unit	Target	Actuals	
			2017/18	2016/17
Investment in community infrastructure development	Rs Million	100	100.6	26.3
Beneficiaries community capacity development	Number	15,000	14,694	12,476
Investment in community capacity development	Rs Million	20	19.6	2.1
Youth on vocational training	Number	3,000	2,855	3,557
Investment - youth empowerment	Rs Million	0.5	0.4	0.68
Beneficiaries - health and nutrition programmes	Number	250,000	208,767	293,159
Investment on health and nutrition programmes	Rs Million	8.0	6.3	9.7

"A HOME FOR EVERY PLANTATION WORKER'

FOCUS AREAS

A HOME FOR EVERY PLANTATION WORKER

- Improving the Living Environment
- Community Capacity Building
- Health and Nutrition
- Youth empowerment

Our community development initiatives come under our dedicated social responsibility programme, 'A Home for Every Plantation Worker'. Structured under four focused areas, this programme essentially aims at supporting our resident communities of over 42,000 living within our estates, particularly, in the high grown elevation. We engage the Estate Worker Housing Cooperative Societies to roll out our initiatives under this programme. We also collaborate, as and when required, with the relevant government and non-government bodies.

IMPROVING THE LIVING ENVIRONMENT

Improving the living environment is a key area under our 'Home for Every Plantation Worker' programme and we give strategic priority and allocate due resources to support our communities in this regard. The scope of this initiative entails developing basic infrastructure needed to uplift our communities. This includes, inter-alia, housing, water, sanitation, recreation and learning facilities and road development. The Estate Worker Housing Cooperative Societies support and collaborate with us in our efforts to provide these facilities. In the reporting year, we invested a sum of Rs. 100.6 Mn on infrastructure development.

ESTATE INFRASTRUCTURE INITIATIVES 2017/18

- Housing
- Water
- Sanitation
- Field and Factory Rest Rooms
- Child Development Centres
- Community Centres
- Road Development

1 NO POVERTY

2 ZERO HUNGER

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Outcomes
- Secured, content and empowered communities
- Inclined to adopt healthy and safe lifestyles
- Improved quality of life
- improved productivity creating happiness

Road Development
Deniyaya Estate

New Houses
Logie Estate

Community Capacity Building Key Performance Indicators 2017/18

9,537	Beneficiaries Community Training
Rs.5.4 Mn	Capital Base of Savings Scheme EWHCS
Rs.10.8 Mn	Housing Loans EWHCS
14,694	Beneficiaries EWHCS Initiatives

ESTATE INFRASTRUCTURE KEY PERFORMANCE INDICATORS 2017/18

Rs.100.6 Mn	Infrastructure Development
5,630	Benefited Infrastructure Investment

COMMUNITY CAPACITY BUILDING

We are committed to pave a progressive platform for our resident communities to be empowered, build on their strengths, address their day-to-day problems, explore opportunities and enhance the quality of their living standards. Our initiatives in this regard encompass training communities on livelihoods, developing their skills and nurturing their talent. We also work with the Estate Worker Housing Cooperative Societies (EWHCS) on their capacity building programmes. During the reporting year, we reached out to 14,694 estate people through our training initiatives whilst 5,157 benefited from the activities carried out by the estate housing societies including the saving schemes supporting 1,597 beneficiaries and housing loans granted for 1,149.

COMMUNITY CAPACITY BUILDING INITIATIVES 2017/18

EWCHS Initiatives
- Housing Loans EWHCS
- Savings Schemes EWHCS

Awareness Building Initiatives
- Household cash management
- Introducing the importance of micro financing

Outcomes
- Alternative livelihoods boosting incomes
- Stronger and empowered communities
- Managing finances effectively
- Improved Saving habits
- Reduction in out-migration from estates for other employment

Improving Savings Habits - Kiruwanaganga Estate

Awareness on Cash Management - Somerset Estate

HEALTH AND NUTRITION

We have a comprehensive programme on preventive healthcare to look into and ensure the physical and mental well-being of our resident communities. This programme focuses on key health and nutrition aspects including immunisation, awareness building on preventive healthcare, nutrition, early childhood development, antenatal and postnatal care and other medical services. In the year under review, 208,767 people resident in our estates benefited from our initiatives under this programme. The total cost incurred stood at Rs. 6.3 Mn.

HEALTH AND NUTRITION KEY INITIATIVES 2017/18

Immunisation
- Tuberculosis
- Polio
- Diphtheria, Tetanus, Pertussis
- Hepatitis B
- Influenza Type B
- Measles, Mumps & Rubella

Auxiliary Medical Services
- Medical Camps
- Cataract Clinics
- Eye Clinics
- Issuing Iron Tablets

Preventive Healthcare
- Awareness building on HIV/AIDS
- Non-communicable diseases
- Communicable diseases

Antenatal Care
- Antenatal Clinics
- Issuing of Free Vitamins
- Free Transport for Clinics and Hospitalisation
- Awareness on Health, Nutrition and Hygiene

Nutrition

Awareness building on;
- Anemia
- Nutrition
- Health & safety

Postnatal Care
- Awareness on Anemia
- Awareness on Nutrition & Hygiene
- Underweight Children

Early Childhood Development
- Daycare Centre
- Dental Clinics
- Eye Clinics
- Distribution of Milk/Thriposha and Mid-day meal

Outcome
- Reduction in anemia
- Lower infant mortality
- Lower maternal mortality
- Lower number of underweight children
- Improvement in health & safety
- Higher level of worker productivity

HEALTH AND NUTRITION KEY PERFORMANCE INDICATORS 2017/18

Rs.6.3 Mn
Investment

208,767
Beneficiaries Total

6,257
Beneficiaries Children

Demonstration of Balance Diet Dessford Estate

Nutritious Biscuits for Children Somerset Estate

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

EMPOWERMENT OF YOUTH

We recognise that youth is our future, bringing in vitality and dynamism to our winning plantation sector and for our nation as a whole. Therefore, focused initiatives under our community programme to support the estate youth and build their confidence for empowerment is significant and highly warranted. We give precedence to youth programmes extending vocational training and building awareness on current socio-economic and cultural problems prevalent in our society today. This reporting year, 2,855 estate youth followed our vocational training programmes. We also awarded 4 scholarships to further their tertiary level education. Our awareness building programmes engaged 11,320 youth.

YOUTH PROGRAMME KEY INITIATIVES 2017/18

Vocational Training
- Computer Awareness
- Scholarships for Estate Children
- Educating Slow Learners
- Quiz/Art/Drama Competition
- English/SInhala/Tamil Classes

Awareness Building
- Awareness on Personal Hygiene & First Aid
- Teenage Programmes
- Awareness on Health & Safety
- Dengue Awareness Programmes
- Improving Leadership Skills

Outcome
- Skilled and talented youth
- Youth employment
- Vocation opportunities for youth
- Reduction in out-migration
- Less conflicts

Scholarships for Children
Kiruwanaganga Estate

4 QUALITY EDUCATION

Celebrating Environmental Day
Somerset Estate

YOUTH PROGRAMME PERFORMANCE INDICATORS 2017/18

Rs.0.4 Mn	2,855	11,320
Vocational Training Investment	Youth under Vocational Training	Participation Awareness Building Programmes

PUBLIC POLICY

GRI Disclosure:102-13 & 415-1

OUR MEMBERSHIPS IN ASSOCIATIONS 2017/18

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

Designation in the Company	Policy Making Institutions	Status	Key Areas of Interest/Lobbying
Managing Director	Planters' Association of Ceylon	Member	• Global and national political and macroeconomic trends • Climate change • Research and development • Ban on chemical weedicide • Fertiliser subsidy • Quality and standards • Productivity and wages • Community housing and other infrastructure • Community development initiatives • Well-being of the plantation worker
	Tea Small Holdings Development Authority	Director	
	Sri Lanka Tea Board,	Member	
	Rubber Research Board & Tea Research Board	Member	
	Ethical Tea Partnership	Representative	
	National Institute of Plantation Industries (NIPM)	Member	
Director/CEO	Plantation Housing Development Trust (PHDT)	Board Member	

Operating as a top-tier Regional Plantation Company, we have the power and influence to make a difference in our policy advocacy role within the industry. We are proactive and carry out our advocacy initiatives with responsibility and accountability. In this context, we maintain active memberships in industry related associations and our senior management has taken up key roles in policy making committees, both at the governmental and non-governmental level. Our engagement, however, is purely on a policy-level. We do not have any political affiliations and do not extend support for political causes. This reporting year, we did not record any monetary or non-monetary political contributions.

NEGATIVE SOCIAL IMPACTS

Refer:
Human Capital, Forced Labour page 139; Child Labour, Page 138; Occupational Health and Safety, page 141
Intellectual Capital, Certifications, pages 97

GRI Disclosure: 413-1, 413-2, 419-1

As a plantation company, we have an extensive operation, directly linked to our local communities living within our estates. Their lives and their well-being matter to us. Over 91 percent of our workforce is sourced from the resident communities. In this context, it is critical that we uphold our social consciousness and work towards mitigating negative impacts or potential impacts that may arise from our operations for the betterment of our communities. This is of strategic importance; negligence on our part will have a significant bearing on our present operations as well as on our long-term sustainability.

Our dedicated community development programme discussed herein is carefully planned and executed to support the well-being of our communities and manage our operations with less negative impacts on our local communities and our society. Our certification programmes along with our Code of Ethics and Conduct complement and further supports our efforts to be a responsible corporate citizen.

Our community level grievance mechanism sets a favourable platform for estate workers and communities to redress their issues and concerns. At the estate level, grievances are directed to the senior estate management and if there are no positive resolutions, the grievances are forwarded to the corporate management for redress. The trade unions also play a significant role in grievance management. 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.

Worker Day
Palmerston Estate

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

GRI Disclosure: 102-41

Potential Negative Social Impacts	Key Mitigatory Measures
Labour Exploitation: • Estate workers may be subject to long working hours with laborious and monotonous workload under adverse weather conditions and difficult terrain • Workers may be subject to work under duress • Child labour may occur	**Labour Laws** • Follow and comply with Sri Lanka's labour laws, rules and regulations. **Company Policies** • Uphold Organisation's Human and Social Capital polices to ensure best practices in labour and community management. **Trade Unions** • Estate workers have the right to access trade unions and collective bargaining. **Statutory Obligations** • All statutory payments are met on time and as per the relevant legislation. **Certifications** • Adoption of internationally accepted certification programmes to ensure best practices in labour and community management. **Technology** • Due investments are made to automate and streamline processes to relieve and support the workload.
Female Workforce Issues • Female workforce may be vulnerable to sexual harassment and violence. • Subject to duress particularly during maternity and postnatal period. • Lack of access to education and healthcare facilities and good nutrition	**Code of Ethics and Conduct** • Well internalised Code for estate-level teams including supervisors and managers. • Zero tolerance and structured mechanism to take disciplinary action against any violations on the Code. **Estate Grievance Mechanism** • Grievance mechanism in place to redress worker issues at the estate level including trade unions. **Women Focus** • Comprehensive 'well-woman' programme with initiatives to educate and create awareness on women's health and nutrition, antenatal and postnatal care. • Awareness building on social issues like violence and harassment against women and on child rights and abuse.
Health and Safety Impacts • Inadequate sanitation and access to clean water may cause water borne diseases. • Living in crowded areas and vulnerability to communicable diseases. • Lack of awareness on health and nutrition and non-communicable diseases • Lak of access to good healthcare facilities and medicine • Susceptible to accidents and injuries in the field and factories may lead them to destitution • Adverse health issues due to the exposure to pesticides and insecticide applications	**Occupational Health and Safety Programme** • Dedicated committees with worker representation look into the health and safety aspects at the workplace. • Well-structured safety measures and awareness building on chemical applications and access to protective and safety equipment and gear. • Training is extended on first aid **Community Healthcare Programme** • Comprehensive health and nutrition programme focusing on immunisation, preventive healthcare, nutrition, antenatal and postnatal care and other medical services. • Collaborations and focused initiatives with government and non-government agencies to provide basic amenities like water and sanitation facilities. • Fully equipped medical centers and ambulance services in strategic locations

"We extended an inclusive and a dynamic workplace with precedence on learning, development and performance-empowering our employees to give their best to reach for higher goals."

HUMAN CAPITAL

OVERVIEW

As a labour intensive organisation, the workforce takes up a pivotal role within our operations. We depend on their hard work and dedication to ensure the business viability and sustenance. Our engagement with the workforce, therefore, assumes greater significance and we stand committed to extend a progressive workplace, boosting their worker morale and empowering them to give their best to the organisation. Our Human Resources (HR) strategy gives due precedence to equal opportunity, fair compensation, performance, training and development and well-being. This review herein discusses on our management approach, strategy and key actions along with the performance highlights and indicators for the reporting financial year.

Strategic Imperatives	Strategic Goals
Fair Labour Practices	Extend a fair workplace with best practices to create an enabling and inclusive work environment to achieve collective and individual goals.
Occupational Health and Safety	Ensure the availability and retention of manpower to carry out smooth and sustainable operations.
	Support the well-being of the workforce to enhance their work-life, their morale, productivity and loyalty to the organisation.
Training and Development	Develop employee skills to improve their level of productivity and ensure the business viability and sustainability.
	Develop a well-rounded workforce to empower them in their duties and reach out to the organisation's strategic goals.
Productivity and Performance Management	Enhance productivity for higher production volumes, business viability and returns.
	Manage cost of production and boost the level of competitiveness to sustain business viability.
Labour Relations	Maintain cordial relationship with the workforce and with their trade unions to ensure smooth and continuous flow of operations.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

KEY PERFORMANCE INDICATORS 2017/18

4.5 %	95.5 %	13,209	6,759	Rs.2.98 Mn	2.1%
Average Turnover Rate	Workforce Retention Rate	Training Hours	Training Hours Health & Safety	Training Investment	Injury Rate

CELEBRATING HR EXCELLENCE

People Development Award 2016/17,
Sri Lanka Institute of Training Development

South Asian Partnership Summit & Business Awards [SAPS]
for 'Best HR practices for organisational development'
World HRD Congress

Asia Pacific HRM Congress Award, 2017
for '*Innovative HR Practices*'
Asia Pacific HRM Congress

Global HR Excellence Awards 2017
for ' Leading HR Practices in Quality Work-life'
World HRD Congress

MANAGEMENT APPROACH

HR STRUCTURE & FUNCTIONS

Corporate HR
- Policy making
- Formulating strategy and action plans
- Managing recruitment and retention
- Employee development
- Performance management

Regional Clusters
[Talawakelle, Nanu Oya and Deniyaya/Galle]
- Coordinate and monitor HR strategy and action plans at estate levels

HR Development Teams
[ELECTED BY PEERS]
- Implement HR strategy and action plans within estates

HUMAN CAPITAL POLICY SALIENT FEATURES

- "People will continue to be our most valued resource and we are committed to nurture and develop them consistently"
- Treat people with dignity and respect
- Enhance quality of life, self-esteem and morale of the workforce
- Encourage people to be initiative, creative and innovative
- Train, empower, motivate the workforce
- Give due recognition for performance
- Equal opportunity and prohibit any form of discrimination or discriminatory practices
- Employee right for freedom of association, right to form and join trade unions and bargain collectively
- Prohibit any form of forced and bonded labour
- Minimum age of employment shall be 18 years
- Precedence to be given to local workers for employment and training on estates
- Equal Opportunity & Gender Equality

HR MANAGEMENT GUIDELINES AND PRINCIPLES

- Company's Human Capital Policy
- Rainforest Alliance Sustainable Farm
- Ethical Tea Partnership
- UTZ
- UN Women Empowerment
- UN Global Compact

GRI STANDARDS 103-1, 103-2, 103-3

MATERIAL TOPICS:

- GRI 401 - Employment
- GRI 402 - Labour Management Relations
- GRI 403 - Occupational Health and Safety
- GRI 404 - Training and Education
- GRI 405 - Diversity and Equal Opportunity
- GRI 406 - Non-Discrimination
- GRI 407 - Freedom of Association and Collective Bargaining
- GRI 408 - Child Labour
- GRI 409 - Forced or Compulsory Labour

- **Materiality Basis:** As a labour intensive business, upholding best practices and maintaining good employee relations are critical to reach out to the organisational goals. Being responsible towards the workforce, ensuring their development and their well-being whilst closely monitoring their performance will pave the way for higher level of productivity, bolstering the business viability and sustenance in the long-term.

- **Boundary:** Estates, factories and corporate office

Management Approach

- Uphold and align our business with the Company's 'Human Capital Policy'.
- Comply with Sri Lanka's labour laws and industry regulations, standards and consensual decisions.
- Adopt and follow best practices on labour management in line with the guidelines set by the internationally acclaimed certification bodies.
- Extend strategic training opportunities to develop employee skills to meet current industry challenges.
- Closely engage and build the workforce in line with the identified key value drivers.
- Consistently monitor, motivate and incentivise employees on performance.
- Assessments

GRI Disclosures: 401-1,2 & 3; 402-1; 403-1, 2, 3 & 4; 404-1, 2 & 3; 405-1& 2; 406-1; 407-1; 408-1 and 409-1

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

As a plantation company, our workforce of over 7,000 is focal to our strategy. We are conscientious and focused in our engagement with our workforce including the corporate team at the head office and the staff and workers at the estate level. Our engagement with our workforce is responsible and fair, underlining a progressive and an empowered work culture. We uphold and implement ethical and best HR practices in managing our workforce in line with the Country's labour laws, rules and regulations, our HR Policy and guidelines set out by our certification bodies.

Our management approach of managing labour relations is top-down. The HR team at the corporate office sets out the necessary policies, strategy and action plans. The regional clusters coordinate and monitor the HR strategy and action plans at estates on a cluster basis in three regions, entailing Nanu Oya and Talawakelle in the high grown region and Deniyaya/Galle in the low grown. The HR development teams formed within the estates-with the concurrence of the workforce-are hands-on in their engagement with the estate workforce, implement and monitor the action plans. They are also responsible to closely monitor worker performance against the targets set both at an individual level and at a collective level.

Learning and development is a critical aspect, given much precedence in our management approach. Due investments are made to extend learning opportunities to all employees across all categories. We extend strategic training opportunities for our executive and management level cadre to develop their work skills, leadership and empower them in their job roles. At the estate level, our field and factory supervisors and managers closely interact, engage and train the estate workforce. We have identified key value drivers to develop the estate workforce and enhance their level of productivity. The key value drivers-covering attendance, nutrition and health, hygiene and family wellbeing-seek to uplift the worker's living standards and better their quality of life. These drivers in effect, enable us to nurture sound labour relations, and thereby, boost worker morale and productivity.

Performance is also a key area in our management approach. All incentives, rewards and recognition are based on performance merits. The management invests well and gives due precedence to monitor performance at all levels of the cadre, be it at the corporate office or at the estates and factories.

GRI Disclosure: 102-15

OPPORTUNITIES

- Availability of a large human resource base amongst the resident communities enable smooth operations.
- The trainability qualities of the workforce support progressive changes to modernise operations.
- Top-down commitment to inclusivity and diversity supports to nurture an enabling work environment, worker loyalty, motivation and higher productivity.
- Commitment to bring in a learning and development culture empowers the workforce and supports business viability.
- Commitment to nurture a performance oriented work environment supports an engaged workforce and higher productivity.

RISKS

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

STRATEGY - HUMAN CAPITAL MANAGEMENT

Strategic Imperatives	Strategy	Performance Update 2017/18
Fair 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.	• Recognised by top awarding bodies for best practices in HR. • Collaborated with in-house trainers, external trainers and academia to extend a comprehensive training programme to build employee skills. • Carried out well-structured training programmes on key value drivers for the estate workforce. • Refined the scope of the key value drivers to include health and nutrition of mothers and children. • Extended performance-based bonuses, increments and incentives based on performance merits. • Collaborated with the 'Save the Children Fund' to support the well-being of the estate children. 
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 physical and mental well-being 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.	

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

HUMAN CAPITAL

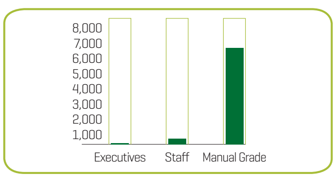
Targets and Actual Performance

Key Indicators	Unit	Target	Actuals	
			2017/18	2016/17
New Recruitments	Number	600	580	448
Workforce Retention Rate	Percentage	96	95.5	90
Average Turnover Rate	Percentage	4.5	4.5	9
Executives and Staff Performance Evaluated	Percentage	100	100	100
Total Training Hours	Number	15,000	13,209	19,984
Health and Safety Programmes	Number	150	96	192
Employees Trained on Health and Safety	Number	7,000	5,005	9,580
Employees Trained	Number	15,000	14,336	16,520
Training Investment	Rs Mn	2.5	2.98	2.2
Manual and Staff Representatives in Health and Safety Committees	Percentage	25	12.8	39.4

FAIR LABOUR PRACTICES

Employment Facets

GRI Disclosure: 102-8 & 41

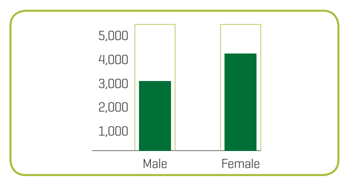


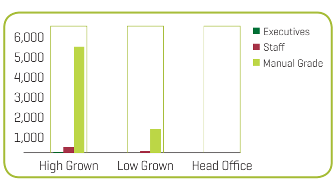
WORKFORCE

Our workforce as at 31st March 2018 stood at 7,136.
Executive Grade - 69 (Male 61, Female 8)
Staff Grade - 387 (Male 291, Female 96)
Manual Grade - 6680 (Male 2627, Female 4053)

EMPLOYMENT CONTRACT BY GENDER

- Permanent staff on a full-time basis accounted for 99.7.% of the total workforce.
- Majority of the workforce, 60.8% were represented by female workers mainly employed within the manual grade.
- Female representation in the staff grade stood at 24.8%.
- Executive and management category is represented by 8 female employees representing 11.6%.



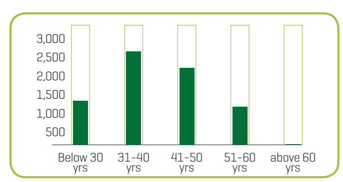


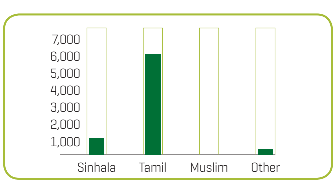
EMPLOYMENT CONTRACT BY REGION

- Almost 81.2% of the workforce fell within the estate operations in the high grown.
- Majority of the workers representing 60.7% were female in the manual grades.

AGE

- Over 67.4% of the workforce is between 30-50 years.
- The management team is represented by a good blend of well-experienced senior staff and dynamic younger staff.





ETHNICITY

- Minority communities dominated manual grades, mainly in the high grown.
- Executive grade was more skewed towards the majority Sinhalese.

DIVERSITY AND NON-DISCRIMINATION

GRI Disclosure: 405-1 & 406-1

DIVERSITY REPRESENTATION – 2017/18

	Manual	Staff	Executive	Manager	Board Level
	Employee Category - As a Percentage of Permanent Cadre				
Gender					
Male	39.3	75.2	18.8	66.6	2.8
Female	60.6	24.8	8.6	2.8	
Age					
Below 30 years	17.3	18.3	7.2	18.8	
30-50 years	67.5	64.2	20.2	47.8	
Over 50 years	15.1	17.5		2.8	2.8
Ethnicity					
Majority Sinhalese	18.2	1.8	27.4	59.3	1.4
Minority Groups	81.7	98.2		10.1	1.4

As a principled organisation, we operate as an 'equal opportunity' employer. We have always been open to diversity and worked towards advocating tolerance and unity to nurture an inclusive workplace. As guided by our HR policy, we clearly stand committed to uphold impartiality, respect and equity. We do not hold any prejudices against gender, race, ethnicity or any other social, political or economic facets. We strictly follow a non-discrimination policy in our workplace practices including recruitment, promotions, remuneration, rewards and training. Our HR policy, collective bargaining agreements and certification programmes underscore our efforts in this regard.

Our workforce is well represented in terms of gender, age and ethnicity across employee categories. Both management and executive level have a fair representation of female employees. Our Board is represented by a female Board member, Mrs Minette D A Perera. She plays an active role within the Board and was the Group Finance Director of the MJF Group.

We have not received any complaints or being subject to any legal action for discrimination during the reporting year. The annual audits carried out by the Rainforest Alliance under the new standard, Ethical Tea Partnership and UN Global Compact did not record any findings in terms of violating our non-discrimination policy. Procedures are in place to deal with such incidents, if and when, they occur.

RECRUITMENT

GRI Disclosure 401-1

Our recruitment policy is pragmatic. We are proactive in our efforts to employ the 'best' and 'right' talent to our organisation. Aligned to our HR policy, 'equal opportunity' is the underlining premise of our recruitment process. The process is well-structured with well-thought out selection criteria to meet the vacancy job description. Our recruitment policy also gives precedence for internal staff transfers, promotions and suitable cross-placements between estates and departments.

In the reporting year, we recruited 580 new employees, an increase of 29.4% over the previous year. Out of the new recruitments, 88.4% were employed for the manual grades whilst 60% within this category were female employees. Executive Grade recruitments reached 3.4%. We also promoted 22 employees at the executive and staff level whilst 11 were transferred across the estates.

STAFF RECRUITMENT - 2017/18

Age Group	Manual		Staff		Executive		Total	
	Male	Female	Male	Female	Male	Female	Male	Female
Below 30 years	35	49	7		3		45	49
30-50 years	123	158	18	2	10		151	160
Over50 years	47	101	19	1	7		73	102
Region								
High Grown	33	62	38	3	14		85	65
Low Grown	172	246	6		6		184	246
Total	205	308	44	3	20		269	311

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

CHILD LABOUR

GRI Disclosure 408-1

Refer: Relationship Capital – Supplier, Page 110

Save the Children Fund

We collaborated with the Save the Children Fund to carry out a comprehensive programme to address child welfare issues in the reporting year.

'The Mother & Child Friendly Plantations Project' is a 3-year programme (2016-18) funded by the Save the Children, Hong Kong, to promote the improvement of child protection and early childhood care and development standards on Sri Lanka's tea estates. The initiative works in partnership with Sri Lanka's tea industry towards agreeing a set of voluntary, achievable, affordable, sustainable and measurable social standards that embrace each of these key areas.

PROJECT 1

ESTATES: DESSFORD & GREAT WESTERN ESTATES

Project Objectives:

- To facilitate the development of a child protection policy by Talawakelle Tea Estates PLC
- To facilitate setting up of a community-based child protection mechanism at the Dessford estate
- To improve quality of early learning at the Dessford Estate

Project Grant:

Dessford Estate - Rs. 1.0 million for upgrading work, providing ECCD and children's club materials and trainings

Great Western Estate - Rs. 1.0 million for upgrading work

Beneficiaries:

Appx. 200 children (6 children's clubs + 1 CDC)

Key Activities:

1. Setting up a village child development committee and providing case management training
2. Setting up of children's clubs and providing training for club members on leadership skills, art and drama and puppetry, and providing materials such as books and sports equipment.
3. 'Every Last Child' campaign - children's club members participate in child led advocacy initiatives including magazines and campaign videos
4. Upgrading the child development centers at the Dessford and Great Western estates
5. Providing early childhood care and development training (6 trainings) to child development officers/preschool teachers and providing materials such as books and play kits.
6. Providing parental sensitisation trainings on early learning environment at homes.

PROJECT 2

The project aims to improve hygiene, through access to better sanitation and awareness in the Dessford estate

ESTATE: DESSFORD ESTATE

Project Objectives:

To improve good hygiene practices amongst beneficiary families, especially children under 5 years old and pregnant women, in the targeted tea estate communities.

Project Grant:

- Rs. 666,880 for sanitation awareness sessions
- Rs. 4.9 million for the installation of 75 latrines

Beneficiaries:

75 families

Key Activities:

Construction of 75 latrines at the Dessford estate

Sanitation awareness through a street drama, poster campaign, community participatory awareness sessions

CDC Upgrading - Dessford Estate

ECDC Training - Dessford Estate

Sanitation Programme - Dessford Estate

As enshrined in our HR policy, we do not engage nor complicit in child labour. We do not have child labour, paid or otherwise, in any of our estates or factories across the organisation. Our recruitments are carefully made with a well-structured selection process that eliminate the possibility of employing a minor. Documentary proof is called for at the time of selecting candidates for any vacancy. We are also conscientious to prevent any form of child labour taking place across our supplier chain. We have the necessary processes and measures in place to identify child labour issues amongst our suppliers and business partners. Our child care programmes carried out amongst the estate communities and our collaborations with non-governmental organisations and other agencies support our efforts to alleviate poverty and inculcate social security, thus preventing child labour.

FORCED OR COMPULSORY LABOUR

Refer: Relationship Capital – Supplier, Page 110

GRI Disclosure: 409-1

Upholding best practices in labour management, we are committed to treat our employees with respect and responsibility. We do not resort to any form of exploitation of our workforce across the organisation. We comply with Sri Lanka's labour laws and follow the guidelines and principles enshrined within our certification programmes. We are responsible in meeting our obligations to all employees, at all levels. Our compensation is on par with the industry norms whilst being committed to meet our statutory obligations responsibly. We also make incentive payments, particularly, tied up to productivity and we have carefully structured measures to ensure the well-being of our workforce. We also have in place an effective screening mechanism to ensure that there are no incidents of forced labour across our supply chain.

STAFF TURNOVER

GRI Disclosure: 401-1

Given our proactive measures and best practices in labour management, we were able to sustain a sound workforce retention rate of 95.5% as at 31st March 2018. The average turnover rate was at 4.5%; whilst the turnover of the manual grades corresponded to a ratio of 9.2%. The turnover was at 59% in the high grown region compared to 40.8% turnover in the low grow region, during the period of reporting.

STAFF TURNOVER - 2017/18

Age Group	Manual		Staff		Executive		Total	
	Male	Female	Male	Female	Male	Female	Male	Female
Below 30 years	56	58	4	2	4		64	60
30-50 years	132	157	36	4	6	1	174	162
Above 50 years	93	118	11	3	1		105	121
Region								
High Grown	164	188	37	6	10		211	194
Low Grown	117	145	14	3	1		132	148
Colombo						1		1
Total	281	333	51	9	11	1	343	343

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

MATERNITY LEAVE

GRI Disclosure: 401-3

In keeping with Sri Lanka's labour laws, we give all our female employees their entitled 84 working days as maternity leave for the first two children and 42 days for the third child or more. In the reporting year, 183 of our female employees availed this leave entitlement whilst 93 of them corresponding to 50.8% returned back to work. 85 employees are still on their entitled maternity leave.

We also allow and encourage our female employees to avail their entitlement for feeding time after they return from maternity leave. As per our labour laws, male workers are not entitled to paternal leave and therefore, we have not initiated this scheme as yet.

MATERNITY LEAVE – 2017/18

Female Employees	Number	% of Total Female Workforce
Availed the entitlement for maternity leave	183	4.3
Returned to work after maternity leave	93	50.8
Resigned from work after maternity leave	5	2.7

Service Analysis

We maintain a healthy service record. As at 31st March 2018, out of the total workforce, 51% accounted for a stable service record between an average of 6-20 years whilst 26% is below 5 years. In terms of the manual and staff grades, almost 51% accounted for a service between 6-20 years. In terms of the executive grade, over 49% fell within this service category.

REMUNERATION AND BENEFITS

GRI Disclosure: 401-2 & 405-2

Refer: Economic Value Creation, Page 63

As a responsible Regional Plantation Company, we stand committed to meet all remuneration and statutory benefit obligations. Our remuneration scheme is aligned to the industry norms. Collective bargaining is allowed and ensures fair pay system.

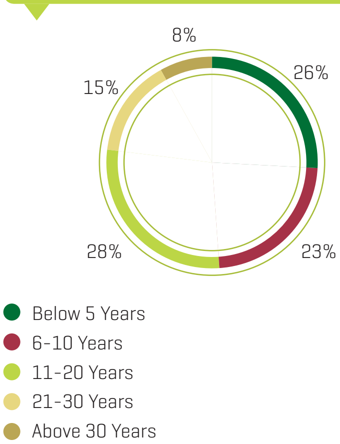
As will be discussed under 'economic value addition section', we are also responsible in meeting our statutory obligations. The Employees Provident Fund and Employee Trust Fund obligations in the year stood at Rs.180 Mn whilst the gratuity liability provision stood at Rs. 107 Mn. We also provide comprehensive benefits to our full-time permanent employees. We incurred Rs. 126 Mn to provide these benefits in the year under review.

RATIO OF BASIC SALARY BETWEEN MALES TO FEMALES 2017/18

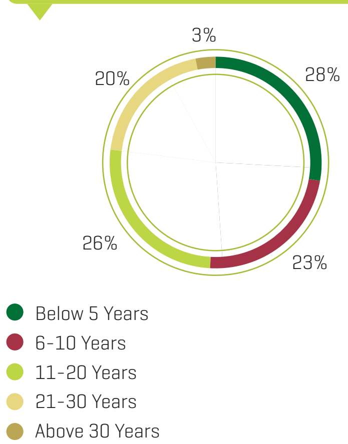
	Manual	Staff
Female's average earnings as a percentage of average male earnings	1 : 1	1 : 1

Executive salaries are determined on performance.

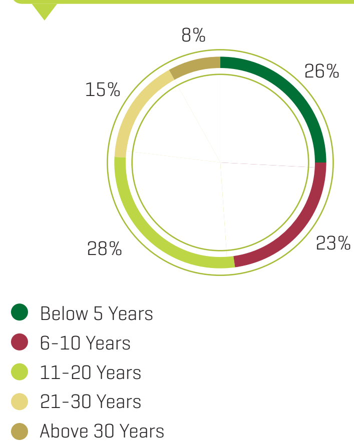
Service Analysis - Overall Workforce as at 31st March 2018



Service Analysis - Executive Employees as at 31st March 2018



Service Analysis - Staff & Manual Grade Employees as at 31st March 2018



BENEFITS FOR PERMANENT AND FULL TIME EMPLOYEES – FY 2017/18

	Estate				Corporate Office		
	Manager	Executive	Staff	Manual	Manager	Executive	Staff
Housing with electricity and water	✓						
Living quarters with electricity and water		✓	✓				
Line Rooms with electricity and water				✓			
Employee medical insurance - OPD, spectacles and hospitalisation	✓	✓	✓		✓	✓	✓
Immediate family medical insurance - OPD, spectacles and hospitalisation	✓	✓	✓		✓	✓	✓
Free prescription drugs				✓			
Medical facilities and free medical clinics				✓			
Maternity benefits				✓			
Child care facilities				✓			
Mid-day-meal nutrition programme				✓			
Milk and wheat flour for children				✓			
Scholarships for children			✓	✓			
Death donations			✓	✓			

Total cost of benefits provided for permanent employees in FY 2017/18: Rs. 126 Mn.

OCCUPATIONAL HEALTH AND SAFETY

GRI DISCLOSURE 403-1, 2, 3 & 4

HEALTH & SAFETY POLICY SALIENT FEATURES

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

Extend preventive and protective safety measures in all production and processing areas

Extend regular training and educate on relevant health and safety aspects

Be proactive in implementing health and safety programmes across operations

Health and safety committees spearheaded by estate managers with worker representation

Comply with applicable national health and safety laws and regulations

Carryout regular health and safety risk assessments and review health and safety standards, programmes and objectives

Health and Safety Topics Covered in Collective Agreements

- Maternity Benefits
- Medical Aid Scheme
- Death Grant
- Workmen Compensation

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

8 DECENT WORK AND ECONOMIC GROWTH

HEALTH & SAFETY COMMITEES

STAFF REPRESENTATIVES

3.6% Mangers

18% Staff

78.4% Manual

HEALTH & SAFETY COMMITTEES

14 HEALTH AND SAFETY COMMITTEES

9 Committees in High Grown Estates

69.6 % of the 637 high grown workforce covered

5 Committees Low Grown Estates

30.3% of the 278 low grown estate workforce covered

HIGH RISKS

Health and Safety Issues

Employee Category	Occupational Diseases/ Hazards	Key Measures Adopted to Mitigate
Manual	Communicable diseases	- Comprehensive immunisation programme for the workforce and for the resident communities - Medical center facilities in estates with ambulance services - Free medicine on prescriptions - Regular health camps to create awareness on preventive healthcare
	Water-borne diseases	- Timely investments in capex to support water and sanitation infrastructure - Collaborations with government and non-government organisations to provide clean water and sanitation facilities - Regular health inspection of the workplace and homes
	Malnutrition and anaemia	- Prioritising as a key value driver with special emphasis given within the HR strategy - Training and awareness building on nutrition and support for manual workers - Testing blood of the estate workers for haemoglobin levels and providing de-worming and iron tablets - Awareness building programmes on nutrition for antenatal and parental care
	Musculoskeletal injuries	- Providing ergonomic plucking baskets to tea pluckers - Fair roaster systems with adequate leisure time

Employee Category	Occupational Diseases/ Hazards	Key Measures Adopted to Mitigate
	Accidents from field and factory operations and insect and snake bites	- Medical Centers facilities - Ambulance services in strategically located estates providing 24-hour medical service - First aid training
	Agro-chemical hazards	- Separate sanitation and changing room facilities for all agrochemical sprayers - Personal protective equipment for agrochemical sprayers - Awareness building for workers engaged in agrochemical transport, storage and application - Material safety data sheets to monitor agrochemical application responsibly
Manager/ Executive/Staff	Non-communicable diseases	Extending a comprehensive medical insurance scheme Awareness building programmes on non-communicable diseases
	Work stress	Encourage staff to have a work-life balance Carryout motivational building and stress management programmes

HEALTH AND SAFETY TRAINING - 2017/18

Training Programme	Employee Category	No of participants	Training hours	Training Outcome
Importance of Health & Safety	Staff & Workers	850	1247	Healthy workforce and maximum safety at work
Awareness on Nutritious Food & Hygiene	Staff & Workers	37	74	Healthy workforce
Importance of Safety at Workplace	Staff & Workers	36	54	Less accidents
Awareness on Anemia	Staff & Workers	43	43	Healthy employees and Productivity improvement
Awareness on Home Garden	Staff & Workers	12	6	Healthy employees
Occupational Health & Safety	Staff & Workers	167	330	Safe workplace, less job related sicknesses
Awareness on Road Accidents	Staff & Workers	94	94	Avoid accidents
Cancer Awareness Programme.	Staff & Workers	196	196	Avoid risk of cancer
Clean & Tidy Homes	Staff & Workers	660	660	Cleanliness, happy home environment
Dengue Awareness Programme.	Staff & Workers	68	136	Reduce risk of dengue
Disaster Risk Reduction	Staff & Workers	50	155	Safe workplace, risk reduction and business continuity
Emergency Preparedness for Field & Factory work	Staff & Workers	365	453	High level of awareness of being prepared for unforeseen eventualities
Fire Fighting Training Factory Staff	Staff & Workers	160	297	High level of preparedness to combat fire in case of an eventuality
First Aid Training	Staff & Workers	399	593	Knowledge and ability to provide immediate treatment in case of sudden injury or illness

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Training Programme	Employee Category	No of participants	Training hours	Training Outcome
Integrated Waste Management	Staff & Workers	987	1109	Protecting biodiversity
Demonstrating how to prepare a low cost nutritional meal	Staff & Workers	526	958	Economical meal with health benefits
Personal Health & Hygiene	Staff & Workers	115	125	Healthy employees
Roles & Responsibilities of Health & Safety Committee Members	Staff & Workers	12	48	Ensuring a responsible Health & Safety Committee
Safety Handling of Agro Chemicals for Sprayers	Staff & Workers	110	112	Safety, Good health
How to use Personal Protective Equipment in the Workplace	Staff & Workers	32	26	Safety, avoid of injury and illness
Water Conservation	Staff & Workers	86	43	Avoiding wastage of water and high costs
Total		**5005**	**6759**	

Health & Safety Committee - Deniyaya Estate

Awareness on Dengue - Clarendon Estate

Our Health and Safety Policy is well internalised across our operations-fields, factories and the corporate office. Guided by this policy, we have a comprehensive programme in place to address health and safety aspects and ensure the well-being of the workforce, covering all employee categories. Under this programme, we have established health and safety committees and these are well represented by the workforce, inclusive of executive, staff and manual grades. The committees spearhead, support to implement and monitor health and safety within the workplace. This also extends to families and resident communities within the estates. Our collective agreements have clauses covering these aspects, particularly, on health, nutrition and safe manufacturing practices. Our certification programmes also advocate and guide us in this regard. We also prepare human development progress reports to track and monitor the outcomes of our health and safety initiatives including plucker analysis, health and medical care and worker absenteeism.

Out of the total workforce, the majority, are within the manual grade engaged in field work with greater exposure to risks related to occupational diseases and hazards. Our health and safety programmes are specially structured to address these occupational issues faced by the manual grade workforce in three key areas-awareness building on health and nutrition to improve mental and physical well-being; safe manufacturing practices; and agro-chemical applications.

Our focused efforts to ensure worker well-being have minimised the impacts from occupational diseases and hazards. Our key value drivers as will be discussed below, proactively promote and support the workforce to adopt healthy lifestyles including the right nutrition and preventive healthcare to arrest the risk of communicable and non-communicable diseases. In the reporting year, we trained 5005 employees across all operations, entailing 6759 training hours.

INJURY AND LOST DAYS

Occupational Health & Safety Records – 2017/18

	Injury Rate		Occupational Disease Rate		Lost Day Rate	
	Manual Grade	Total Workforce	Manual Grade	Total Workforce	Manual Grade	Total Workforce
Male	2.13	1.87	0	0	0.033	0.029
Female	0.22	0.21	0	0	0.025	0.024
High Grown	2.58	2.42	0	0	0.033	0.030
Low Grown	0.74	0.68	0	0	0.007	0.006

Assumption:
Injury rate includes both major injuries and minor injuries
Lost days are calculated based on scheduled work days

We recorded 150 work related accidents and injuries in the year with regard to our staff and manual grade employees in the fields and in factory operations. This corresponded to 2.1% of the total workforce. The total man days lost due to these injuries was 568.5 during the reporting year. All injured employees were given duty leave and insurance relief under the workmen's compensation cover. There were no fatalities recorded within the workplace or during work hours in the reporting year under review.

TRAINING AND DEVELOPMENT

GRI Disclosure: 404-1 & 2

TRAINING FOCUS						
	Agriculture and Manufacturing	Quality and Standards	Occupational Health and Safety	Environmental Management	Strategic Management	HR Development

As a labour-intensive operation, a well-rounded workforce with higher level of commitment and productivity is essential to our long-term success. Training and development in this context assume a greater role; in developing a proficient workforce with required skills and collaborative spirit to support our corporate goals against the present-day challenges.

Our training programmes are well-structured and current to address skills gap ascertained during our performance evaluations carried out annually across the corporate office and the estates and factories. The annual training plan takes into account both the recommendations on the training needs given by the supervisors and managers and the training required to support and achieve our corporate strategic goals, amidst the complexities of the business backdrop.

As an 'equal opportunity' employer, we extend training to all employee categories as per the pre-drawn training plan. We carry out comprehensive training programmes both in-house and external. This also includes foreign training. We work closely with the National Institute of Plantations Management, Tea Research Institute and National Institute of Business Management to roll out relevant training opportunities with a strategic-best fit. We also seek the support of well-acclaimed trainers and resource persons including the academia to come on board and train our workforce on technical skills, soft skills and to drive motivation and attitudinal changes to create a more progressive work environment.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Leadership Mindset Training in Malaysia Managers & Asst Managers

Staff Training - Somerset Estate

Training at University of Peradeniya Management Team

Training for Tea Harvesters - Somerset Estate

We give due precedence to on-the-job training. Apart from operational training, our workforce is well trained on our company policies, health and safety aspects and on key value drivers that set the foundation for greater productivity and ensure the well-being of our people. We engage our technically savy and well-experienced senior staff to support our in-house training initiatives. This year, we got the assistance of our advisors on strategic agriculture, manufacturing and sustainability to strengthen our training endeavours. Most of our estates have well-equipped training facilities to support our in-house training initiatives. We give the necessary staff leave and relieve them from their duties to attend training sessions as per the training calendar.

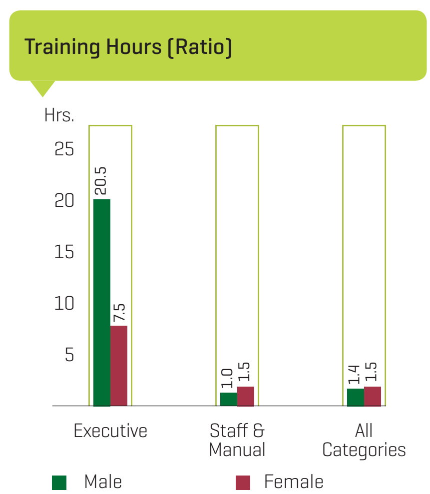
We also extend scholarship opportunities and study loans to our employees, particularly, the younger staff members, to further develop their skills and take up relevant study courses under well-recognised professional bodies and universities.

Our training investment in the year stood at Rs. 2.98 Mn, an increase of 35.4% over the previous year.

TRAINING – 2017/18

Employee Category	No. of Training Hours	
	Male	Female
Executive	1,229	62
Staff Manual	3,908	8,010
Total	5,137	8,072

TRAINING PROGRAMMES - 2017/18



Focus Area	Training Programme	Training Institute/ Trainer	Employee Category	Training Outcome
Agriculture & Manufacturing	Land use for sustainable crop production	Faculty of Agriculture, University of Peradeniya	Managers & Asst Managers	Technical expertise in plant, soil, water, nutrient management
	Tea Manufacture & Factory Practices	National Institute of Plantation Management (NIPM)	Managers & Factory Executives	Expertise in tea manufacturing & Efficient Factory Management
	Field & Factory Practices	External Consultants	Field & Factory Workers	Work Efficiency, Time management and enhanced Knowledge

Focus Area	Training Programme	Training Institute/ Trainer	Employee Category	Training Outcome
Quality and Standards	Quality Enhancement	In-house	Executives & Staff	Product Standard improvement
	Water Management & Water Footprint Calculations	Hayleys PLC	Executives	Consumption reduction & managing water efficiently
	ISO 14001:2015 Standards	SGS Lanka (Pvt) Ltd	Executives & Staff	Enhancing Quality and establishing ISO standards
	5S & KEIZEN Concepts	JASTECA	Staff & Workers	Time Management & Efficiency
Occupational Health & Safety	How to use Personal Protective Equipment in the Workplace	In-house	Staff & Workers	Safety & reduction in accidents
	Safety Handling of Agro Chemicals	In-house	Staff & Workers	Safety & Good Health
	Importance of Safety at Workplace	In-house	Staff & Workers	Avoid accidents
	Occupational Health & Safety	In-house	Executives, Staff & Workers	Safe working environment & good health
	Awareness on Food Safety & Hygiene	In-house	Staff & Workers	Good health, cleanliness and hygiene
Strategic Management	Senior Corporate Management Leadership Programme	JASTECA (Japan)	General Manager	Acquiring knowledge of best leadership traits, ability to take challenges, drive organisational performance
	Policy Making & KPI Setting	In-house	Managers & Executives	Ensuring adherence to set rules and procedures, achieving results on measurable targets
	Corporate Transparency & Sustainability	Colombo Stock Exchange	Managers & Executives	Transparency in dealings and work practices, with sustainable competitive advantage.
	Networking & Innovation	In-house	Managers & Executives	Connectivity and work improvement
HR Development	Improving HR Skills	Employers' Federation of Ceylon	Executives & Staff	Strong and knowledgeable HR team
	Interview Techniques	Hayleys PLC	Managers	Selection of Right People
	Labour Laws, rules & regulations of Company	Senior Consultant-HR	Managers & Executives	Strong Industrial Relations enhancement of managerial knowledge
	Leadership Mindset in the 4th Industrial Revolution	Praguna Management (Malaysia)	Managers & Asst Managers	Understanding the influence of digitalisation on business & challenges in creating a digitalised organisation
	Community Capacity Building	In-House	Workers	People development
	Improve the living standards of employees	In-House	Workers	Happy & healthy workforce, higher productivity
	Leadership & communication	In-House	Staff & Workers	Building Confidence, Enhancing Inter Personal Relations

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

PRODUCTIVITY AND PERFORMANCE MANAGEMENT

Estate Productivity

KEY VALUE DRIVERS PROGRAMMES/INITIATIVES 2017/18

Zero anemia, maternal malnutrition and under-malnutrition & underweight children for a healthy life
- Awareness building on anaemia, nutrition, worm infestation
- Identify anemic workers through Hemoglobin screening
- Issued iron and de-worming tablets
- Awareness building on iron rich foods and nutrition and home gardening of nutritious and medicinal plants
- Awareness building on breast feeding and child nutrition and family spacing

100% attendance at work for increased earnings
- Awareness building on the importance of estate work
- Supporting poor performers through HR and welfare programmes
- Rewards and recognition

Create a better future for your family for a prosperous life
- Awareness building on smoking, alcoholism and other addictions
- Awarding scholarships to high achiever children
- Introduce life insurance

Clean, tidy homes and working places
- Awareness programmes on cleaning houses and surroundings
- Training on solid waste management
- Organise inspections from health officials

A healthy lifestyle, nutritious food for a better quality of life
- Training female workers on preparing nutritious food
- Awareness building on savings and credit management
- Medical assistance for minor surgery

Training, development and talent enhancement
- Training on key value drivers
- Training on productivity, leadership and team building
- Forming and training occupational health and safety committees
- Training on certification and '5S' programmes

TESTIMONY

Best Plucker 2017 - 2nd Place
National Tea Awards
Kiruwanaganga Estate

Mrs. Perumal Indrani, age 55 and a mother of three, has worked in the tea plantation industry since the year 1976. Representing the 'Sampatha' tea plucker team of the Kiruwanaganga estate, Indrani is recognised and cherished as one of our best tea pluckers. With extensive training extended to her through our productivity training initiatives and under the guidance of the Tea Research Institute on the correct methodology of plucking tea leaves, her contribution to the estate productivity is immense and significant.

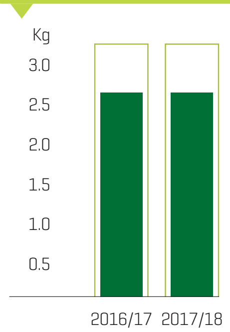
Coinciding with the celebrations of 150 years of Ceylon Tea, National Tea Awards 2017 organised by the Sri Lanka Tea Board in collaboration with the Ministry of Plantations and under the patronage of His Excellency the President Maithripala Sirisena, duly recognised Indrani and awarded the second place - 'Best Tea Plucker' at the all-island level. She clinched the first place at the Deniyaya zonal level and at the Matara district competitions. She was also honoured at an awards ceremony held by the Department of Labour in celebration of Women's Day.

We come together to celebrate and pay tribute to Indrani for her high achievements and place our sincere appreciation for her dedicated service to our organisation.

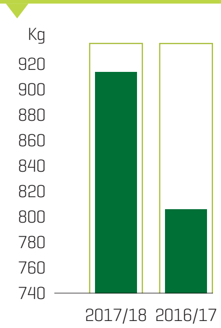
KEY VALUE DRIVERS OUTCOME 2017/18

95.5%
Estate Worker Retention

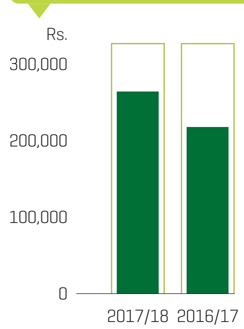
Worker Productivity - MT kgs/worker days



Production/Estate Worker



Earnings/Worker



As a plantation company, we rely on our workforce. Their productivity is crucial to our viability and our long-term sustainability. Our management approach is to enable the well-being of our workforce and nurture their quality of work-life. This in effect, gives a significant boost to strengthen worker morale, boost their level of productivity, enhance their sense of loyalty to the workplace and retain them within the organisation.

Over the recent years, we have been focused in our efforts to develop our workforce, particularly, in the high grown region, on clearly identified value drivers, encompassing their overall well-being, physically and mentally and even socially. This reporting year, we further refined the scope of our value drivers to improve maternal and child nutrition, health and hygiene issues.

GRI Disclosure: 413-1

Our human development staff under the regional cluster supervision is well trained and committed to systematically implement our value driver programmes across our estates. They closely engage the estate workforce in delivering these programmes. All activities are carried out as per the action plans prepared annually in consultation with the management and workforce representatives. The execution of these plans is closely monitored and subject to periodic audits.

In the reporting year, we carried out progress meetings and field visits to monitor the progress of our value driver programmes. During these meetings, the programme targets and outcomes for each of our estates were deliberated and subsequently, the findings and recommendations were presented to the estate and corporate management for their deliberations and for necessary remedial and counter action.

PERFORMANCE EVALUATIONS

GRI Disclosure: 404-3

Refer: Intellectual Capital Performance Management Mechanism Page 101

We remained steadfast in our efforts to create and advocate a performance-based work culture within our organisation. Our performance management mechanism we have in place is well-structured with clear measurement and evaluation criteria to assess employee performance on a set of pre-agreed key performance indicators. Our performance management is hand-on-systematically monitoring, evaluating and supporting our employees to perform at their best whilst developing their personal career aspirations. Under this mechanism, we set our performance targets annually both at a collective level and at an individual level covering the executive and staff categories and the performance is then evaluated against the targets, annually. All rewards including salary increments, bonuses, incentives and recognition are determined on the results and the merits ascertained during the performance evaluation process.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

In the reporting year, we evaluated the performance of all our executive and staff grade employees and they, in turn, were rewarded with performance-based increments and incentives along with due recognition and promotions. We also identified our high achievers and we gave them the necessary training to further their skills. We also supported them with a comprehensive mentoring programme to develop their management and leadership skills under the abled-guidance of our senior management at the corporate office and at the estates.

Celebrating "Excellence in Performance"

PERFORMANCE MANAGEMENT SCHEME – 2017/18

Category	No. of Personnel Evaluated		Total Evaluated	% Evaluated
	Male	Female		
Executives	62	7	69	100%
Staff	291	96	387	100%
Total	353	103	456	100%

Best Plucker - Bearwell Estate

LABOUR RELATIONS

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

COLLECTIVE BARGAINING AGREEMENTS KEY AREAS COVERED

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

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

We stand for our employees' right for freedom of association and collective bargaining. Majority of our workforce 99%is covered by collective bargaining agreements with the trade unions. The collective agreements set out how the organisation should proceed in its decision-making with regard to making any significant operational changes. The agreements stipulate that the organisation should uphold transparency and accountability in its corporate actions and conduct. The clause 10(i) of the main collective agreement entered into on 4th December 1998 elaborates on mobility of labour. This clause specifies that any change to work arrangements will be implemented only with the consent of the employees and on terms mutually agreed. The Clause 10 (vi) of the Agreement also specifies that the employer has to discuss with the union on any worker issues with respect to the amalgamation of estates or divisions.

In the reporting year, our commitment to uphold employee rights in terms of collective bargaining did not waver and there were no incidents or risks reported of violating these agreements in any of the estates and factories. We also did not record any risks or violations of employee rights across our supplier chain.

LABOUR GRIEVANCE MECHANISM

Typically, within the plantation sector, the workforce grievances on the estates are addressed by the estate management and the trade union representatives. Our collective agreements set out the standard labour practices and the procedures to be followed in addressing grievances and disputes. Beside this formal mechanism, we advocate an open workplace culture where workers have access to the management to address their grievances or their concerns through a healthy dialogue. Our commitment to uphold best practices in labour along with our key value driver programme as discussed above and our certifications support our endeavours to ensure harmonious labour relations across our estates. We did not record any formal grievances related to labour practices including human rights within the 12 months ended 31st March 2018.

"We followed through with our focused and responsible initiatives to be efficient in resource utilisation, conserve our biodiversity and lessen our impact on green-house-gas emissions."

NATURAL CAPITAL

OVERVIEW

With our estates spanning over 6,000 hectares of land resources, we are unwavering in our commitment towards protecting and conserving the environment in which we operate. Our operations are inextricably depended on the environment, underpinning our viability and sustainability in the long-term. Therefore, we recognise the significance of utilising our resources efficiently, managing our operational impacts and minimising our footprint on the environment. This section will discuss in detail, our responsible initiatives and the measures we have adopted to protect and conserve the environment within a well-structured environmental framework.

Strategic Imperatives	Strategic Goals
Materials Management	Be efficient in resource utilisation and opt for renewable resources.
Solid Waste Management	Dispose waste responsibly and increase recycling of solid waste.
Energy Management	Be efficient and conserve energy and opt for alternative renewable energy sources.
GHG Emissions Management	Track, monitor and reduce GHG emissions and the carbon footprint.
Water Resources Management	Maintain quality of drinking water and wastewater discharged.
Soil Conservation, Agro-chemicals and Fertiliser Management	Maintain soil nutrients and reduce soil degradation, erosion and agro-chemical usage.
Biodiversity Conservation and Protection	Protect biodiversity within estates and increase tree inventories and canopy cover.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

KEY PERFORMANCE INDICATORS 2017/18

6,697 Kgs	7,400 tCO_2e	3,883 tCO_2e	147	96	250,323
Solid Waste Recycled	GHG Emissions	Net GHG Emissions Saved from Hydropower	Protected Drinking Water Sources	Wastewater Purification Systems in Estates	Number of plants planted

Celebrating Environmental Management ISO 14001:2015 certification

Presidential Environmental Awards 2017 Silver
Holyrood Estate
Central Environmental Authority

Presidential Environmental Awards 2017 Bronze
Deniyaya Estate
Central Environmental Authority

Presidential Environmental Awards 2017 Merit Awards
Mattakelle and Bearwell Estates
Central Environmental Authority

National Business Excellence Awards 2017 Winner
Excellence in Environmental Sustainability
National Chamber of Commerce

MANAGEMENT APPROACH

ENVIRONMENTAL POLICY SALIENT FEATURES

"We are committed to work in partnership with the plantations and local community to conserve and manage the environment in which we operate for the benefit and well-being of the present and future generations within plantations and its neighbourhood."

Pursue environmentally responsible methods in all agricultural operations, field practices and manufacturing processes.

Protect biodiversity and water sources through a well-managed conservation programme.

Strive to conserve resources by optimising utilisation and minimising waste through practicing cleaner production principles.

Advocate education and awareness on the environment and it's relevance, importance, care and management.

Comply with applicable environmental laws and regulations.

Assess, review and update the environmental management strategies, systems and objectives periodically.

NATURAL CAPITAL MANAGEMENT GUIDELINES AND PRINCIPLES	Company's Environmental Policy	Environmental Certifications	Central Environmental Authority	United Nations SDGs & UN Global Compact Standards	Environment Management Standards	Environmental Laws and Regulations

GRI STANDARDS 103-1, 103-2, 103-3

MATERIAL TOPIC:

- GRI 301 - Materials
- GRI 302 - Energy
- GRI 303 - Water
- GRI 304 - Biodiversity
- GRI 305 - Emissions
- GRI 306 - Effluents and Waste
- GRI 307 - Environmental Compliance

- **Materiality Basis:** As a plantation company, our operations are intertwined with the environment. We are impacted by environmental issues, be it the dwindling non-renewable resources, water scarcity, pollution and climate change. Similarly, our operations also impact the environment through utilisation of resources, industrial waste, damage to biodiversity and carbon emissions. Hence, seeking to ensure environmental wellbeing is significant and determines our viability and our sustenance in the long-term.

- **Boundary:** Estates, factories and corporate office

MANAGEMENT APPROACH

- Uphold and follow the Company's Environmental Policy
- Follow the principles stipulated by multilateral environmental agreements, declarations, protocols and programmes.
- Adopt and follow environmental best practices as advocated by well acclaimed certification bodies
- Compliance with national environmental laws, regulations, standards and policies
- Environment aspect impact assessment and mitigation action on product life cycle perspective

GRI Disclosures: 301-1 to 3; 302-1 to 5; 303-1 to 3; 304-1 to 4; 305-1 to 7; 306-1 to 5 & 307-1

Guided by a comprehensive environmental policy, we stand committed to uphold environmentally responsible best practices across our field and factory operations. The policy is well internalised and our team is proficient and disciplined to ensure effective implementation, including monitoring of the progress of our initiatives. We are also consistent in our efforts to educate and create awareness on the policy content and intent amongst the estate workforce and the resident communities.

Our approach to natural capital management is in line with Sri Lanka's environmental laws, regulations, standards and policies. We also follow the guidelines given by multilateral environmental agreements, declarations and programmes. We work closely with internationally renowned certification bodies including the Rainforest Alliance Sustainable Agriculture Network and the Ethical Tea Partnership, UK. We are an active member of the Biodiversity Sri Lanka— a national initiative in which the corporate sector works together with conservation agencies on environmental and

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

biodiversity related issues. In the preceding year, we also pledged our allegiance to uphold the 'universally sustainable principles' prescribed by the United Nations Global Compact (UNGC) programme.

Our environmental strategy is comprehensive, seeking to address environmental risks as a planation entity whilst taking on the opportunities to ensure greater sustainability in operations. Our strategic framework takes into account seven strategic imperatives—materials; solid waste management; energy, greenhouse gas (GHG) emissions; water management; soil conservation, chemical and fertiliser management; and biodiversity. Our action plans are in line with these imperatives.

The well-structured monitoring mechanism in place measures and monitors our operations as against our environmental objectives and goals. Complementing these efforts, both internal audits and external audits under our certification programmes are carried out periodically. The certification implementation manuals are available to guide the monitoring process with clear performance indicators.

17 PARTNERSHIPS FOR THE GOALS

Rainforest Alliance Sustainable Agriculture Network

- Nurtured on three pillars of sustainability—environment, economy and social justice, the certification programme prescribes best management practices in agricultural and manufacturing operations to mitigate environmental and social risks.
- Certification obtained by 12 estates in the high grown
- Certification obtained by 2 estates in the low grown

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

Biodiversity Sri Lanka

General Member
BIODIVERSITY SRI LANKA

- A national initiative by the Ceylon Chamber of Commerce, International Union for Conservation of Nature and Dilmah Conservation, this platform brings the corporate sector together with the public sector and concerned partners on environmental and biodiversity conservation issues.
- General membership

Website: www.biodiversitysrilanka

United Nations Global Compact

UN GLOBAL COMPACT
WE SUPPORT

- A leadership platform advocating universally accepted ten principles encompassing human rights, labour, standards, environment and anti-corruption along with the UN sustainable development goals including 'millennium development goals'.
- Registered signatory with effect from 22nd June 2016

Website: www.unglobalcompact.org

GRI Disclosure: 102-15

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, Inorganic 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 buildings causing GHG emissions

OPPORTUNITIES

- Aligning with UN sustainable development goals (SDGs) and its objectives
- Top management commitment to protect the environment and reduce the corporate's carbon footprint
- Comprehensive environment policy in place
- Dedicated officers to spearhead forestry and sustainability initiatives
- Rainforest Alliance – Sustainable Agriculture Network and Ethical Tea Partnership 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 hydropower generation
- Greater demand for green and ethical products
- Recycling of solid waste

STRATEGY – NATURAL CAPITAL MANAGEMENT

Strategic Imperatives	Strategy	Performance Update 2017/18
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.	- Aligned the operations to meet the United Nations Sustainable Development Goals and United Nations Global Compact standards. - Complied with certification guidelines of Rainforest Alliance, Ethical Tea Partnership and ISO 14001:2015 Environment Management System.
Solid Waste Management	- Upgrade an integrated solid waste management programme based on the '3-R' concept - Reduce, Reuse and Recycle to 7-R concept - Rethink, Reject, Reduce, Reuse, Replace, Repair and Recycle. - Periodically measure and monitor the solid waste recycled and produce compost from bio-degradable waste.	- Recycled 6,697 kilograms of non-biodegradable waste and produced compost with bio-degradable waste 58,351 Kilograms.
GHG Emissions Management	- Periodically measure and monitor electricity and fuel consumption at each operational site. - Periodically measure and monitor GHG emissions 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.	- Ventured into solar-power, with roof-top solar at the Bearwell Estate in line with national renewable energy policy. - Installed variable-speed drives to electrical equipment to reduce energy usage in eight factories at an investment of Rs. 8.1 Mn. - Curtailed year-on-year GHG emissions by 0.7 percent to 4,565 tCO_2e. - Planted 56,543 number of fuelwood trees. - GHG emission intensity per ton of produced made tea reduced by 3.4% comparative to last year.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Strategic Imperatives	Strategy	Performance Update 2017/18
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 and ponds to sustain the ground water table. - Establish chemical free buffer zones along water sources.	- Conducted product life cycle assessment accordance to ISO 14001:2015 standard and identify level of impact from business process on water sources. Moreover taken mitigation action for identified risk to water sources. - Spent RS 697,071 for maintain and improve water purification systems for ensure discharge water quality in estate.
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.	- Planted 54,168 feet Vetiver and 17,800 Sqft Printoi for reduce soil erosion and runoff which impact to degrade soil quality and contamination of water bodies. - Invested Rs. 17.4 Mn for Soil Management & Conservation in the estate. - Monitored and improved soil nutrition level for ensure sustain of soil better soil fertility level. - Maintain Lock and spill leader drains systems for minimize soil erosion and runoff.
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.	- Increased and maintained conserved biodiversity impotence land area extend of 398 hectares with proper environmental management system. - Periodically conduct biodiversity assessment and taken mitigatory action for reduce impact on conserve area. - Planted Native, fruits & other plant species for increase biodiversity for help to sustain of the terrestrial & aquatic ecosystem.

ENVIRONMENTAL TARGETS AND ACTUAL PERFORMANCE

Key Indicators	Unit	Target	Actuals	
			2017/18	2016/17
Recycled solid waste	Percentage change	10% increased over previous year	6,697	10,454
Production waste	Percentage change	1%	0.17%	0.30%
Electricity consumption	Kilograms per kilowatt hours	1.3	1.38	1.26
Firewood consumption	Kilograms per cubic metre	220	211.9	212.0
GHG emissions intensity	Emissions (tCO_2e) per ton of tea	1.00	1.22	1.27
Quality of drinking water	National parameters	Comply to National Parameters	Achieved	Achieved
Quality of wastewater	National parameters	Comply to National Parameters	Achieved	Achieved except fecal contamination in some sources
Usage of herbicides	Litre per hectare per annum	2.5	2.8	2.9
Usage of insecticides	Litre per hectare per annum	Zero	0	0
Planting fuelwood species	Plants per annum	100,000	56,543	123,150
Planting green manure/shade species	Plants per annum	25,000	4,948	18,297
Planting native, fruits & other plant species	Plants per annum	5,000	5,083	7,108

MATERIAL MANAGEMENT

GRI Disclosure: 301-1, 301-2

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Materials Used

Field Operations
- Fertilizer
- Agro Chemical
- Dolamite

Processing Operations
- Green leaf
- Firewood
- Briquettes

Packing Operations
- Multiwall paper sacks
- Food grade Adhesives

With extensive operations in fields and factories, we have to be conscious in using materials responsibly and thereby, curtail our material footprint and our operational costs. Our approach is to bring in more renewable resources into our operations whilst being more efficient and frugal on the use of non-renewable materials. Our efforts to use agriculture waste material as an energy source in our factory operations, planting fuelwood and generating hydropower demonstrate our commitment to be sustainable in the way we manage our material consumption.

With greater production volumes, our material consumption during the year under review, as set out in the table, has registered an increase in terms of green leaf and processing materials as compared to the preceding year. Following the Government ban on chemical weedicide, Glyphosate, the use of weedicide remained marginal. With regard to recycled input materials, we used 235,436 kilograms of briquettes as biomass for operating tea driers, which is an equivalent of 700 cubic metres of fuelwood. This corresponded to 2.3 percent of the total fuel used in the tea drying process.

Newly installed Variable speed drivers operate by factory officer – Somerset Estate

Newly installed Variable speed drivers for withering trough – Somerset Estate

Newly installed Sub meters for monitor separate electricity consumption – Wattegoda Estate

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

MATERIAL FOOTPRINT

Materials	Unit	2017/2018	2016/2017	Variance (%)
Raw Materials - Renewable				
Estate Leaf	Kilograms	23,177,671	21,496,350	+7.8%
Bought Leaf	Kilograms	3,533,830	3,424,938	+3.2%
Total Green Leaf	Kilograms	26,711,501	24,921,288	+7.2%
Associated Process Materials				
Fuel – Non-Renewable				
Diesel	Kiloliters	182.0	165.0	+10.3%
Petrol	Kiloliters	75.1	98.0	-23.4%
Oil	Kiloliters	2.7	3.0	-10.5%
Fuelwood – Renewable				
Firewood	Metric Tons	9,891	8,949	+10.5%
Briquettes	Metric Tons	235	187	+25.8%
Fertiliser - Non-Renewable				
Fertiliser	Metric Tons	2,987	2,870	+4.1%
Dolomite	Metric Tons	1,682	1,166	+44.3%
Agrochemicals	Kiloliters	13	9	+47.0%
	Kilograms	4	1	+296.5%
Packing Materials - Renewable				
Paper Bags	Numbers	126,906	128,362	-1.1%

Method: direct measurements and actual consumption of each estate and head office.

SOLID WASTE MANAGEMENT

GRI Disclosure: 306-2

Key measures have been adopted across estates to be responsible in managing bio-degradable as well as non-biodegradable waste. Under this programme, we also carry out awareness building programmes to educate and train employees, resident communities and school children in the neighbouring villages. These efforts have made much progress and enabled the employees and communities to maintain a clean and healthy living environment within the estates.

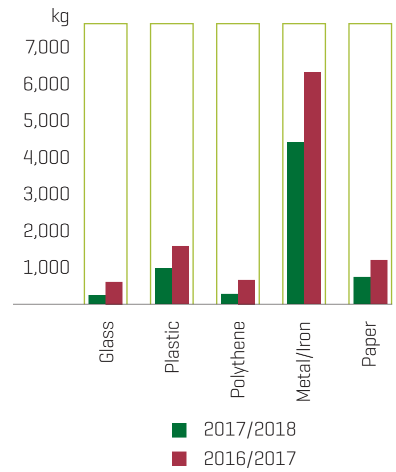
All bio-degradable waste is used as compost in the tea fields and in the home gardens of the estate communities. In the year under review, we produced 58,351 kilograms of compost from the bio-degradable waste. Waste in our tea production process is curtailed through the reprocessing of all refuse tea in our two separate factories– Wangioya in the high grown region and Petiyagoda in the low grown region. The absolute refuse tea from these factories is sent to the Unilever Sri Lanka Ceytea factory at Agrapatna and Raigama estate factory at Ingiriya as a raw material for further extraction. 11,280 Kilograms recorded as a production waste for the year of 2017/18. We maintained that production waste 11,280 kilograms at 0.17 percent in 2017/18 in line with our target to be below one percent.

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 stood at 6,697 kilograms.

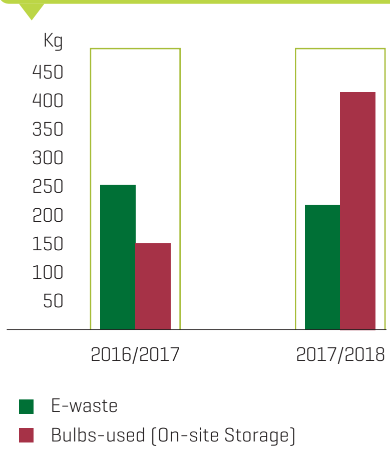
RECYCLING SOLID WASTE – KILOGRAMS

Category	2017/18	2016/17	Variance (%)
Non Hazardous (Kilograms)			
Glass	243	621	-60.9%
Plastic	977	1,596	-38.8%
Polythene	289	673	-57.1%
Metal/Iron	4,442	6,347	-30.0%
Paper	746	1,217,	38.7%
Total	6,697	10,454	-35.9%
Hazardous (Numbers)			
E-waste (Number)	217	254	-14.6%
Bulbs-used (Number)	417	150	+178.0%
Total	634	404	+56.9%

Non-Hazardous Waste (kilograms)



Hazardous Waste (Numbers)



MANAGEMENT OF HAZARDOUS WASTE AND SPILLS

GRI Disclosure: 306-3 & 306-4

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

ENERGY MANAGEMENT

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

Key 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 variable speed drives in factories
- Implementation administrative controls for machinery and light switch on/off plans
- Power factor correction
- Optimising natural light in factories
- Close monitoring and controlling energy usage
- Training and awareness on energy conservation under the Rainforest Alliance certification
- Regular maintenance of vehicles with green certification and monitor fuel consumption to prevent fuel wastage

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Committed to reduce our dependence on fossil fuels, we continued in our quest to look for sustainable energy sources. We remained prudent in the way we utilised energy resources, controlling and curtailing our direct and indirect consumption levels in our daily operations.

Our direct energy consumption levels—including fuels and oils used for machinery, equipment and transport—stood at 260 kiloliters, representing a drop of 2.4 percent over the usage in 2016/17. Our indirect energy usage—electricity used to power our factories and bungalows, offices and estate buildings—stood at 5,305,403 kilowatt hours (kWh). This corresponded to an overall decrease of 1.0 percent over 5,360,856 kWh recorded in the previous year. Reduction in energy requirements of sold products is not significant. Energy saving is not measurable due to nature of our sold products.

Factories took up almost 90 percent of the total electricity consumed. Higher production volumes by 8.4 percent increased the electricity consumption in factories. Yet, the real impact was curtailed to an extent, inter-alia, by introducing variable speed drives to machinery in eight of our factories including in Somerset, Hollyrood, Logie, Bearwell, Dessford, Mattakelle and Wattegoda in the high grown region and Kiruwanaganga in the low grown region in January 2018. This initiative alone is estimated to have an average electricity saving of 40 percent of the green leaf withering process which contribute 48 percent of total factory electricity consumption. Our conscientious efforts to conserve electricity usage also contributed to bring down the consumption levels in high grown factories by 4.7 percent and head office 29.4 percent over the preceding year.

ENERGY CONSUMPTION

Energy Source/Area of Operation	Quantity		
	2017/18	2016/17	Variance %
Direct Energy Consumption by Primary Energy Source			
Biomass			
Firewood (Metric Tones)	9,891.60	8,949.20	+10.5%
Briquettes (Metric Tones)	235.44	187.12	+25.8%
Diesel (Kiloliters)			
Power Generators	23.96	14.34	+67.1%
Estate Transport	128.93	120.86	+6.7%
Estate Supervisory Vehicles, Ambulances	22.80	18.47	+23.4%
Others	2.58	3.46	-25.5%
Head Office Vehicles	3.74	7.72	-51.6%
Total Diesel	182.00	164.85	+10.4%
Gasoline (Kiloliters)			
Estate Supervisory Vehicles, Motorcycles, Ambulances	37.09	60.82	-39.0%
Agriculture Equipment & Machinery	15.76	14.30	+10.2%
Others	3.50	2.64	+32.6%
Head Office Vehicles	18.70	20.64	-9.4%
Total Gasoline	75.06	98.40	-23.7%
Oil (Kiloliters)			
Estate Supervisory Vehicles, Motorcycles, Ambulances	1.07	1.09	-1.8%
Agriculture Equipment and Machinery	0.29	0.30	-3.6%
Factory Machinery	0.97	0.90	+8.2%
Others	0.13	0.04	+234.3%
Head Office Vehicles	0.22	0.30	-27.2%
Total Oil	2.69	2.63	+2.1%

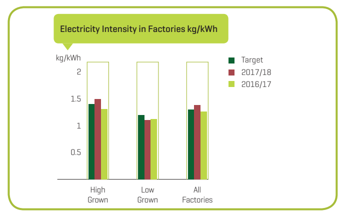
Energy Source/Area of Operation	Quantity		
	2017/18	2016/17	Variance %
Indirect Energy Consumption by Primary Source			
Electricity (Kilowatt-hours)			
High Grown Manufacture	3,277,104	3,440,171	-4.7%
Low Grown Manufacture	1,397,896	1,293,285	+8.1%
Bungalows, Quarters, Offices & Other Estate Buildings	578,833	554,883	+4.3%
Head Office	51,210	72,517	-29.4%
Total Electricity	5,305,043	5,360,856	-1.0%

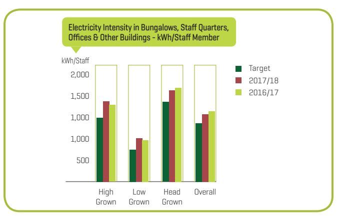
Method: direct measurements and actual consumption of each estate and head office

ENERGY INTENSITY - SNAPSHOT

ELECTRICITY INTENSITY - FACTORIES

1.38 kWh/Kg of made tea in 2017/18 and with higher tea production volumes, the intensity reflected an increase of 9.5% over 1.26 kWh/Kg recorded in 2016/17.



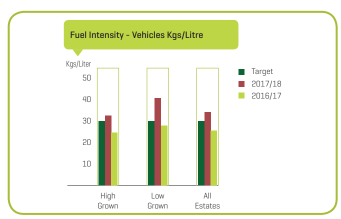


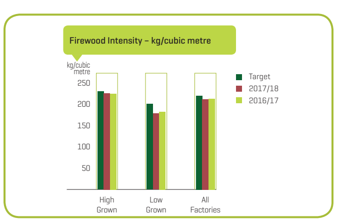
ELECTRICITY INTENSITY - BUNGALOWS, STAFF QUARTERS, OFFICES AND OTHER BUILDINGS

1,269 kWh/staff member in 2017/18 , 4.5% decline over 1,329 kWh/staff member recorded in 2016/17.

FUEL INTENSITY – ALL ESTATE AND HEAD OFFICE VEHICLES

34.1 kilogram/litres in 2017/18, reflecting a 34.8% drop over 25.3 kilogram/litre in 2016/17.





FIREWOOD INTENSITY - FACTORIES

211.9 kgs/cum, up by 0.1 percent over the intensity of 212.0kgs/cum in 2016/17.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

ENERGY PRODUCTION BY PRIMARY SOURCE

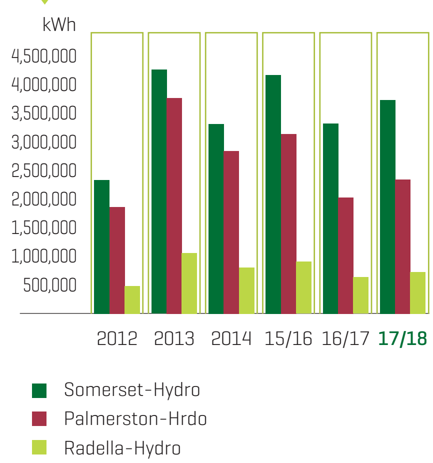
Hydropower Energy

Demonstrating our commitment to move towards sustainable energy sources, we continued to focus on hydropower, with three mini plants under our subsidiary operations in Radella, Palmerston and Somerset. In the year under review, we generated 6,797,065 kWh electricity. Given the drier weather patterns that prevailed, hydropower operations remained subdued. The hydro-electricity recorded a increase of 13.4 percent compared to 5,993,907 kWh generated in the preceding year. However, the electricity generated stood above the level of 5,305,043 kWh purchased from the Ceylon Electricity Board.

Hydropower Generation

Projects	2017/18 kWh	2016/17	Variance %
Somerset	3,726,047	3,326,571	+12.0%
Palmerston	2,345,842	2,030,116	+15.6%
Radella	725,176	637,220	+13.8%
Total	6,797,065	5,993,907	+13.4%

Hydropower Power Generations -kWh



SOLAR POWER

Refer: Manufactured Capital, Page 88

Further reinforcing our commitment towards alternative renewable energy sources, this year, we looked at venturing into solar power projects. As an initial step, we set up solar power panels on the roof of the Bearwell estate with a capacity to generate 34,371 KWh of electricity. This project is expected to bring down our thermal electricity depended on fossil fuels by 5 percent and we expect to reduce our carbon emissions by 50 tCO_2e.

PLANTING FUELWOOD

Continuing with our fuelwood programme, this reporting year, we planted an extent of 27.5 hectares taking the total extent to 524.51 hectares from the period 2007 to 2017. Our focus this year as well was to optimise the land utilisation. We mainly planted 'Eucalyptus spp' blocks, taking up almost 90 percent of the extent followed by mixed forestry blocks including 'Calliandra calothyrsus' and 'Acacia decurrens'. High grown estates planted the largest extent.

FUELWOOD PLANTING PROGRAMME

Species Planted	2016/17	2015/16
Eucalyptus spp.	56,100	115,050
Acacia decurrens	0	6,600
Calliandra calothyrsus	443	1,500
Total Fuelwood Planted	56,543	123,150

Region	2007-2017	2017/18	2016/17
Low Grown	68.52	0	0
High Grown	455.99	27.50	44.77
Total Planted by Region (Ha)	524.51	27.50	44.77

7 AFFORDABLE AND CLEAN ENERGY

GHG EMISSSIONS MANAGEMENT

Direct and Indirect GHG Emissions

GRI Disclosure: 302-2, 305-1, 305-2, 305-3, 305-4, 305-5, 305-6 & 305-7

In keeping with our Environmental Policy, we are steadfast in our efforts to control our corporate's carbon footprint; and do our part in lessening climate change and global warming. We have been consistent in adopting and following through best practices and key initiatives to be energy efficient across operations and thereby, meet our emission targets.

During the reporting year, GHG emissions under Scope 1 stood at 3,946 tCO_2e, corresponding to a 9.6 percent increased as against the emissions recorded in 2016/17. Our efforts to control the use of fuel in terms of operations as well as in terms of 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 stood at 3,015 tCO_2e, corresponding to an drop of 1 percent over the preceding year's level of emissions. Higher production volumes in the year underpinned this increase in emissions.

The total GHG emissions in all operational areas during the year, including scope 1, 2 and 3, stood at 7,400 tCO_2e. The electricity we purchased from the National Grid stood at 5,305,043 kWh during the year, leading to 3,854 tCO_2e in emissions. We generated 6,797,065 kWh of electricity through our three hydropower plants, which is an equivalent saving of 34,371 tCO_2e.

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

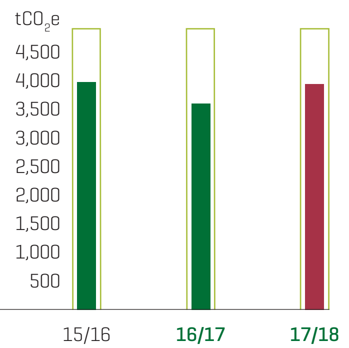
GHG EMISSIONS (TCO_2 E)

Scope	Activity	Units	2017/18		2015/16		Variance (%)
			Quantity	tCO2e	Quantity	tCO2e	
Scope 1	Dolamite	Metric Tones	1,682	801.78	1,166	555.79	+44%
	Diesel	Kilolitres	182	503.62	165	456.58	+10%
	Petrol	Kilolitres	75	191.57	98	250.12	- 23%
	Lubricant oils	Kilolitres	3	6.53	3	6.39	+ 2%
	Wood based boiler	Metric Tones	10,126	251.89	9,136	227.27	+11%
	Urea	Metric Tones	2,987	2,190.28	2,870	2,104.67	+ 4%
Scope 2	Electricity	KWh	5,305,043	3,015.39	5,360,856	3,047.11	- 1%
Scope 3	Electricity Transmission & Dis. Loss			290.38		293.44	- 1%
	3rd party transport	Kilolitres	37	101.95	39	106.76	- 5%
	Dumped Waste	Kilograms	1,381	25.44	2,864	56.00	- 55%
	Air Travels (Economy Class)	Kilometres	150,620	20.79	54,352	7.50	+177%
Total Emissions				7,399.62		7,111.63	+ 4%

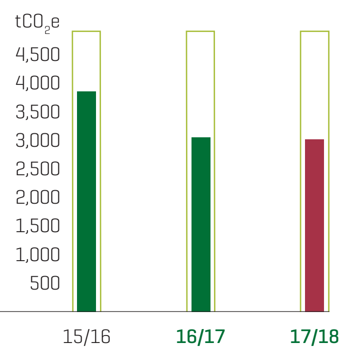
Scope 1: Consumption of diesel, petrol, lubricating oil, sustainable biomass, fertilizer (dolomite and urea)
Scope 2: Electricity usage from CEB
Scope 3: Electricity transmission & distribution losses, 3rd party transport, compost, business air travel
Exclusions: CO2 fire extinguishers, refrigerant, employee commuting, raw material transport

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

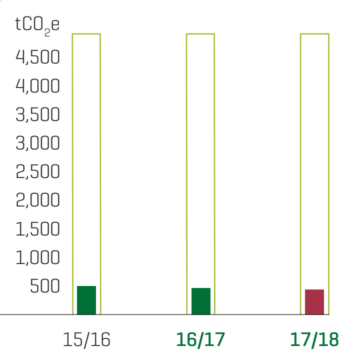
GHG Emission Comparison - Scope 1



GHG Emission Comparison - Scope 2



GHG Emission Comparison - Scope 3

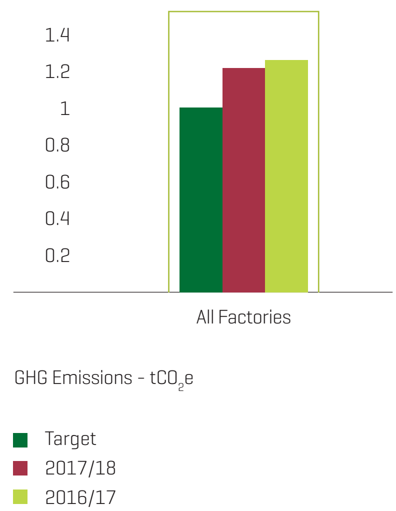


Emissions Intensity - Snapshot

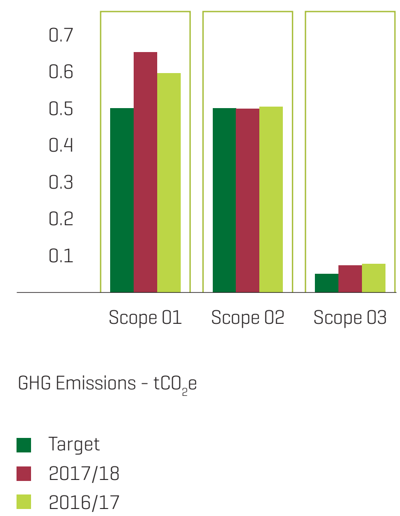
GHG EMISSIONS INTENSITY - FACTORIES

1.2 tCO2e/Kg of made tea was comparable to the result in the previous year. Our target is to achieve an intensity of 1 tCO2e/ kg of made tea in the 2018/19.

Greenhouse Gas [GHG] Emission Intensity tCO_2e per Ton of Made Tea



Scope wise Greenhouse Gas [GHG] Emissions Intensity



Top Five Estates – Lowest GHG Emissions Intensity – 2017/18

TOP FIVE ESTATES – LOWEST GHG EMISSIONS INTENSITY – 2017/18

Rank	Estates	Emissions Level [tCO_2e/ton of Made Tea]
1	Great Western Estate	1.59
2	Bearwell Estate	1.73
3	Deniyaya Estate	1.74
4	Moragalla Estate	1.76
5	Wattegoda Estate	1.80

CARBON CONSCIOUS CERTIFICATE

We quantify our GHG emission with maintaining GHG inventory in accordance with ISO 14064-1:2006 and Intergovernmental Panel on Climate Change (IPCC). Moreover we have obtained third party assurance for GHG emission quantification and GHG inventory.

Diverso Space Consultants

Concious Organization

CARBON CONSCIOUS CERTIFICATE

Diverso Space Consultants certifies that GHG Inventory of

TALAWAKALLE TEA ESTATES PLC

covering 16 estates with the total land extent of 6,492 hectares and the head office

for the financial year **2017/18**

has been measured and reported in accordance with the requirements of,
ISO 14064-1: 2006 – Specification with guidance at the organizational level for the quantification and reporting of greenhouse gas emissions and removals.

Certificate No: DCS/CCC/2018/05-1

Date of Certification: 23rd May 2018

Period of Assessment: 01.04.2017 to 31.03.2018

Scope of Certification: Operationally controlled business activities belong to Talawakalle Tea Estates PLC

Carbon Footprint: 2017/18

Scope 1- Direct GHG Emissions:	3,946 tonnes of CO_2 equivalent
Scope 2- Indirect GHG Emissions:	3,015 tonnes of CO_2 equivalent
Scope 3- Other Indirect GHG Emissions:	439 tonnes of CO_2 equivalent
Total:	7,400 tonnes of CO_2 equivalent

Eng. Rasika Gunawardana (B.Sc. Eng., MBA, AMISL)
Chief Executive Officer
Diverso Space Consultants

Scope 1: Consumption of diesel, petrol, lubricating oil, sustainable biomass, fertilizer (dolomite and urea)
Scope 2: Electricity usage from CEB
Scope 3: Electricity transmission & distribution losses, 3rd party transport, compost, business air travel
Exclusions: CO_2 fire extinguishers, refrigerant, employee commuting, raw material transport

Period of validity: 23/05/2018 - 31/03/2019

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

WATER RESOURCES MANAGEMENT

Protecting Water Bodies

6 CLEAN WATER AND SANITATION

14 LIFE BELOW WATER

PROTECTING WATER BODIES KEY MEASURES

- Mechanical fences and meshes to prevent water contamination
- Chemical free buffer zones
- Rainwater harvesting
- Monitoring and reductions in agrochemical usage
- Wastewater purification systems
- Annual water quality testing
- Vegetative barriers
- Wide grass buffer zones and riparian habitats.
- Awareness building to educate staff and communities
- Collaborations with the International Water Management Institute
- Follow Rainforest Alliance certification guidelines

Protecting Water Bodies - Estate Initiatives


Conserved water reservation Watagoda Estate

Water distribution map Kiruwanaganga Estate


Water purification system Watagoda Estate


Protected water source - Radella Estate


Chemical free buffer zone for water source - Bearwell Estate

As a plantation company, availabilty of water is a critical factor for our business, our estate communities as well as for the sustenance of biodiversity so prevalent within the areas we operate. Focused efforts are in place to protect and sustain all water sources on our lands, thereby, ensuring adequate and clean water supplies to our operations, estate communities and even to the neighbouring villages and towns.

In collaboration with the Rainforest Alliance, we have in place a well-structured water management programme where we have identified and mapped all water sources and water bodies within our estates. Key measures are in place to protect and conserve our water sources including lakes and ponds. We have placed live and mechanical fences and meshes and planted tree species including Terminalia arjuna (Kumbuk), Albizzia, Calliandra calothyrsus, Gliricidia sepium, etc.to protect our water sources. We also carry our periodic training and awareness building sessions to educate the estate staff and the communities on the importance of protecting water sources and the need for water conservation.

Moreover we continuously monitor impact on the water sources from our water withdrawal activities through initial impact assessment and ongoing impact assessment.

We also collaborate with the International Water Management Institute (IWMI) to refine and further our integrated water management strategies and programmes. With the support of IWMI, we have carried out extensive studies on water sources available on four of our estates—Wattegoda, Holyrood, Logie and Mattakelle, in the Talawakelle region. These studies looked into the quality and availability of drinking water and recommended remedial measures to ensure the sustainability of drinking water sources.

Given our proactive conservation measures, none of our water sources are significantly or otherwise affected by the withdrawal of water. Water quality in 147 sources is tested annually for required parameters.

WATER WITHDRAWAL, RECYCLED AND REUSED

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

In tea processing, water consumption levels are relatively low. Water is required only for humidification and washing of the rolling rooms during and after the manufacturing process. In addition, water is used by the employees engaged in factories, offices.

Water is sourced from water springs and streams located within our estates. We do not draw water from national supplies for manufacturing purpose. Municipal water only used by corporate office of 14 Kiloliters. Water collected from rainwater harvesting is also used as a source, albeit, to a lesser extent. In the year under review, our estates withdrew a total of 8,989 kilolitres of water as compared to 8,536 kilolitres of water withdrawn in the preceding year; representing a 5.3 percent increase due to higher production volume.

Align with Rainforest Alliances and ISO 14001:2015 standards, our environmental impact assessment cover impact of water withdrawal. These assessment consider the impact from the water withdrawal activities on bio diversity and community, to high value conservation areas and protected areas.

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 estates.

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

RAINWATER HARVESTING

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.

WASTEWATER MANAGEMENT

GRI Disclosure: 306-1 & 306-5

As guided by the Rainforest Alliance certification, we have in place 96 wastewater purification systems in all our estates to purify factory and domestic wastewater prior to releasing into the natural water bodies. Apart from the purification tanks, we also rely on 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. Purification levels are verified annually through laboratory testing for required parameters to ensure that the water discharged is within the permissible limits. Given our conscientious efforts to manage wastewater responsibly, discharges of water and run-off have not affected any habitats and water bodies.

During the year 2017/18, the amount of water discharged in processing factories after purification stood at 7,860 kiloliters. This corresponded to a 5.5 percent increase over 7,448 kiloliters of purified waste water discharged in the previous year.

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Soil Management Techniques

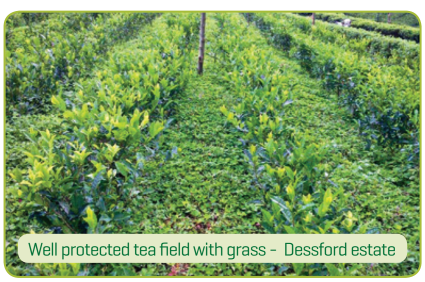
- Periodic testing of soil for carbon, pH level and other nutrients
- Dolomite applications to correct pH imbalances
- Planting vettiver and arachis pintoii in bank edges and upper banks of drains
- Planting of green manure and shade trees
- Planting of grass and other cover crops in vacant patches
- De-silting of drains, lock and spill type drains, distilling lateral drains and leader drains
- Terracing, pruning, burying, mulching and thatching
- Composting, forking in pruned fields and burying of weeds
- Special fertiliser mixtures to remedy nutrition deficiency levels

Soil Management - Estate Initiatives

Lock and spill type drain - Bearwell Estate

Thatching - Great Western Estate

Well maintaining Tea Field - Palmerston estate



Well protected tea field with grass - Dessford estate

Planting Arachis Pintoii and Vettiver – Clarendon Estate

SOIL, AGRO-CHEMICALS AND FERTILISER

Practicing sustainable agricultural practices, soil conservation is key to our operations—underpinning our efforts to improve our yields and thereby, our commercial returns. We give top strategic priority with due investments to minimise soil erosion and enrich its nutrients, acidity and carbon levels. Our soil management practices follow the guidelines set out by the '4R Nutrient Stewardship' initiative as advocated by the International Plant Nutrition Institute. This initiative considers economic, social and environmental aspects of soil 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 Rainforest Alliance and the Tea Research Institute.

Agro-chemical usage is closely monitored to ensure that minimum quantities are applied and we seek meaningful ways to progressively reduce the levels. 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.

Weedicides are the most widely used agro-chemical within field operations. However, in line with the official ban on Glyphosate, we have discontinued the use of banned chemical weedicides. 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 Disclosure: 304-1, 304-2, 304-3 & 304-4

As enshrined within our Environmental Policy, we stand fully committed to protect biodiversity in the areas we operate through a well-managed conservation programme. All estates are located in the hill country and in the low country wet-zones which are rich in biodiversity with substantial impacts on the country's rainfall and climate. Our estates are endowed with diverse ecosystems and habitats—lakes, ponds, streams, wetlands with swamps and marshes, waterfalls, riparian habitats, eco-forests and Eucalyptus forests. 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.

Our biodiversity conservation programme, guided by the Rainforest Alliance, focuses on protecting the fauna and flora in the region. Moreover under ISO 14001:2015 Standard lifecycle assessment approach is the framework for Identify impact on biodiversity from business aspects. We prepare the risk priorities of aspect impact assessment in order to take mitigation actions. Mitigation action for high-risk aspects & evaluation of mitigation actions is other important activities to minimize our direct/indirect significant impact on biodiversity. According to this methodology, we commit to minimize our significant impact on biodiversity. We have identified 398 hectares as biodiversity conservation areas and we have adopted proactive measures 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. We also carry out periodic biodiversity/wildlife surveys in collaboration with professional bodies.

The estates have also established the Rainforest Educational and Information Centres 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 principles of sustainable agriculture including ecosystems and biodiversity management, water and wildlife conservation and integrated solid waste management.

PROTECTING FAUNA

Under the biodiversity conservation programme, our estates along with their resident communities have adopted necessary measures to protect wildlife in identified and selected conservation areas including home gardens, seasonal and perennials streams, small scale reservoirs and ponds, wetlands, secondary forests and tea fields.

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 113 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.

Faunal Species within Estates IUCN Red Data List - 2012	Conservation Status	Number of Species
	Globally Threatened	-
	Critically Endangered	06
	Endangered	44
	Vulnerable	37
	Near Threatened	26
	Total Species	113

PROTECTING FLORA

The agro-ecosystems on estates are dominated by tea (Camellia sinensis) fields with low shade trees—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.

We have identified 169 floral species including 27 endemic species. As per a survey carried out, Kiruwanaganga and Indola estates are the custodian of two critically endangered floral species—Diyapara (Dillenia triquetra) and Ruk (Horsfieldia iryaghedhi); and two endangered species—Vewal (Calamus zeylanicus,), Kaluwara (Diospyros ebenum).

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Biodiversity Facets

- 244 hectares enriched with biodiversity value within estates
- Watershed and catchment areas feeding national rivers Nilwala, Gin, Kotmale Oya and Nanu Oya
- Great Western, Radella and Holyrood estates are located near Kikiliyamana Natural Forest Reserve
- Calsay estate, Nanuoya borders the Conical Hill National Forest, Agrabopaththalawa
- All biodiversity blocks and wildlife habitats are identified on maps
- Biodiversity areas are protected with a five-meter chemical free buffer zone
- Signboards displayed to protect biodiversity
- Periodic biodiversity/wildlife surveys
- Conservation of Riparian Habitats
- Rainforest Educational & Information Centres to educate the employees and the communities

Our Fauna


Biodiversity Inventory for Calsay Mahaeliya Tea Estate

Biodiversity inventory - Calsay estate

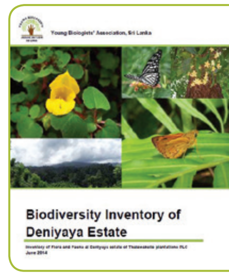

White Eye - Wattegoda Estate


Crimson Dropwing - Great Western Estate


Black Neped Hare - Dessfors Estate

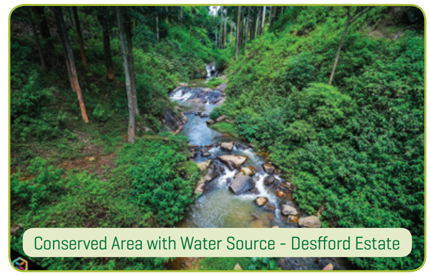

Awareness on Biodiversity Consern – Bearwell Estate

Our Flora

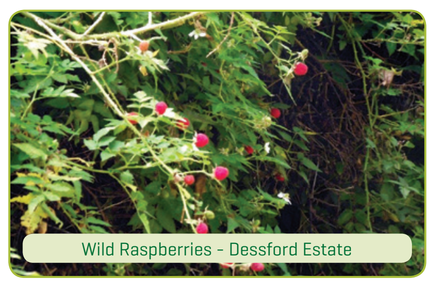

Young Biologists' Association, Sri Lanka

Biodiversity Inventory of Deniyaya Estate

Biodiversity inventory - Deniyaya estate


Conserved Area with Water Source - Desfford Estate


Orchid flower - Palmerston Estate


Wild Raspberries - Dessford Estate


Blackeyed Susan vine - Wattegoda Estate

TREE PLANTING INITIATIVE

Seeking to increase the tree canopy cover at the estates and at the community level, we continued in the year to focus and follow through with our annual tree planting initiatives. Apart from tea (Camellia sinensis), we planted green manure/shade trees and Eucalyptus to sustain our core business. We also planted native, fruit and other plant species, adding value to the existing biodiversity. During the financial year, 2017/18, we planted over 314,409 plants on our estates.

Our tree planting initiatives are expected to lower local temperatures, change the micro-climate and conserve our water resources. Our efforts will also support carbon dioxide sequestration and mitigate adverse impacts of GHG emissions and climate change as envisioned by the UNFCCC, Kyoto Protocol and UN-REDD programme for regulation of GHG concentrations in the atmosphere.

Plant Species	Number of Plants Planted	
	2017/18	2016/17
Camellia sinensis (Tea)	150,555	493,533
Hevea brasiliensis (Rubber)	0	500
Eucalyptus	56,100	115,050
Grevillea robusta	1,499	1,920
Calliandra calothyrsus	443	1,500
Gliricidia sepium	0	537
Erythrina lithosperma (Dadaps)	3,243	14,540
Bambusa vulgaris (Bamboo)	0	1,022
Toona clliate	0	0
Acacia decurrens	0	6,600
Terminalia arjuna (Kumbuk)	1,150	150
Cinnamomum Zeylanicum (Cinnamon)	32,250	0
Microbiota decussata (Cypress)	0	100
Albizia	100	1,300
Fruits, Native and other Plant Species	5,083	7,108
Total	250,323	643,860

'NAWA WANA ARANA - DIYADAWA'

Taking forward our tree planting campaign, 'Nawa Wana Arana - Diyadawa' initiated in the preceding year, Deniyaya estate continued to develop the forest cover in the identified land area of 20 acres in the Diyadawa division. The campaign planted 1,000 jungle plants at an investment of Rs. 636,751 in collaboration with the President's Office, the Department of National Community Water Supply of the Matara District, the Community Water Supply Organisation in Deniyaya and the Department of Forest Conservation.

GRI Disclosure: 307-1

As a tea plantation company, our products—black and green teas— are toxin free, bio-degradable and environmentally friendly. We only use renewable energy—fuelwood—in the manufacturing process, thus, controlling our GHG emissions. We have in place a well-planned solid waste management system, where we use bio-degradable waste to make compost for our field operations and reuse and recycle our non-bio-degradable waste in line with the accepted norms. Water is not used in the production process and therefore, has less impact from withdrawal of water from the sources. The wastewater we generate through the rolling rooms is conscientiously treated through our

ENVIRONMENTAL IMPACTS, CERTIFICATIONS AND COMPLIANCE

Excellence credibility on EMS

Environmental Protection Licence

Ethical Tea Partnership Certificate

Rainforest Alliance-Sustainable Agriculture Network

ISO 14001 Environment Management Standard - Great Western Estate

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

GRI Disclosure: 301-3

wastewater purification systems and other techniques as discussed above. We advocate and invest well in clean energy sources. Our GHG emissions from all factories are measured, monitored and controlled to minimise adverse impacts. Our production waste is as low as 1.7 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. We are also focused and give precedence to our biodiversity conservation programme and duly invest and follow through with our tree planting initiatives.

Complementing our efforts, we have pledged our allegiance to internationally acclaimed certification programmes to guide our environmental responsibility agenda. All high grown estates and Kiruwanaganga and Deniyaya estates in the low grown are certified under the Rainforest Alliance whilst 14 estates are certified under the Ethical Tea Partnership. Under these programmes, we carry out internal and external audits and uphold best global environmental practices, reinforcing our environmental compliance. This reporting year, we also worked towards aligning our operations with the environmental principles as stipulated by the UN Sustainable Development Goals and UN Global Compact standards. We are one of the few plantation sector companies to voluntarily comply with Global Compact advance level criteria. This year, through our estate, Great Western, we embraced ISO 14001:2015 environmental management standard—the first amongst the Regional Plantation Companies to adopt same.

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

ENVIRONMENTAL INVESTMENTS

We invested a sum of Rs. 43.3 Mn during the year 2017/18 to carry out the following initiatives and measures to protect the environment, underpinned by our strategic imperatives.

OVERALL ENVIRONMENTAL INVESTMENT - FY 2017/18

Strategic Imperatives	Environment Conservation Activity	Cost Rs.
Solid Waste Management	Integrated Waste Management	2,443,629
Water Resources Management	Protection of Water sources and Water Conservation	2,645,865
	Drinking and Wastewater Quality Testing and Monitoring	1,294,038
	Construction of Wastewater Purification Systems	697,071
	Establishment of Vegetative barriers and Chemical Free Buffer zones	1,142,048
Soil Conservation, Agro-chemical and Fertiliser Management	Soil Management and Conservation	17,447,611
GHG Emissions Management and Biodiversity Conservation and Protection	Planting of Agro-forestry and Fuelwood	4,072,012
	Green Manure, Native and Other Trees and Cover Crops	8,568,153
Awareness Programmes and Certifications	Training and Educational programmes	187,854
	Erecting of Sign Boards	749,776
	Establishment of Rainforest Educational and Information Centres	240,470
	Rainforest Alliance-Sustainable Agriculture Network Certification	3,841,336
	Total	43,329,863

ENVIRONMENTAL GRIEVANCE MECHANISM

Guided by the Rainforest Alliance Programme, we have established health and safety committees across all estates. 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 certification Audits and Internal Audits. The communities within the estates and neighbouring villages along with the general public can access the respective estate management or even the corporate level senior management to address any environmental grievances. 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

With much optimism, the world economy is forecast to strengthen with higher growth levels in the next two years. The advanced nations as well as the emerging and the developing nations are expected to gain further ground and expand their economies. The International Monetary Fund considers this growth momentum a "window of opportunity". The down-side risks including the tightening global financial conditions, trade wars together with geopolitical issues are expected to exert pressure on the global economic prospects. Civil and political tension remain a concern for our key markets in the Middle East and Russia and are expected to level out the growth trends to be more subdued in the coming years.

From the Sri Lankan perspective, the socio-political challenges, especially with the forthcoming elections in 2020, together with macroeconomic uncertainties, will continue to have grave implications on the nation's economic trajectory in the near-term. Yet, we are hopeful that our nation will rebound to meet our growth aspirations in the medium-term, with greater consensus from the political front and more focused and perceptive policy directives to bring in a more balanced macroeconomic environment.

The tea industry at present is facing a myriad of risks and challenges, inter-alia, from climate change with direct implications on production and the quality of the leaf; labour issues and wage demands; lower yields; ban on glyphosate; higher Minimum Residual Levels currently imposed by Japan and Europe; and the uncertainties with the economic prospects in the export markets. These challenges will continue to impact industry prospects in the short to medium term. In this context, it is imperative for all stakeholders concerned to work in unison and resolve the pressing issues for the betterment of the industry. To this end, concerted efforts are called for to strengthen the wage paradigm on productivity factors and move towards a revenue share concept.

It is also imperative to lobby with the policy makers to lift the ban on chemical weedicides, invest further in tea research, and strengthen the brand 'Ceylon' and drive a coherent tea marketing campaign at the national level. As a leading plantation company, we are steadfast to be a responsible stakeholder, taking our role with enthusiasm, to ensure the viability and sustainability of the industry from a long-term perspective.

From an internal standpoint, we will drive a focused strategy to manage the complexities in the industry and strengthen our positioning at the helm. We will work perceptively and invest well to enhance and brace our critical success factors and ensure that we stand committed to uphold best and ethical practices in business. This we believe will support our growth aspirations and our long-term sustainability.

Our plan, actions and targets in line with our strategic imperatives are set out for the year ahead, 2018/19:

STRATEGIC ACTION AND KEY TARGETS – 2018/19

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	First
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	1,537
		Low grown yields	Kilogram/hectare	1,288
		Tea replanting extent	Hectares	16
		Tea production volumes	Million kilograms	6.5
		Worker productivity	Kilogram/worker	2.70
Value Addition and New Revenue Streams	Research and market value added products and explore new revenue streams through diversification	Cinnamon planting extent	Hectares	17
Cost Controls and Management	Be disciplined and smart in maintaining a lean cost structure and control leakages.	Turnover	Rs. Mn	4,156
		Profit before tax growth	Percentage	19
		Capital expenditure	Rs Mn	221
		Current ratio	Times	2.21
		Operating cash flow	Percentage of profit before tax	60

MANAGEMENT DISCUSSION & ANALYSIS CONTD.

Strategic Imperatives	Strategic Actions	Key Indicators	Unit	Target
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	$0.65tCO_2e$
		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 by previous year
Workforce Development	Empower through focused training and drive a performance-based culture	Employees trained	Number	15,000
		Training hours	Number	15,000
		Training investments	Rs. million	2.5Mn
	Ensure clean, tidy and safe workplaces to address employee well-being	Training programmes on health and safety	Number	150
		Employees trained on health and safety	Number	7,000
		Training hours on health and safety	Number	7,000
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	50

SUSTAINABLE DEVELOPMENT GOALS

NO POVERTY
"Home for every plantation worker" Page 125

ZERO HUNGER
Our welfare schemes are fully committed for achieve. Zero hunger Page 125

GOOD HEALTH AND WELLBEING
Improve good health and well-being of our community Page 127

QUALITY EDUCATION
Committed to learning culture and investment on training and development Page 128

GENDER EQUALITY
Fare labour practices in HR management Page 137

CLEAN WATER AND SANITATION
We provide clean water and sanitation facilities to our estate communities Page 166

AFFORDABLE AND CLEAN ENERGY
We focus on energy efficiency & renewable energy usage Page 162

DECENT WORK AND ECONOMIC GROWTH
Fair labour practice and significant value creation Page 143

INDUSTRY INNOVATION AND INFRASTRUCTURE
Strategic investments to improve infrastructure Page 91

REDUCED INEQUALITIES
Humanitarian approach in HR Management Page 135

SUSTAINABLE CITIES AND COMMUNITIES
Responsible community treatment Page 126

RESPONSIBLE CONSUMPTION AND PRODUCTION
Responsible usage of natural resources Page 157

CLIMATE ACTION
Supporting Biodiversity and reduce carbon footprint Page 163

LIFE BELOW WATER
Reduced and responsible waste water discharge Page 166

LIFE ON LAND
Protection and improve eco-systems Page 169

PEACE, JUSTICE AND STRONG INSTITUTIONS
Ethical practices in business and governance Page 186

PARTNERSHIPS FOR THE GOALS
Pledge on allegiance to support SDGs Page 154

RISK MANAGEMENT

GRI Disclosure: 102-11

Talawakelle Tea Estates PLC follows an Enterprise Risk Management (ERM) approach. This enables the Company to identify risks and opportunities in relation to the organisation's objectives, and assess them in terms of likelihood and magnitude of impact, thereby, determining a response strategy. This also entails structured monitoring to safeguard from the risks whilst exploring opportunities and thus, create further value for the Company's stakeholders, including shareholders, employees, customers, regulators, and the broader society.

Risk management at TTEL is dynamic and evolves in tandem to the challenges and threats that are integral to the operating environment. The Company's risk management framework encompasses not only the financial and operating risks, but includes sustainability risks as well including markets, employees, community and policy consistency. The overall macro and other industry specific risks are also covered under the framework.

Managing risks is a key aspect of performance dimension in enterprise governance. The Board has a stewardship obligation towards risk management in its overall role in enterprise governance. The risk management framework details how they convert this mandate. The framework as given below illustrates our approach to risk management, reflecting the process, administration structure and sources of comfort with regard to its effectiveness.

This process is imperative to be timely in identifying risks and evaluate the risk appetite, supported by an effective management and monitoring mechanism.

RISK MANAGEMENT FRAMEWORK

GRI Disclosure: 102-11

Process	Structure	Comfort & Assurance		
Risk Appetite	Board of Directors	Internal Control	Internal Audit	Independent Audit
Over-site Review	Audit Committee			
Identify, Implement & monitor	Group Management Committee			
Feed Back	Heads of Business Units			

Effective risk management rests with the Board of Directors who has set in place policies and processes to manage same. The Board is assisted by the Audit Committee—represented by members who possess sound financial and industry expertise—to review the existence and efficiency of risk management policies. The Audit Committee has the oversight responsibility for risks and internal controls. Internal audits carried out by independent professional auditors and Company's internal auditors provide assurance to the Audit Committee on internal control and compliance, encompassing financial and operational risks. Audit Committee meets every quarter and reviews the risk assessment of the Company and suggests any improvements, if required.

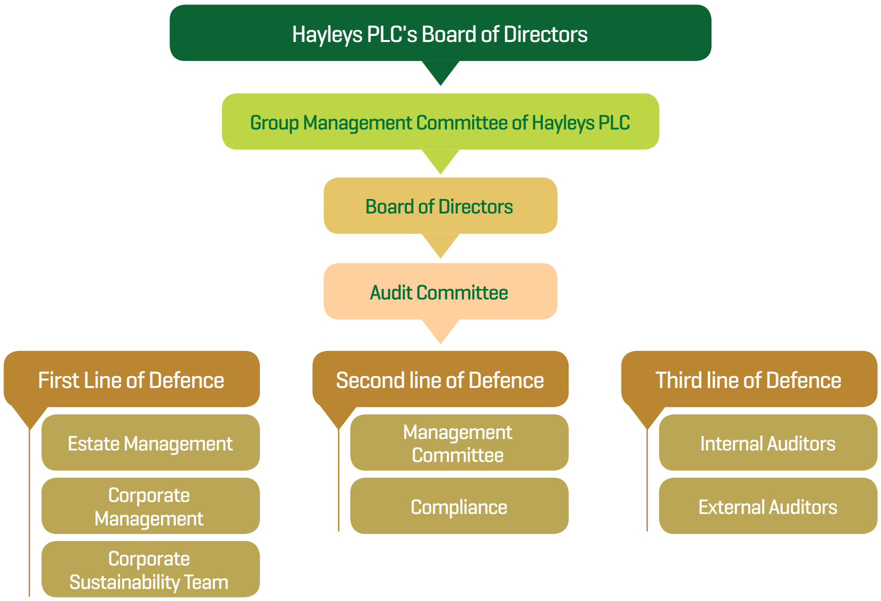
The Corporate Management Committee (CMC) headed by the Managing Director is responsible for risk assessment and mitigation as per the risk appetite parameters outlined by the Board. The Committee prepares action plans and is tasked to implement the risk management process. All heads of business units are involved to present their risk management strategies at the CMC every month. The CMC examines the situations, processes, and possible events that may seriously reduce the organisation's earnings, threaten operational sustenance, impair liquidity or create legal, regulatory or reputational risks. Whilst the CMC identifies such risks internally, stakeholder engagement provides an opportunity to ascertain any risks based on their feedback.

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 focus 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 and the Group Legal and Management Audit and Systems Review departments.

RISK MANAGEMENT GOVERNANCE STRUCTURE

GRI Disclosure: 102-15



The Board of Directors of Hayleys PLC—in its role as the holding company—has delegated the oversight of risk management of its subsidiaries to the Hayleys Group Management Committee (GMC) and the individual Boards of the respective subsidiaries. Accordingly, the Board of Directors of TTE together with its Audit Committee manages the three lines of defence set up for effective risk management. In the first line of defence, the estate management, corporate management and the corporate sustainability team are engaged to identify, evaluate and take necessary action to mitigate risks entailed in the business. The second line of defence engages the management committee and is in line with the compliance requirements as guided by our regulators. Lastly, as our third line of defence, we seek for external assurance for risk management through our internal and external auditors.

Risk is defined as the combination of a likelihood of an occurrence of an event and the impact that is caused by the event concerned. The occurrence of such events could hamper business objectives of the Company or have a positive impact as a result of maximising opportunities presented. Risk management, deals with mitigating negative impacts whilst ensuring opportunities are maximised.

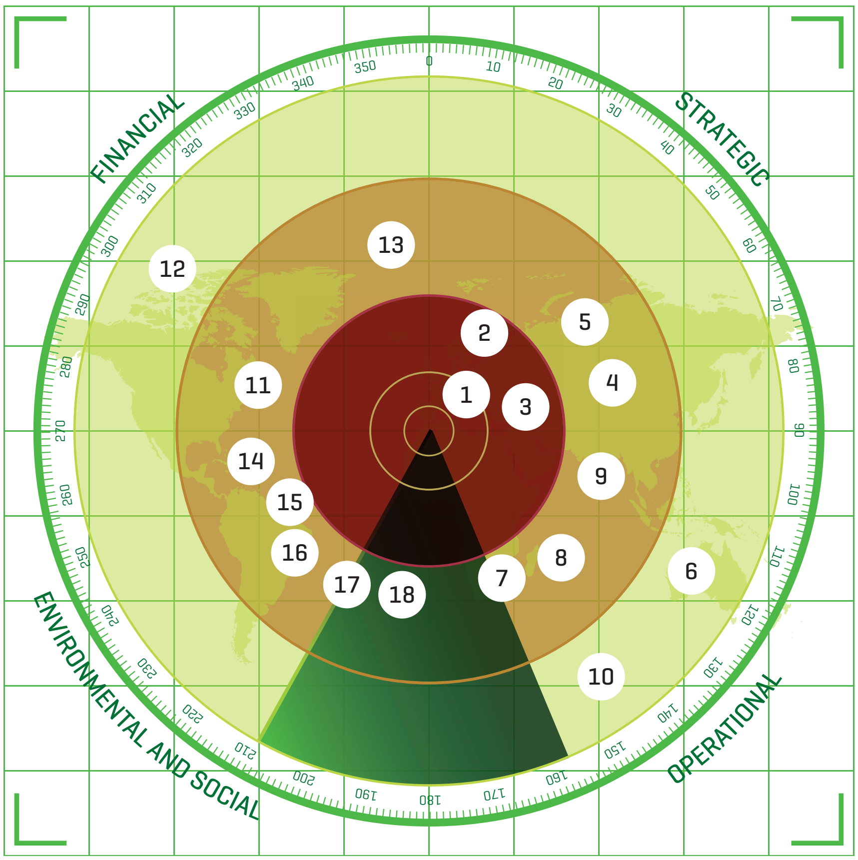
The likelihood of an event is assessed on the basis of past occurrences and the preventive measures in place. A ranking as per the probability of occurrence—high, medium and low—is assigned for each risk. The impact of an event is assessed by determining the loss it would cause and the extent of the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

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

RISK MANAGEMENT CONTD.

RISK EVALUATION AND MAPPING

GRI Disclosure: 102-30



In our risk evaluation process, we plot our risks on radar map, enabling the management a more visual support in their decision making. We take into account the risk aspects under identified risks categories including financial, strategic, operational and environmental and social risks. The high risks aspects are closer to the center and are plotted in the inner circle marked in red whilst medium and lower risk aspects fall into the two outer circles marked in orange and green.

GRI Disclosure: 102-15, 201-2

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
- Changes in laws and regulations

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	High	High	High	High	High

Risk Assessment	Risk Management Strategies
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.	• 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

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

2. Wage Structure

- Strong trade unions play an active role in determining wages
- Wage structure is not fully aligned to worker productivity and market conditions

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	High	High	High	High	High

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

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
- Manufacturing concerns inrespect of complying with Minimum Residual Level (MRL)
- Changes in market rules and regulations

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	High	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- Changes in consumer perspectives and requirements
- Lowering of Threshould MRL causing regulatory barriers for entry
- Coalitions of suppliers to change market equilibrium
- Increase the demand for substitute products
- Competition from global suppliers
- Increase in rejects and claims

Risk Management Strategies

- Changes in buyer's buying capacities
- Close monitoring on agricultural practices and carry out regular laboratory testing to ensure product standards are complying with required parameters
- Focus on producing a 'quality tea'
- Change grade mix to cater to customer requirements
- Expand product range from black tea to other varieties of tea
- Monitor market trends and design strategies to meet future trends
- Strengthening food safety and quality management systems
- Be an ethical organisation with a commitment for global sustainability, hence, obtain international certifications
- such as Rainforest Alliance – Sustainable Farm, ISO 22000
- Food Safety Management, Ethical Tea Partnership

4. Business Risk

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

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	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

RISK MANAGEMENT CONTD.

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

5. Ban of weedicides and other chemicals

Changes in Government policy on imposing ban on chemical weedicide hindering best agricultural practices.

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	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 snakes and insect bites
- 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 for 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

6. Product Quality

- Fluctuations in quality of products
- Risk Assessment

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Low	Low	Low	Low	Low

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

- 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

7. 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	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate

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 2018
Manual	69
Staff	387
Executive	6,680
Total	7,136

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

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

8. Investments

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

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	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

9. Information Systems & Cyber Security

- Inability to generate accurate and timely information for management decision making
- Practice of ensuring the integrity, confidentiality and availability of information

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- 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
- financial and non financial damages

Risk Management Strategies

- 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
- Strengthening internal control systems and procedures to avoid frauds and malpractices
- Provide continuous learning opportunities to employees and adhered to Cyber Hygiene

10. Fraud Risk

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

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Low	Low	Low	Low	Low

Risk Assessment

- Frauds may lead to the down fall of an entire organisation, massive investment losses, significant legal costs, incarceration of key individuals and erosion of confidence in capital markets
- Operational and financial loss and dilution of corporate image
- Fraudulent financial reporting

Risk Management Strategies

- 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.

RISK MANAGEMENT CONTD.

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

FINANCIAL RISK: ARISING FROM INADEQUACY OF CASH FLOW TO MEET FINANCIAL OBLIGATIONS AND MISREPRESENTATION OF FINANCIAL INFORMATION

11. Liquidity

- Risk of not being able to meet financial commitments as an when they fall due.

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- 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 prospects of future business expansion and development plans

Risk Management Strategies

- 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

12. Interest rate risk

- Risk from adverse interest rate fluctuations

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Low	Low	Low	Moderate	Moderate

Risk Assessment

- Increases the cost of borrowing
- Unfavourable interest rates on investments
- Demotivate business expansions
- Cash deficits
- Reduce cash flow and profitability

Risk Management Strategies

- Negotiate with financial institutions for fixed debt servicing arrangements
- Follow efficient treasury management procedures
- 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.

13. Financial Reporting Framework

- A proper financial reporting framework provides credible information about the organisation to its stakeholders

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	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

14. Climate Change

- Extreme weather conditions
- Changes in rainfall pattern and ambient temperature

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	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

STRATEGIC RISK: ASSOCIATED WITH FUTURE BUSINESS PLANS AND STRATEGIES

15. Water

- Water scarcity due to climate change and high consumption by the expanding estate community

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	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

16. Soil Fertility

- Depletion of soil organic matter and nutrients

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- 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

Risk Management Strategies

- Plant green manure/shade trees
- Compost and bury pruning 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

17. Green House Gas (GHG) Emissions

- GHG emissions from operational activities and domestic consumption

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- GHG emissions from fuel used in transport and supervisory vehicles
- GHG emissions from electricity usage in factories, staff quarters, offices and other buildings

Risk Management Strategies

- 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

18. Solid Waste

- Solid waste generated from operational activities and domestic consumption

Year	2017/18	2016/17	2015/16	2014/15	2013/14
Risk Rating	Moderate	Moderate	Moderate	Moderate	Moderate

Risk Assessment

- 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

Risk Management Strategies

- 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

"Corporate governance within TTE is more than just a set of rules and regulations; it is the basis for the management of our business on a day-to-day basis."

Dear Stakeholders,

I am pleased to present our corporate governance statement for 2017/18 on behalf of my fellow Board members. This statement is intended to provide you with an insight into our approach to corporate governance practices and how we ensure adherence to the regulatory requirements and recommended good practices relating to corporate governance.

GOVERNANCE IS OUR CORE

We aspire to ensure that good corporate governance continues to provide a solid basis for our business, in promoting transparent and ethical business conduct at all levels and continuing to add value for our stakeholders. To this end, we have in place clear internal governance structures that enable the Board to retain effective control of the business of TTE whilst delegating certain of its functions to board committees and management.

We continue to review our governance structures to ensure that they provide robust controls, support effective decision-making, and are aligned to evolving local and global best practice.

WE SET THE TONE AT THE TOP

Our values and culture continue to be the cornerstone of governance across TTE. We hold the view that there is no substitute for ethical leadership in living the values and embedding the correct institutional culture in the life of any institution.

Our Group Code of Business Conduct and Ethics, "The Hayley's Way" is the foundation of the dynamic culture and positive mindset of our organisation and thus, remain integral to the way Hayleys Group operates.

WE REMAIN ACCOUNTABLE

Our ability to maintain exemplary governance standards and legitimacy among stakeholders is reinforced by the leadership of an experienced board, with a balance of the relevant professional, functional and industry expertise.

The Board remains primarily accountable to the shareholders, but also takes into account the interests and legitimate demands of other stakeholders, including employees, suppliers, regulators and communities in which we operate. In an environment of extensive and changing regulations, and in the context of continuous growth, TTE is focused on striking an appropriate balance between corporate governance expectations of its stakeholders and the requirement to provide consistent and competitive financial returns without compromising on conformance.

WE STRIVE TO SET THE BAR

We will continue with the approach of continuous, incremental improvement with respect to management practices and structures to ensure the expectations of our stakeholders regarding corporate governance.

In conclusion, I together with the Board of Directors hereby confirm that, we are not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by any Director or any member of the corporate management team of TTE.

Chairman
Talawakelle Tea Estates PLC

Colombo, Sri Lanka
15 May 2018

STATEMENT OF COMPLIANCE

The TTE Board is resolute in its commitment to responsible corporate citizenship and effective corporate governance. Thus, during the year under review, we continued to apply corporate governance at a high level in order to promote sustainability, create long-term value for our shareholders, and also to pursue the continuing realisation of benefits for all stakeholders.

The Board of Directors of TTE wishes to confirm that TTE has complied where ever possible with the provisions of the Code of Best Practice on Corporate Governance 2017 issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL), Corporate Governance Rules embedded in the Listing Rules of the Colombo Stock Exchange (CSE) in the manner hereinafter disclosed in this report.

The Board of Directors also wishes to confirm that, to the best of its knowledge and belief, TTE has complied with all requirements under the Companies Act No.7 of 2007 and satisfied all its statutory payment obligations to the Government and other statutory/regulatory bodies.

A LEAP TOWARDS A HIGHER GOVERNANCE STANDARD

During the year under review, we carried out a gap analysis of our governance practices with that recommended by the revised Code of Best Practice on Corporate Governance (2017) jointly issued by the SEC and ICASL and reinforced our policies, processes and structures in line with the following best practices advocated by the revised Code with which we are adequately compliant. A detailed review of these practices together with information on our compliance therewith is presented in AppendicesW II of this Annual Report.

- Annual review of the composition of the board against a pre-determined criterion including, knowledge and skill, fitness and propriety, gender representation, proportion of non-executive and independent directors, representation of independent directors on board committees.
- Determination by the board of the structure, process and frequency of board meetings, recording of proceedings of meetings, including time-lines for delivery of minutes to the directors and the chairman's role in setting the agenda.
- Board role in delegating authority to the executive, recognition of sustainable business development and integrated reporting, ensuring cyber security, enforcing the code of conduct and ethics and carrying out an annual review of internal controls and risk.
- Provision of training to directors and empowering them to seek expert advice.
- Role of the Audit Committee in reviewing internal controls and risks.
- Constitution of a Related Party Transactions Review Committee.
- Reporting on cyber security and impact from internet of things.
- Environment, Society and Governance (ESG) reporting.

GOVERNANCE FRAMEWORK

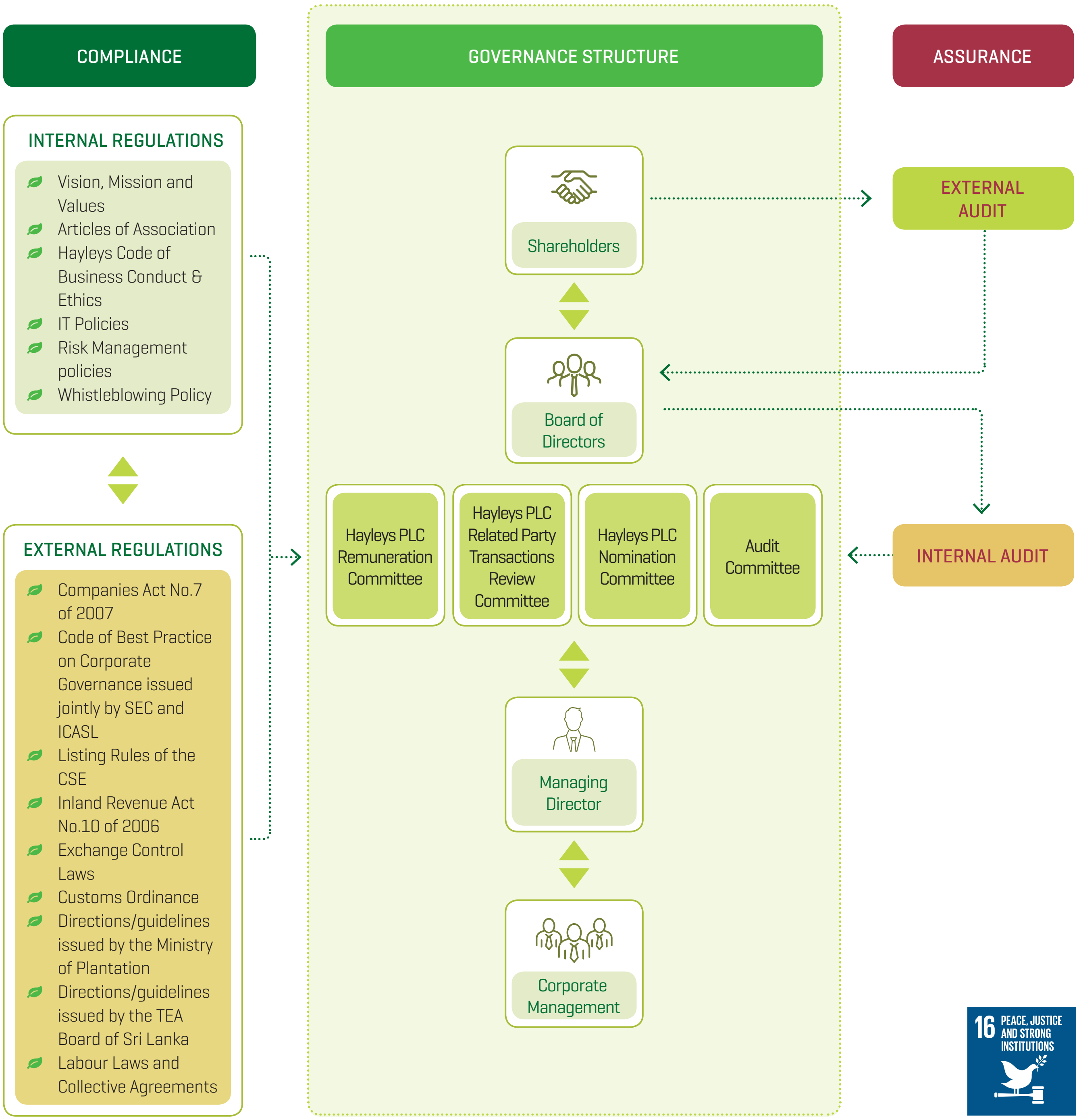
We recognise that the achievement of a long-term sustainable business is dependent on stable, well-functioning and well-governed environmental, social, economic and governance practices. While compliance with applicable regulation and voluntary codes provides the baseline from which to measure governance, our commitment to good governance goes beyond compliance.

Our board of directors, committees and management are responsible for embedding good governance practices into our businesses consistent with the values of Hayleys Group; integrity, respect for people, teamwork enduring customer value, good citizenship, accountability and a 'will to win'. This is achieved through internal policies and guidelines, as well as audit and assurance procedures, which ensure compliance with the applicable laws and regulations as well as the recognised codes of good practices. Governance processes are regularly reviewed to align with regulatory changes and to reflect best practices.

CORPORATE GOVERNANCE CONTD.

GOVERNANCE FRAMEWORK

GRI 102-18, 19, 20,21



LEADERSHIP GOVERNANCE

BOARD OF DIRECTORS

Role and composition
The board is accountable to shareholders and ultimately responsible for the sustainability of our business. Its role includes fulfilling a range of legal duties, while being the primary source of effective and ethical leadership for the Company.

The board's mandate requires it to approve strategic plans, monitor operational performance, ensure effective risk management and internal controls, monitor regulatory compliance and promote good governance. The board must also approve significant accounting policies and the annual financial statements, monitor transformation and empowerment, manage the process of selection and appointment of directors and ensure that the Company's remuneration policies and practices are effective and fair. Certain of these functions are delegated to board committees.

TTE's business operates in different socioeconomic, political, regulatory and technological environments. The complex interplay of opportunities and threats within these environments needs to be closely monitored and addressed with strategies that ensure robust competitive positions. Thus, formal and informal scanning of the environment is an everyday executive responsibility, and the board is regularly apprised of developments that could have a bearing on the performance and sustainability of the Company. Similarly, corporate management responds strategically to everyday shifts in the operating environment.

Details of our board members and their profiles can be found on pages 32-35

GRI 102-22, 29

The board members bring a wide range of experience, skills and backgrounds which complement our strategy

45%
Tea Industry & Plantation Management

100%
Corporate Management

18%
Marketing

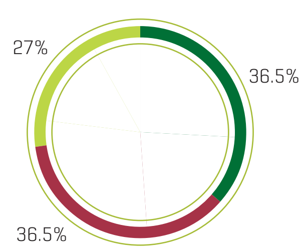
36%
Finance

9%
Human Resources

9%
Engineering

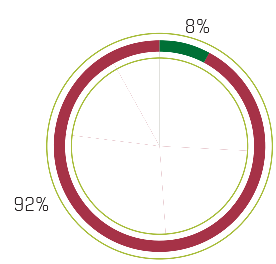
BOARD COMPOSITION

Independence



- Non-executive directors
- Independent non-executive directors
- Executive directors

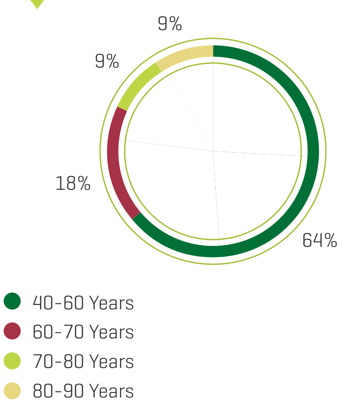
Gender Split



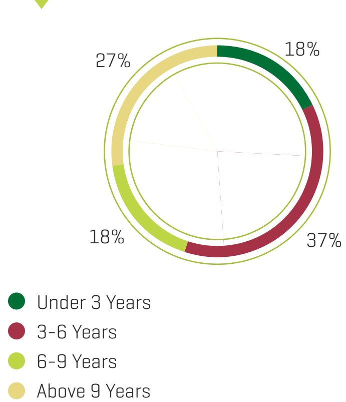
- Female
- Male

CORPORATE GOVERNANCE CONTD.

Age Distribution



Length of Tenure



BOARD SUCCESSION AND APPOINTMENT

GRI 102-24

All appointments to the board are made on merit while taking into account the board balance and composition, background and experience as well as the overall level of contribution they can offer. The board also considers the balance and mix of skills, independence and knowledge and the diversity representation on the Board, including gender and race, and any other factors relevant to its effectiveness when considering the appointment of any director.

The Nomination Committee of the parent, Hayleys PLC is tasked with identifying and recommending suitable candidates for the board's formal consideration. New directors are formally inducted to facilitate their understanding of the group.

CHAIRMAN AND MANAGING DIRECTOR

GRI 102-23 & 26

The roles of the chairman and the managing director (MD) are formalised, separate and clearly defined. This division of responsibilities at the helm of the Company ensures a balance of authority and power, with no individual having unfettered decision-making powers. The chairman, Mr. AM Pandithage, sets the ethical tone of the board and ensures that the board remains efficient, focused and operates as a unit and the MD, Mr. Roshan Rajadurai, is responsible for the executive management of the Company.

While the board and corporate management collectively determine the strategic objectives of the Company within the triple context of the economy, society and the environment, the board is responsible for approving the Company's strategy and the executive is responsible for executing this strategy and for the ongoing management of the business. Regular reporting by the executive on progress made in executing its mandate enables the board to monitor implementation of strategy and to assess its effectiveness thereof.

MANAGEMENT OF CONFLICTS OF INTERESTS

GRI 102-17 & 25

Our Group Code of Business Conduct and Ethics casts a responsibility on each director to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters. Directors are also required timeously to inform the Board of conflicts, or potential conflicts, of interest that they may have impairing his or her independent judgement.

Further, Directors who have an interest in a matter under discussion at meetings of the board refrain from engaging themselves in the deliberations on that matter and abstain from voting thereon.

CONTINOUS IMPROVEMENT AND EVALUATION

GRI 102-27 & 28

Directors receive a significant bespoke induction programme with a range of information about TTE when they first join the board. This includes background information on TTE and details of board procedures, directors' responsibilities and various governance-related issues. All directors receive continuous training in the form of presentations about the Company's operations and sector developments that could affect the Group and its operations covering a wide spectrum of topics including economic, social and environmental aspects, at board and committee meetings.

An annual assessment of the performance of the board and its committees is carried out through the Remuneration Committee of the parent, Hayleys PLC. The directors believe that the board is well balanced in terms of skills, qualifications and experience and makes a meaningful contribution to the group.

BOARD SUB-COMMITTEES

GRI 102-18 & 31

The board has mandated four sub-committees namely, Audit Committee, Remuneration Committee, Nomination Committee and Related Party Transactions Review Committee, to assist the board in discharging its responsibilities. Except for the Audit Committee, all other sub-committees are constituted at the Group Level and thus oversee the functions of TTE falling within their respective purview. Each of these sub-committee's scope and nature of authority is stipulated in written terms of reference, which is approved by the board.

The committees focus on their own areas of expertise enabling the board meetings to focus on governance and risk, strategy, performance, and leadership and people, thereby making the best use of the board's time together as a whole. The committees report to the board with recommendations on areas falling within their respective scopes thus, ensuring a good communication flow while retaining the ability to escalate items to the full board's agenda if appropriate.

The table below outlines the board committee responsibilities.

COMMITTEE	RESPONSIBILITY
Audit Committee	Assists the board in its responsibilities, covering the internal and external audit processes for the Company, taking into account the significant risks, the adequacy and functioning of the Company's internal controls and the integrity of financial reporting. *Committee Report can be found on page 191*
Remuneration Committee	Advises and guides the board on director remuneration, setting and implementing remuneration policy, approval of general composition of remuneration packages and criteria for executive bonus and incentive awards.
Nomination Committee	Provides advice and guidance on succession planning, director appointments and director induction and training.
Related Party Transactions Review Committee	Implements and oversees policies and procedures relating to related party transactions of the Company and avoidance of conflicts of interests. *Committee Report can be found on page 192*

CORPORATE GOVERNANCE CONTD.

GRI 102-22 & 31

THE COMPOSITION OF THE BOARD AND SUB-COMMITTEES AND ATTENDANCE AT MEETINGS AS AT 31ST MARCH 2018

Name of Director	Independent	Non-executive	Executive	Board		Board Sub Committees							
						Board Audit Committee		Remuneration Committee		Nomination Committee		Related Party Transactions Review Committee	
				Position	Attendance	Position	Attendance	Position	Attendance	Position	Attendance	Position	Attendance
Mr. A. M. Pandithage	-	-	✓	Chairman/ Executive Director	4/4	-	-	-	-	Chairman	2/2		-
Mr W G R Rajadurai	-	-	✓	Managing Director	4/4	-	-	-	-	-	-	-	-
Mr Merrill J Fernando	-	✓	-	Director	0/4	-	-	-	-	-	-	-	-
Mr Malik J Fernando	-	✓	-	Director	1/4	-	-	-	-	-	-	-	-
Mr. D. C. Fernando (alternate to Mr. Malik J Fernando)	-	✓	-	Director	-	-		-	-	-	-	-	-
Dr S S S B D G Jayawardena	✓	✓	-	Director	4/4	Member	4/4	-	-	-	-	-	-
Dr K I M Ranasoma	-	✓	-	Director	3/4	-	-	-	-	-	-	-	-
Ms Minette D A Perera	-	✓	-	Director	4/4	Member	4/4	-	-	-	-	-	-
Dr N T Bogahalande	✓	✓	-	Director	3/4	-	-	-	-	-	-	-	-
Mr D S Seneviratne	-	-	✓	Director/ Chief Executive Officer	4/4	-	-	-	-	-	-	-	-
Mr S L Athukorala	✓	✓	-	Director	4/4	Member	4/4		-	-	-	-	-
Mr M H Jamaldeen	✓	✓	-	Director	3/4	-		Member	2/2		-	-	-
Directors of Hayleys PLC who are on the sub-committees applicable to TTE													
Mr. K. D. D. Perera	-	✓	-	Co-Chairman	-	-		Member	2/2	Member	2/2		-
Dr. H. Cabral	✓	✓	-	Director	-	-		Chairman	2/2	Member	2/2	Chairman	4/4
Mr. M. Y. A. Perera	✓	✓	-	Director	-	-		Member	2/2		-	Member	4/4
Mr. S. C. Ganegoda	-	✓	-	Executive Director	-	-		-	-	-	-	Member	1/4

REPORT OF THE AUDIT COMMITTEE

GRI 102-31

ROLE OF THE AUDIT COMMITTEE

The role of the Committee with specific terms of reference is described in the Corporate Governance Report on pages 184 to 201.

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 pages 190 & 32 of this report. Their individual and collective financial knowledge and business acumen and the independence of the Committee, are brought to bear on their deliberations and judgment on matters that come within the Committee's purview.

MEETINGS OF THE AUDIT COMMITTEE

The Committee met four times during the year. The attendance of the members at these meetings is as follows:

Mr. S.L.Athukorala 4/4
Dr. S SS B D G Jayawardena 4/4
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.

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 2019.

SUPPORT TO THE COMMITTEE

The Committee received information and support from management during the year to enable it to carry out its duties and responsibilities effectively.

SRI LANKA ACCOUNTING STANDARDS

Committee reviewed the revised policy decisions relating to adoption of new and revised Sri Lanka Accounting Standards (SLFRS/LKAS) applicable to the Company and made recommendation to the Board of Directors. The Committee would continue to monitor the compliance with relevant Accounting Standards and keep the Board of Directors informed at regular intervals. The committee has pursued the support of 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

15 May 2018

CORPORATE GOVERNANCE CONTD.

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

GRI 102-25

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 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 and the members are as follows.

Dr. H. Cabral**, PC - Chairman
Mr. M.Y.A. Perera **
Mr. S. C. Ganegoda*

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

ATTENDANCE

Committee met – 04 times during the Financial Year 2017/18.

Meetings were held on 17th May 2017, 4th August 2017, 2nd November 2017 and 7th February 2018.

	Meetings
Dr. H. Cabral, PC	4/4
Mr. M.Y.A. Perera	4/4
Mr. S. C. Ganegoda	1/4

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 reviewed the related party transactions and their compliances of Talawakelle Tea Estates PLC and communicated the same to the Board.

The Committee in its review process recognised 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

16 May 2018

OUR VALUES AND ETHICS

GRI 102-16 & 17

Sound corporate governance depends upon much more than processes and procedures; it fundamentally depends upon the people and the culture within an organisation. At TTE, sound corporate governance is embedded in our values, culture, processes, functions and organisational structure.

Thus, Hayleys Group's core values – integrity, respect for people, teamwork, enduring customer value, good citizenship, accountability, and a 'will to win' – go to the heart of our mission to improve learning outcomes, and the board and employees are committed to demonstrating these characteristics throughout their work and deliberations. The board monitors the culture of the Company and levels of employee engagement and advocacy with the assistance of and through regular updates from the corporate management. The board aims to foster a culture of collaboration, diversity and inclusion at all levels, including by engaging with employees from across the Company at various events throughout the year.

"The Hayleys Way', our group code of business conduct and ethics defines our main ethical standards of responsibility, integrity, fairness, accountability and respect. This code is used as a benchmark against which TTE is managed, taking into consideration the economic social, political and operational environments in which the business conducts itself. The code is well internalised through regular staff briefings, internal training programmes and through corporate circulars.

In addition, our Whistleblower Policy also serves as a formal channel for management of violations of laws, rules and regulations, unethical conduct and corporate frauds. The policy, which applies to individuals at all levels within the Company, enables employees who observe or notice any improper or illegal activity or unethical practices in the Company or receives credible information of the same, to report the same. The confidentiality of those reporting violations is maintained and they are not subjected to any discriminatory action.

Given that the employee conduct is governed by stringent policies described above and the close and strict monitoring thereof by the board and the management, no material violations of the code of business conduct and ethics or incidents of corruption have been reported during the year under review.

RISK GOVERNANCE AND CONTROL

GRI 102-30

Risk Management

Effective risk management aligns risk and opportunities to TTE's vision and mission. Proactive risk management practices ensure governance mechanisms are effective across the value chain, and focuses on both strategic and operational risks, while aligning enterprise-wide risks and opportunities. Growing shareholder value forms the basis of our risk management strategy and allows us to take calculated risks in a manner that does not jeopardise the direct interests of stakeholders.

Our risk profile stipulates a prudent approach to risks, as shown in decisions on risk tolerance and mitigation. TTE's board assumes full responsibility for the governance of risk through a formal risk management framework which is designed to identify, quantify, prioritise, respond to and monitor the consequences of both internal and external risks, including that relating to social, environmental and economic factors and their associated opportunities.

The Audit Committee is charged with the task of assisting the board in the discharge of its duties relating to oversight of risk management whilst the corporate management is responsible for identifying risks and implementing appropriate mitigation processes and controls within their businesses. The risk-management processes also promote the ownership of risk areas and risk-management accountability within the Company.

Identified risks are evaluated for potential impact and probability in terms of the likelihood of occurrence. Areas covered in such evaluations include the risk of harm to people and environment, business interruption, financial loss, legislative and regulatory compliance and reputation. These evaluations of the impact and probability establish the basis for determining the inherent risks and their significance to the business.

Details of our risk management framework can be found on page 176

INTERNAL CONTROLS

The ultimate responsibility for the overall risk and control framework lies with the board, the Audit Committee performs a periodic review of the effectiveness of the Company's internal control framework through evaluations carried out by professional accounting firms and the Hayleys Group's Management Audit and System Review Department. Such review includes all material controls, including financial, operational and compliance controls and risk management systems as well as economic, environment and social impacts on the Company's operations. Reports of these reviews with recommendations for preventive or corrective measures where necessary, are submitted to the Chairman, Managing Director and the Chairman of the Audit Committee.

IT GOVERNANCE

Information technology is an integral part of our business and fundamental to ongoing operations. Given the strategic importance of IT, we have aligned our business requirements to available IT resources and technology to ensure appropriate IT strategy is formulated to improve our competitiveness for its future sustainability. We are governed by the IT Governance Framework of the Hayleys Group which ensures that the IT function is focused on the strategic leadership and alignment of IT activities, prioritised IT investment initiatives, internal engagement to promote collaborative IT planning and the promotion of IT effectiveness to capitalise on economies of scale across the group.

CORPORATE GOVERNANCE CONTD.

The board, supported by the audit committee, is responsible for IT governance and the strategic alignment of IT with the performance and sustainability objectives of the Company. The audit committee reviews and evaluates audit assessments of IT-related controls performed by the internal and external auditors together with the appropriateness of actions taken by management to address key issues identified.

COMPLIANCE CULTURE

Complying with all applicable legislation, regulations, standards and codes is integral to the Hayleys Group's culture and imperative to achieving its strategy. Thus, TTE promotes a robust compliance culture across the organisation and requires everyone, from the board down to staff, to consistently comply with applicable laws, regulations and standards.

The responsibility for compliance is delegated by the board to corporate the management who has adopted a sound mechanism to monitor reporting and compliance with all mandatory reporting requirements with the objective of establishing a fully compliant corporate governance and risk mitigating culture.

Legislative and regulatory developments are monitored on an ongoing basis and group leadership proactively engages with regulators through several industry bodies and business associations. This not only provides the opportunity to advocate for effective policies, but also to inform a common interpretation of requirements and therefore the controls needed to comply.

SUSTAINABILITY GOVERNANCE

COMMITMENT TO SUSTAINABILITY

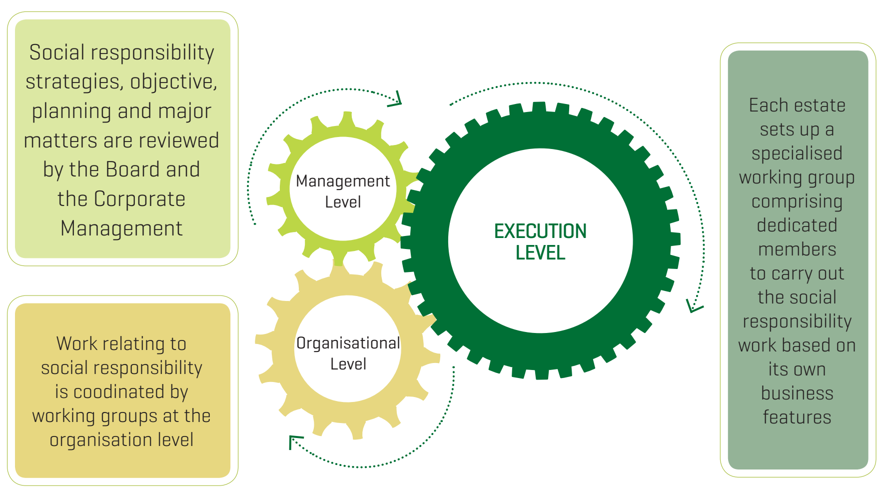
It is our fundamental belief that for a company to be commercially successful over the long term, it must create value for both its stakeholders and for society as a whole. The strongest possible business ethics and sound environmental decisions underpin our daily activities and behaviours. The Hayleys Group therefore carefully manages our environmental footprint and uses sustainability criteria in investment choices in order to help support the global transition to a sustainable economy. We are congnisant of the fact that investors attach a growing importance and have increasing expectations with regard to how companies integrate commercial sustainability into their business strategy.

SUSTAINABILITY FRAMEWORK

GRI 102-26

We are committed to operating in a manner that is economically, socially and environmentally sustainable while balancing the interests of our various stakeholders. Thus, we perform our social responsibilities by taking management measures methodically and orderly, while considering the possible overall effects of our decisions and actions on the economy, society and environment at large. Meeting this commitment is a vital management objective and the individual and collective responsibility of all TTE employees.

An effective social responsibility management entails the participation of each individual of the Company. We have therefore established a social responsibility management system comprising joint actions of three levels, namely leadership level, organisation level and execution level. Such system enables us to fully implement social responsibility management as it effectively procures a deep involvement at the management level, a horizontal coordination between various business departments and estates at organisation level, as well as an implementation by subordinate units at the execution level.



EXECUTIVE ROLE IN SUSTAINABILITY GOVERNANCE

GRI 102-26

The board delegates the authority for day-to-day management of economic, environmental and social topics to the Corporate Management Committee comprising the Managing Director, Chief Executive Officer, Director–Plantations and the Senior Management of the Company, thus making the formal and informal scanning of the environment in which we operate an everyday executive responsibility, and the TTE's board is regularly apprised of developments that could have a bearing on the performance and sustainability of the Group. Similarly, corporate management responds tactically to everyday shifts in the operating context.

The cross-functional committees formed at the management level ensure the conduct of our internal operations within ethical and governance parameters defined by the board. Under the stewardship of the board, these committees implement approved policies and strategies and manage the business and affairs to ensure that we create sustainable growth for all our stakeholders.

In addition, the committees formed at the group level namely, the Group Management Committee and Chief Executive Officer's Forum (CEO's Forum) provides a platform for the group to review sector performance, formulate policies, share best practices and discuss risks and concerns impacting the business activities of their respective sectors, thus ensuring the sustainability of the group as a whole.

SUSTAINABILITY REPORTING

GRI 102-31, 32, 33, 34

The Corporate Management Committee which is the hierarchy in the management level committees, review, from time to time, the vision, mission and values of the Company as well as the Company's strategies and policies relating to economic, social and environmental impacts and report all critical issues arising or discussed at their meetings to the board through the Managing Director. Except for the matters arising in the ordinary course of business no critical matters were reported to the board during 2017/18.

The Sustainability Department of the Company which is headed by an executive level employee is charged with the responsibility of focusing on our sustainability strategy. The Corporate Management Committee who is delegated with the authority for day-to-day management of economic, environmental and social topics, in turn delegates the co-ordination and monitoring of the sustainability initiatives undertaken at various levels of the organisation to the Sustainability Department.

The Sustainability Department submits periodical updates to the board through the Managing Director on our sustainability initiatives, risks and opportunities arising from economic, social and environmental factors impacting our business operations and stakeholder concerns thereon. All the critical concerns were communicated to the Board of Directors and there were no concerns reported during the year.

Our integrated annual report, which is approved by the board prior to it being released, provides a detailed account to our stakeholders of our sustainability strategy and initiatives.

Details of our sustainability initiatives can be found on page 151

STAKEHOLDER ENGAGEMENT

GRI 102-18, 31

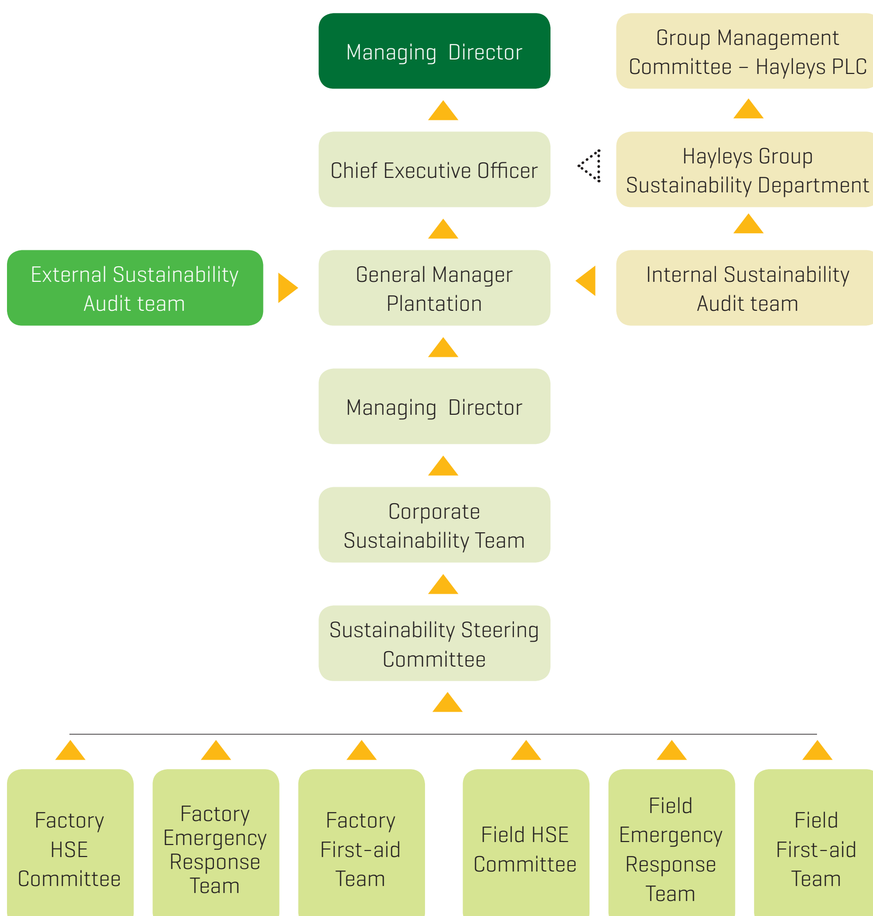
We understand that stakeholder engagement is one of the key drivers in the continuous improvement of our sustainability performance. Therefore, we strive to maintain active engagement with our stakeholders through open and transparent communication channels to understand their concerns, secure their interests and manage their expectations promptly thereby earning their trust and understanding over time. Engagement with our stakeholders also help the Group identify the opportunities issues and risks that may affect our businesses and performance.

The Sustainability Department, who, in consultation with the Corporate Management Committee, engages with our stakeholders in identifying economic, social and environmental factors that impact our business operations as well as risks and opportunities arising from the same.

Details of our stakeholder engagement can be found on page 45

SUSTAINABILITY GOVERNANCE STRUCTURE

GRI 102-18, 19, 20, 21



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

The Directors of Talawakelle Tea Estates PLC (TTE PLC) has pleasure in presenting the Annual Report of the Board of Directors on the affairs of the Company and audited Consolidated Financial Statements of the Group for the year ended 31st March 2018.

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 15th May 2018.

PRINCIPAL ACTIVITIES

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

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

GROUP STRUCTURE

The Group Structure is given on page 22

VISION, MISSION AND CORPORATE CONDUCT

The companies vision and mission are given on page 6 The 'Group Code of Business Principles –Hayleys Way ' provides the frame work for our corporate conduct. The Group is committed to conduct its business operations with honesty, integrity, to comply the laws and regulations of the country and with respect to the rights and interests of all stakeholders.

BUSINESS REVIEW/FUTURE DEVELOPMENT

A review of financial and operational performance and future business developments of the Group is contained in the Chairman's Statement (Pages 12 To 15) Managing Director's Review (Pages 16 To 20) and Management Discussion and Analysis (Pages 52 to 175 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 2018, have been duly signed by the Chief Financial Officer and two directors of the Board are given on page 210.

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 2018, and their Report is given on pages 206 to 207.

ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of the Financial Statements of the company and the group are given on pages 214 & 228.
There were no material changes in the Accounting Policies adopted with those of the last year.

GROUP REVENUE

The revenue of the Group during the year was Rs. 4,061.3 Mn (2017 - Rs. 3,334.4 Mn) An analysis of the Group's revenue, profits and asset allocation relating to different segments are given in Note 7 to the Financial Statements.

The contribution to revenue from tea increased by Rs. 745.1Mn (2017 – decreased by Rs. 73.5Mn), whereas revenue from rubber decreased by Rs. 5.08Mn (2017- increased by Rs. 8.8Mn). Revenue contribution from hydro power decreased by Rs. 19.8Mn. (2017- decreased by Rs. 39.3Mn) during the year ended 31/03/2018.

Trade between Group Companies is conducted at fair market prices.

OPERATIONAL RESULTS AND DIVIDENDS

The Group profit before taxation, amounted to Rs. 616.8Mn (2017-Rs. 266.3Mn) during the period under review. After charging Rs. 69.2Mn (2017 – Rs. 24.9Mn) for taxation and a consolidation loss of Rs. 0.87Mn (2017 – profit of Rs. 7.7Mn) for non-controlling interests, the Group profit attributable to equity holders of the Company from operating activities for the period was Rs. 548.4Mn (2017 – Rs. 233.7Mn). An Interim dividend of Rs.4.00 per share for the financial year ended 31/03/2018 was paid on 23/03/2018.

The Board of Directors have recommended a payment of a final dividend of Rs. 2.50 per share payable on 05th July 2018 to the shareholders of the issued ordinary shares of the Company as at the close of business on 25th June 2018.

The proposed dividend is subject to the shareholders' approval at the Annual General Meeting.

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 final dividend proposed. A solvency certificate was obtained from the Auditors in respect of the interim dividend paid and one has been sought in respect of the final dividend proposed.

GROUP INVESTMENT

Total capital expenditure of the Group including investments in field development during the year amounted to Rs. 168.7 Mn (2017 – Rs. 133.5 Mn).

PROPERTY, PLANT & EQUIPMENT

Group investment on property, plant & equipment and capital work in progress during the year amounted to Rs 104.3Mn (2017 - Rs. 44.9Mn) whilst that of the Company was Rs. 100.3Mn. (2017 - Rs. 44.5Mn). The Company investment on replanting of tea, rubber and timber during the year amounted to Rs. 50.6 Mn.(2017 – Rs. 73.4Mn), Rs. 4.7 Mn (2017 – Rs. 4.3Mn) and Rs. 8.9 Mn (2017- 9.2 Mn) respectively.

Information relating to movement in property, plant & equipment an replanting is given in Notes 13, 14, 15 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 2018 consists of 23,750,000 Ordinary Shares and one (01) Golden Share amounting to Rs. 350,000,010. There was no change in the stated capital during the year ended.

Total Group reserves at 31st March 2018 amounts to Rs. 2,172.3 Mn (2017 – Rs. 1,723.7 Mn) comprising retained earnings of Rs. 1,980.5 Mn.(2017– Rs. 1,541.0 Mn), biological reserve of Rs. 12.1 Mn (2017- Rs. 9.9 Mn)and timber reserves of Rs. 179.6 Mn (2017- 172.7Mn). 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 for the year is liable at 10% and 28% respectively.

TTEL Hydro Power Company (Pvt) Ltd and TTEL Somerset Hydro Power (Pvt) Ltd are liable at 12% .

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 11 to the Financial Statements.

PREFERENCES SHARES

As at 31st March 2018 the company holds 14% Redeemable Cumulative Preference Shares of TTEL Hydro Power Company (Pvt) Limited amounting to Rs. 53.1Mn (31/03/2017 – Rs. 53.1Mn) and Rs. 16 Mn (31/03/2017 – Rs. 16 Mn) respectively. Information relating to the preference shares is given in Note 16 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 35 to the Financial Statements dealing with related party disclosures includes details of their interests in transactions.

INSURANCE & INDEMNITY

The Company is covered by Directors and officers (D & O) cover of the Parent Company, Hayleys PLC and premium of Rs.5.3 Mn and the limit on liability of the cover is USD 5 Mn.

PAYMENT OF REMUNERATION TO DIRECTORS:

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

The Directors are of the opinion that the framework assures appropriateness of remuneration and fairness for the Company. The total remuneration for Executive Directors for the year ended 31st March 2018 is Rs 7.7Mn (31/03/2017-Rs. 7.02 Mn), which includes the value of perquisites granted as part of terms of service and is formally approved. The total remuneration of Non-Executive Directors for the year ended 31/03/2018 is Rs. 2.7 Mn (31/03/2017 – Rs. 2.5 Mn) determined according to scales of payment decided upon by the Board previously. The Board is satisfied that the payment of remuneration is fair to the Company.

CORPORATE DONATIONS

No donations were made during the year ended 31.03.2018 (31.03.2017- 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 32 to 35.

EXECUTIVE DIRECTORS

Mr. A M Pandithage (Chairman)
Mr. W G R Rajadurai (Managing Director)
Mr. D.S. Seneviratne (CEO)

NON- EXECUTIVE DIRECTORS

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

INDEPENDENT NON- EXECUTIVE DIRECTORS

Dr. S S S B D G Jayawardena
Mr. N T Bogahalande
Mr. S.L. Athukorala
Mr. M.H. Jamaldeen

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

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

Messrs. A.M.Pandithage and N.T.Bogahalanda 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 88 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 75 years old, notwithstanding the age limit of 70 years stipulated by Section 210 of the Companies Act No. 07 of 2007.

BOARD COMMITTEES

The Board, while assuming the overall responsibility and accountability for the affairs in the management of the company, has appointed an Audit Committee, Remuneration Committee, Nomination Committee and Related Party Review Committee a with specific terms of reference. Audit and Related Party Transactions Review Committee Reports are given on pages 191 and 192 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 184 to 203 discusses this further.

AUDITORS

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

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

The Auditors Messrs Ernst & Young Chartered Accountants were paid Rs. 4.9 Mn (31/03/2017 -Rs. 4.7 Mn) as audit fees and audit related work of the Company and Rs. 0.501 Mn (31/03/17- Rs. 0.446 Mn) as audit fees by the two subsidiaries, TTEL Hydro Power Company (Pvt) Limited and TTEL Somerset Hydro Power (Pvt) Ltd.

The Auditors of the company and its subsidiaries have confirmed that they do not have any relationship (other than that of an auditor) with, or interests in, the Company or any of its Subsidiaries other than those disclosed above.

SHARE INFORMATION

Information relating to earnings, dividends, net assets, market value per share and share trading is given on pages 257 and 258.

GOLDERN 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 BALANCE SHEET DATE

No circumstances have arisen since the Balance Sheet date that would requires adjustment, or disclosure, other than those disclosed in Note 34 to the Financial Statements on page 250.

HUMAN RESOURCE

The number of persons employed by the Company at year end was 7,136 (31/03/2017 -7,469) of which 7,106 (31/03/2017 - 7,428) 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 200.

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 151 to 175.

The Group's business activities can have direct and indirect effects on the environment. It is the Group's policy to minimise 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 35 into the Financial Statements.

Report of the Related Party Transaction Review Committee appears on page 192.

INTERNAL CONTROLS

The Directors acknowledge their responsibility for the Group's system of internal controls. The system is designed to give assurance, inter alia, regarding the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information generated. However, any system can only ensure reasonable and not absolute assurance that errors and irregularities are either prevented or detected within a reasonable time period.

The Board, having reviewed the system of internal controls, is satisfied with its effectiveness of these controls for the period up to the date of signing the Financial Statements.

GOING CONCERN

The Directors, after making necessary inquiries and reviews including reviews of the Group's budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and borrowing facilities, have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, going concern basis has been adopted in preparation of the Financial Statements.

RATIOS AND MARKET PRICE INFORMATION

The ratios relating to equity and debt as required by the listing requirement of the Colombo Stock Exchange are given in pages 7 and 282 of this report.

DIRECTORS' SHAREHOLDINGS

Directors' holdings of ordinary shares as at 31/03/2018 in the Company are given below.

Mr. Merrill J Fernando - 1,184,700 (01/04/2017 -1,184,700). These shares are held through Merrill J Fernando & Sons (Private) Limited.

Dr K I M Ranasoma - 500
(01/04/2017 – 500 shares)
Mr D S Seneviratne - 600
(01/04/2017 – 600 shares)
Mr. W.G.R. Rajadurai - 1000
(01/04/2017 –1000 shares)
No shares are held by the Directors in the subsidiaries of the Company

SHAREHOLDING

As at 31st March, 2018, there were 13,490 (31/03/2017 - 13,529) registered shareholders. The percentage of shares held by the public was 20.27 %(31/03/2017 -20.27%) of the issued shares held by 13,485 shareholders (31.03.2017- 13,524).

The twenty major shareholders as at 31st March, 2018 and the number of shares held and their percentage share holdings are given on page 258 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 25th June, 2018. The Notice of the Annual General Meeting appears on page 286

For and on behalf of the Board

Mohan Pandithage
Chairman

Roshan Rajadurai
Managing Director

Hayleys Group Services (Pvt) Ltd.
Secretaries

15th May 2018

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors are responsible under Sections 150 (1), 151, 152 (1), and 153 of the Companies Act No. 07 of 2007, to ensure compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss of the Company and the Group for the financial year.

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

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

They also confirm that the Financial Statements have been prepared and presented in accordance with the Sri Lanka Accounting Standards, (SLFRS/ 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 Group and, in that context, have instituted appropriate systems of internal control with a view to preventing and detecting fraud and other irregularities.

The Directors have confirmed that the Company satisfied the solvency test requirement under Section 56 of the Companies Act No.07 of 2007 for the interim dividend paid and the final dividend proposed. A solvency certificate was obtained from the Auditors in respect of the interim dividend paid and one has been sought in respect of the final dividend proposed.

The external Auditors, Messrs Ernst & Young who were deemed reappointed in terms of Section 158 of the Companies Act No. 07 of 2007 were provided with every opportunity to undertake the inspections they considered appropriate to enable them to form their opinion on the Financial Statements. The Report of the Auditors, shown on page 206 to 207 sets out their responsibilities in relation to the Financial Statements.

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all statutory payments relating to employees and the Government that were due in respect of the Company and its Subsidiaries as at the Balance Sheet date have been paid or where relevant, provided for

By order of the Board,

HAYLEYS GROUP SERVICES (PVT) LTD.
Secretaries
15th May, 2018

MANAGING DIRECTOR'S & CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The Financial Statements of Talawakelle Tea Estates PLC and the Consolidated Financial Statements of the Group as at 31st March, 2018 are prepared and presented in compliance with the requirements of the following:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka;
- Companies Act No 07 of 2007;
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995;
- Listing rules of the Colombo Stock Exchange; and
- Code of Best Practice on Corporate Governance-2017 issued jointly by the institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Significant accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, as described in the Notes to the financial statements. The significant accounting policies estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and our External Auditors.

We confirm that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material respects the financial position, results of operations and cash flows of the company as of, and for, the periods presented in this annual report

We are responsible for establishing and maintaining internal controls and procedures. We have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the company is made known to us and for safeguarding the company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls and any fraud that involves management or other employees. Our internal auditors also conduct periodic reviews to ensure that the internal controls and procedures are consistently followed. However, there are inherent limitations that should be recognised 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 206 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

Dilantha Seneviratne
Chief Financial Officer

15 May, 2018

A natural teamwork
that has everyone
working in tandem
towards greatness...

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FINANCIAL CALENDAR-2017/2018

DIVIDEND CALENDAR

	2017/2018
Second Interim Dividend paid for the year 2016/17	On June 14, 2017
Interim Dividend paid for the year 2017/18	On March 23, 2018
Final Dividend proposed for the year 2017/18	On May 15, 2018
Final Dividend to be paid (Subject to the Shareholder's approval)	On July 05, 2018

ANNUAL GENERAL MEETING (AGM) CALENDAR

	2017/2018	2018/2019
Annual Report and Accounts for the year signed/to be signed	On May 15, 2018	in May 2019
Annual General Meeting to be held	On June 25, 2018	in June 2019

INTERIM FINANCIAL STATEMENTS CALENDAR-SUBMISSION TO THE COLOMBO STOCK EXCHANGE (CSE) (IN TERMS OF RULE 7.4 OF THE COLOMBO STOCK EXCHANGE)

	2017/2018 Submitted on	2018/2019 To be submitted on or before
For the three months ended/ending June 30 (unaudited)	July 26, 2017	August 15, 2018
For the six months ended/ending September 30 (unaudited)	October 31, 2017	November 15, 2018
For the nine months ended/ending December 31 (unaudited)	January 30, 2018	February 15, 2019
For the year ended/ending March 31 (audited)	May 15, 2018	May 31, 2019

INDEPENDENT AUDITORS' REPORT

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Chartered Accountants
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BW/CSW/BHNJ

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

Opinion

We have audited the financial statements of Talawakelle Tea Estates PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at March 31, 2018, and the statement of profit or loss , statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
Valuation of Retirement Benefit Obligation	
The retirement benefit obligation of the Group is significant (Rs. 811 Mn) in the context of the total liabilities of the Group. The valuation of the Group's retirement benefit obligation requires significant judgment and estimation to be applied across numerous assumptions, including salary increases and discount rate. Small changes in those assumptions could have a significant effect on the financial performance and financial position of the Group. Accordingly, actuarial valuation of retirement benefit obligation is considered to be a key audit matter.	We evaluated the assumptions made in relation to the actuarial valuation of the retirement benefit obligation. In particular: • We assessed the assumption for salary increases against the group's historic trend and expected future outlook. • We agreed the discount rate used, to our internally developed benchmarks. • We validated the key data used by the actuary to the underlying data held by the Group. We evaluated the adequacy of the related disclosures given in Note 25 in the financial statements.

Other information included in The Company's 2018 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is M-2440.

Ernst + Young

Ernst & Young
Chartered Accountants

15 May 2018

Colombo

STATEMENT OF PROFIT OR LOSS

For the year ended 31 March	Notes	Company 2018 Rs.'000	Company 2017 Rs.'000	Group 2018 Rs.'000	Group 2017 Rs.'000
Revenue	7.1	4,009,007	3,262,361	4,061,310	3,334,494
Cost of Sales		(3,269,090)	(2,859,850)	(3,307,226)	(2,898,184)
Gross Profit		739,917	402,510	754,084	436,310
Change in Fair Value of Biological Assets	15 C.1	9,091	16,743	9,091	16,743
Other Income And Gains	8	24,329	36,865	22,309	22,452
Administrative Expenses		(160,524)	(143,953)	(169,416)	(153,521)
Results from Operating Activities		612,813	312,166	616,067	321,984
Finance Income	9.1	52,099	8,122	52,099	8,951
Finance Expenses	9.2	(18,420)	(31,438)	(21,891)	(35,758)
Interest Paid to Government on Finance Lease	9.3	(29,446)	(28,790)	(29,446)	(28,790)
Net Finance Expense		4,233	(52,106)	761	(55,597)
Profit Before Tax	10	617,045	260,061	616,828	266,388
Income Tax Expense	11	(66,242)	(17,767)	(69,262)	(24,906)
Profit For The Year		550,803	242,294	547,566	241,482
Attributable To:					
Equity holders of the Parent		550,803	242,294	548,436	233,769
Non- Controlling Interest		-	-	(870)	7,713
		550,803	242,294	547,566	241,482
Basic/Diluted Earnings Per Share (Rs.)	12	23.19	10.20	23.09	9.84

The Accounting Policies and Notes on pages 214 to 255 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

		Company		Group	
For the year ended 31 March	Notes	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit for the year		550,803	242,294	547,566	241,482
Other comprehensive income					
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial Gain/(Loss) on Retirement Benefit Obligations	25	21,967	217,671	21,956	217,547
Income Tax Effect	11.2	(3,075)	(34,305)	(3,074)	(34,290)
Other comprehensive income for the year, net of tax		18,892	183,366	18,882	183,257
Total comprehensive income for the year, net of tax		569,695	425,661	566,448	424,739
Attributable to:					
Equity holders of the Parent		569,695	425,661	567,323	417,080
Non- Controlling Interest		-	-	(875)	7,659
		569,695	425,661	566,448	424,739

The Accounting Policies and Notes on pages 214 to 255 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

		Company		Group	
As at	Notes	31.03.2018 Rs.'000	31.03.2017 Rs.'000	31.03.2018 Rs.'000	31.03.2017 Rs.'000
ASSETS					
Non Current Assets					
Right-to-use of Land	13	160,619	166,286	160,619	166,286
Immovable estate assets on finance lease (other than Right to use of Land)	14	62,050	66,237	62,050	66,237
Tangible assets other than Immature/Mature Plantations	15A	722,236	686,007	1,053,389	1,029,356
Immature/Mature Plantations	15B	1,793,060	1,801,915	1,793,060	1,801,915
Consumable Biological Assets	15C	252,739	236,837	252,739	236,837
Development Cost		-	-	5,279	6,239
Investments in Subsidiaries	16	134,933	134,933	-	-
Deferred Tax Asset	11.4	-	-	13,740	14,822
		3,125,636	3,092,215	3,340,876	3,321,692
Current Assets					
Produce on Bearer Biological Assets	17	12,124	9,947	12,124	9,947
Inventories	18	452,541	372,307	454,884	374,727
Trade and Other Receivables	19	182,917	157,227	196,830	171,249
Amounts due from Related Companies	20	1,815	2,381	1,815	2,381
Short Term Investments	21	702,448	226,760	702,448	226,760
Cash and Bank Balances		12,646	18,915	16,169	29,850
		1,364,491	787,538	1,384,270	814,915
TOTAL ASSETS		4,490,127	3,879,753	4,725,146	4,136,607
EQUITY AND LIABILITIES					
Equity					
Stated Capital	22	350,000	350,000	350,000	350,000
Revenue Reserves		2,136,631	1,685,686	2,172,318	1,723,745
Equity attributable to equity holders of the parent		2,486,631	2,035,686	2,522,318	2,073,745
Non-Controlling Interests	23	-	-	170,793	173,609
Total Equity		2,486,631	2,035,686	2,693,111	2,247,354
Non Current Liabilities & Deferred Income					
Interest Bearing Loans & Borrowings	24	96,633	123,414	96,633	139,538
Retirement Benefit Obligations	25	809,992	799,699	811,824	801,101
Deferred Tax Liability	11.4	158,206	127,898	158,206	127,898
Deferred Income	26	150,126	155,426	150,126	155,426
Liability to make Lease Payment after one year	27	186,353	187,174	186,353	187,174
		1,401,310	1,393,611	1,403,142	1,411,137
Current Liabilities					
Trade and Other Payables	28	527,464	376,969	538,012	384,487
Interest Bearing Loans & Borrowings	24	49,242	50,822	65,366	72,321
Liability to make Lease Payment within one year	27	821	727	821	727
Amounts due to Related Companies	29	11,239	8,549	10,676	7,117
Bank Overdraft		13,419	13,390	14,018	13,465
		602,186	450,457	628,894	478,116
TOTAL LIABILITIES		2,003,496	1,844,068	2,032,036	1,889,253
TOTAL EQUITY AND LIABILITIES		4,490,127	3,879,753	4,725,146	4,136,607
Net Assets Per Share (Rs.)		104.70	85.71	106.20	87.32

The Accounting Policies and Notes on pages 214 to 255 form an integral part of the Financial Statements.

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Dilantha Seneviratne
Director/Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
Signed for and on behalf of the Board by

Mohan Pandithage
Chairman/Director

Roshan Rajadurai
Managing Director

15 May 2018
Colombo.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March		Revenue Reserves				
	Stated Capital	Retained Earnings	Biological Crop Reserve	Timber Reserve	Total	Total Equity
Company	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 April 2016	350,000	1,117,196	2,145	164,435	1,283,775	1,633,775
Profit for the year	-	242,295	-	-	242,295	242,295
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	1,502,998	9,947	172,742	1,685,686	2,035,686
Profit for the year	-	550,803	-	-	550,803	550,803
Other comprehensive income	-	18,892	-	-	18,892	18,892
Transferred to the timber reserve	-	(6,913)	-	6,913	-	-
Transferred to biological crop reserve	-	(2,178)	2,178	-	-	-
Realised gain on timber sales	-	-	-	-	-	-
Dividends	-	(118,750)	-	-	(118,750)	(118,750)
Balance as at 31 March 2018	350,000	1,944,852	12,124	179,655	2,136,631	2,486,631

	Attributable to equity holders of the parent						
		Revenue Reserves					
	Stated Capital	Retained Earnings	Biological Crop Reserve	Timber Reserve	Total	Non Controlling Interest	Total Equity
Group	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 April 2016	350,000	1,163,836	2,145	164,435	1,330,415	179,797	1,860,213
Profit for the year	-	233,769	-	-	233,769	7,713	241,482
Other comprehensive income	-	183,310	-	-	183,310	(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	1,723,745	173,609	2,247,353
Profit for the year	-	548,436	-	-	548,436	(870)	547,566
Other comprehensive income	-	18,888	-	-	18,888	(5)	18,883
Transferred to the timber reserve	-	(6,913)	-	6,913	-	-	-
Transferred to biological crop reserve	-	(2,178)	2,178	-	-	-	-
Realised gain on timber sales	-	-	-	-	-	-	-
Dividends	-	(118,750)	-	-	(118,750)	(1,941)	(120,691)
Balance as at 31 March 2018	350,000	1,980,539	12,124	179,655	2,172,318	170,793	2,693,111

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 214 to 255 form an integral part of the Financial Statements.

STATEMENTS OF CASH FLOW

For the year ended 31 March	Notes	Company 2018 Rs.'000	Company 2017 Rs.'000	Group 2018 Rs.'000	Group 2017 Rs.'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Profit Before Taxation		617,045	260,061	616,828	266,388
ADJUSTMENTS FOR					
Provision For Retirement Benefit Obligations	25	139,355	135,911	139,773	136,120
Depreciation/Amortisation	10	136,238	138,226	153,412	155,330
Amortisation of Grants	26	(5,300)	(5,300)	(5,300)	(5,300)
Dividend Income	8	(2,020)	(14,413)	-	-
Finance Costs	9.2	18,420	31,437	21,891	35,758
Government Lease Interest	9.3	29,446	28,790	29,446	28,790
Profit on disposal of Assets	8	(12,288)	(7,521)	(12,288)	(7,521)
Profit on Sale of Trees	8	(1,248)	(8,705)	(1,248)	(8,705)
Gains on Fair Value of Biological Assets	15C.1	(9,091)	(16,743)	(9,091)	(16,743)
Operating Profit before Working Capital Changes		910,558	541,742	933,426	584,115
(Increase)/Decrease in Inventories		(80,233)	(48,879)	(80,156)	(48,956)
(Increase)/Decrease in Trade and Other Receivables		(25,689)	649	(25,582)	(1,083)
Increase/(Decrease) in Trade and Other Payables		132,272	106,573	133,366	105,161
(Increase)/Decrease in amounts due from Related Companies		567	756	567	756
Increase/(Decrease) in amounts due to Related Companies		2,690	(1,962)	3,559	(221)
Cash Generated from Operations		940,164	598,879	965,179	639,773
Finance Costs Paid	9.2	(18,420)	(31,437)	(21,891)	(35,758)
Payment of ESC/Income Tax		(20,500)	(16,714)	(20,500)	(20,440)
Retirement Benefit Obligations Paid	25	(107,095)	(98,206)	(107,095)	(98,206)
Net Cash from Operating Activities		794,149	452,520	815,693	485,370
CASH FLOWS FROM INVESTING ACTIVITIES					
Grant Received	26	-	9,624	-	9,624
Proceeds from Sale of Trees		1,248	9,339	1,248	9,339
Proceeds from Disposal of Property, Plant & Equipment		14,129	11,383	14,129	11,383
Field Development Expenditure (Note A)	15B/ 15C	(64,365)	(88,645)	(64,365)	(88,645)
Purchase of Property, Plant & Equipment (Note B)		(100,347)	(44,578)	(104,366)	(44,905)
Dividend Income Received	8	2,020	14,413	-	-
Cost of Asset Return		125	-	125	-
Net Cash used in Investing Activities		(147,190)	(88,463)	(153,229)	(103,204)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend Paid		(118,750)	(23,750)	(120,691)	(37,598)
Payment of Government lease rentals		(30,459)	(29,401)	(30,459)	(29,401)
Proceeds from loans		73,648	135,000	73,648	135,000
Repayment of loans		(102,008)	(161,630)	(123,507)	(183,129)
Net Cash from Financing Activities		(177,570)	(79,781)	(201,010)	(115,128)
Net Increase in Cash & Cash Equivalents		469,389	284,275	461,454	267,038
Cash & Cash Equivalents at the beginning of the year (Note C)		232,287	(51,990)	243,145	(23,893)
Cash & Cash Equivalents at the end of the year (Note D)		701,676	232,285	704,599	243,145

The Accounting Policies and Notes on pages 214 to 255 form an integral part of the Financial Statements.

			Company		
For the year ended 31 March.	Tea Rs.'000	Rubber Rs.'000	Unallocated Rs.'000	Hydro Rs.'000	Total Rs.'000
NOTE A: Investment in Field Development Expenditure					
Investment in Immature Plantations 2018	59,614	4,751	-	-	64,365
Investment in Immature Plantations 2017	84,313	4,332	-	-	88,645
NOTE B:Investment in Property, Plant & Equipment					
Investment in Property, Plant & Equipment 2018	100,347	-	-	-	100,347
Investment in Property, Plant & Equipment 2017	44,578	-	-	-	44,578

			Group		
	Tea Rs.'000	Rubber Rs.'000	Unallocated Rs.'000	Hydro Rs.'000	Total Rs.'000
NOTE A: Investment in Field Development Expenditure					
Investment in Immature Plantations 2018	59,614	4,751	-	-	64,365
Investment in Immature Plantations 2017	84,313	4,332	-	-	88,645
NOTE B:Investment in Property, Plant & Equipment					
Investment in Property, Plant & Equipment 2018	100,347	-	-	4,018	104,366
Investment in Property, Plant & Equipment 2017	44,578	-	-	326	44,905

	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
NOTE C				
Cash & Cash Equivalents at the beginning of the year				
Cash & Bank Balances	18,916	9,097	29,850	27,130
Short term Investments	226,760	43,126	226,760	53,191
Bank Overdrafts	(13,389)	(62,214)	(13,465)	(62,214)
Short term Loans	-	(42,000)	-	(42,000)
	232,287	(51,990)	243,145	(23,893)
NOTE D				
Cash & Cash Equivalents at the end of the year				
Cash & Bank Balances	12,646	18,915	16,169	29,850
Short term Investments	702,448	226,760	702,448	226,760
Bank Overdrafts	(13,419)	(13,390)	(14,018)	(13,465)
	701,676	232,285	704,599	243,145

NOTE

During the Financial year, the Company & the Group acquired Property, Plant & Equipment to the aggregate value of Rs. 100,347,232/= and Rs. 104,365,669/= in respectively. (2017-Company- Rs. 44,578,449/= , Group- Rs. 44,904,707/=).

The Accounting Policies and Notes on pages 214 to 255 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Talawakelle Tea Estates PLC was incorporated on 22 June, 1992 under the Companies Act No. 17 of 1982 (The Company was re-registered under the Companies Act No. 07 of 2007) in terms of the provisions of the Conversion of Public Corporation and Government-Owned Business Undertakings into Public Companies under Public Companies Act No. 23 of 1987.

The registered office of the Company is located at No. 400, Deans Road, Colombo 10, and Plantations are situated in the planting districts of Talawakelle, Nanuoya, Galle and Deniyaya. All companies in the Group are limited liability companies incorporated and domiciled in Sri Lanka.

The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka.

The Consolidated Financial Statements of Talawakelle Tea Estates PLC comprises the Company and its Subsidiaries namely TTEL Hydro Power Co (Pvt) Ltd and TTEL Somerset Hydro Power (Pvt) Ltd (together referred to as the 'Group').

1.1 Principle Activities and nature of the operations

During the year, the principal activities of the company were the producing and processing of Tea and Rubber.

Principal activities of other companies in the Group are as follows.

Company	Nature of the business	Registered office
TTEL Hydro Power Co (Pvt) Ltd	Generating hydropower	No. 400, Deans Road, Colombo 10
TTEL Somerset Hydro Power (Pvt) Ltd	Generating hydropower	No. 400, Deans Road, Colombo 10

1.2 Holding Company

The Company is a subsidiary of Hayleys Plantation Services (Pvt) Ltd which is a subsidiary of Dipped Products PLC whose ultimate parent enterprise is Hayleys PLC.

1.3 Date of Authorisation for issue

The financial statements of Talawakelle Tea Estates PLC for the year ended 31 March 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 15 May 2018.

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 comprises 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.

- 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 rupee, unless stated otherwise.

2.4 Materiality and Aggregation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year. Accounting policies of subsidiaries 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 Group 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 2018. 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.

In the seperate Financial Statement of the Company, investments in subsidiaries are recognized at cost.

3.2.1 Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any Non-Controlling Interest in the acquiree. For each business combination, the Group elects whether it measures the Non-Controlling Interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition - related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of,

NOTES TO THE FINANCIAL STATEMENTS CONTD.

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 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 15C
- Produce Growing on Bearer Biological Assets Note 17

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 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 initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, if any.

3.7.2.1 Borrowing Cost

Borrowing costs that are directly attributable to acquisition, construction or production of a qualifying asset, which takes a substantial period of time to get ready for its intended use or sale are capitalised as a part of the asset.

Borrowing costs that are not capitalised are recognised as expenses in the period in which they are incurred and charged to the Statement of profit or loss.

The amounts of the borrowing costs which are eligible for capitalisation are determined in accordance with LKAS 23 – 'Borrowing Costs'.

Borrowing costs incurred in respect of specific loans that are utilised for field development activities have been capitalised as a part of the cost of the relevant immature plantation. The capitalisation will cease when the crops are ready for commercial harvest.

The amount so capitalised and the capitalisation rates are disclosed in Notes to the Financial Statements (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.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

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 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 15C.

The main variables in DCF model concerns

Variable	Comment
Timber content	Estimate based on physical verification of girth, height and considering the growth of the each species in different geographical regions. Factor all the prevailing statutory regulations enforced against harvesting of timber coupled with forestry plan of the Company
Economic useful life	Estimated based on the normal life span of each species by factoring the forestry plan of the Company
Selling price	Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be fulfill in bringing the trees in to saleable condition.
Planting cost	Estimated costs for the further development of immature areas are deducted.

The gain or loss arising on initial recognition of consumable biological assets at fair value less cost to sell and from a change in fair value less cost to sell of consumable biological assets are included in profit or loss for the period in which it arises.

Permanent impairments to Biological Asset are charged to the Statement of profit or loss in full and reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

3.7.7.4 Nursery Plants
Nursery cost includes the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for overgrown plants.

3.7.8 Depreciation and Amortisation

(a) Depreciation
Depreciation is recognised in the Statement of profit or loss or on a straight-line basis over the estimated useful economic lives of each part of an item of Property, Plant & Equipment since this 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	28.3 (Over the remaining lease period)
Roads	5
Plant & Machinery	20
Electronic Machinery	13
Solar System	15
Hydro Power Plant	30
Motor Vehicles-Utility	10
Motor Vehicles-Supervisory	5
Equipment	4
Furniture & Fittings	10
Computer Accessories	4

Mature Plantations (Replanting and New Planting)

Mature Plantations	No. of Years
Tea	28.3 (Over the remaining lease period)
Rubber	20

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date on which the asset is classified as held for sale or is derecognised. Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted prospectively, if appropriate. Mature plantations are depreciated over their useful lives or unexpired lease period, whichever is less.

No depreciation is provided for immature plantations.

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

	No. of Years
Right to Use of Land	28.3 (Over the remaining lease period)
Improvements to land	28.3 (Over the remaining lease period)
Buildings	25
Machinery	20
Development Cost	15

3.7.9 Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation 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.

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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 amortisation period and the amortisation 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

3.7.9.1 Research and Development
Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

A summary of the policy applied to the Group

Development Cost

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

3.8 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.8.1 Financial Assets

3.8.1.1 Initial Recognition & Measurement
Financial assets are classified, at initial recognition, as 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.

3.8.1.4.1 Financial 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

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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 are 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 '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 impairment.

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.

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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 2018 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 and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.20 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.

	No. of Years
Buildings	28.3 (Over the remaining lease period)
Roads	5

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. 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.

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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 7.2 in the Notes to the Financial Statements. The group transfers products from one industry segment for use in another. Inter-segment transfers are based on fair market prices.

Revenue and expenses directly attributable to each segment are allocated to the respective segments. Revenue and expenses not directly attributable to a segment are allocated on the basis of their resource utilisation, wherever possible.

Assets and liabilities directly attributable to each segment are allocated to the respective segments. Assets and liabilities, which are not directly attributable to a segment, are allocated on a reasonable basis wherever possible. Unallocated items comprise mainly interest bearing loans, borrowings, and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

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

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period and any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

4.1 Taxation

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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. As per the Inland Revenue Act no 24 of 2017 (ACT), in the case of a company predominantly conducting an agricultural business, the applicable income tax rate is 14%. As per the above ACT "Predominantly" is defined as 80% or more calculated based on gross income. The "Agriculture business" is defined in section 195 (1) as business of producing agricultural, horticultural or any animal produce and includes an undertaking for the purpose of rearing livestock or poultry. Based on the legal expert opinion obtained, the management is of the view that the company is predominantly engaged in agricultural business.

4.2 Measurement of Retirement Benefit Obligation

The present value of the retirement benefit 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 non financial assumptions. The growth of the trees is determined by various biological factors that are highly unpredictable. Any change to the assumptions will impact to the fair value of biological assets. Key assumptions and sensitivity analysis of the biological assets are given in the Note 15C.

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.

6 AMENDMENTS TO EXISTING ACCOUNTING STANDARDS

LKAS 7 - Statement of Cash Flows

The amendment requires an entity to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Accordingly an entity shall disclose the following changes in liabilities arising from financing activities:

- Changes from financing cash flows
- Changes arising from obtaining or losing control of subsidiaries or other businesses
- The effect of changes in foreign exchange rates
- Changes in fair values and
- Other changes

Necessary disclosures have been given under Note 38 to the Financial Statements.

7. REVENUE

7.1 SUMMARY

For the year ended 31 March	Company 2018 Rs.'000	Company 2017 Rs.'000	Group 2018 Rs.'000	Group 2017 Rs.'000
Sale of Goods				
Tea	3,948,714	3,203,621	3,948,714	3,203,621
Rubber	14,564	19,647	14,564	19,647
Mini Hydro Power	-	-	52,303	72,133
Others	45,729	39,094	45,729	39,094
	4,009,007	3,262,361	4,061,310	3,334,494

7.2 SEGMENT INFORMATION

A) *SEGMENT REVENUE*

	Company 2018 Rs.'000	Company 2017 Rs.'000	Group 2018 Rs.'000	Group 2017 Rs.'000
Tea				
Revenue	3,948,714	3,203,621	3,948,714	3,203,621
Revenue Expenditure	(2,969,176)	(2,558,540)	(2,969,176)	(2,558,540)
Depreciation	(132,190)	(134,247)	(132,190)	(134,247)
Other Non Cash Expenditure	(139,355)	(135,911)	(139,355)	(135,911)
Segment Results	707,994	374,923	707,994	374,923
Rubber				
Revenue	14,564	19,647	14,564	19,647
Revenue Expenditure	(24,323)	(27,174)	(24,323)	(27,174)
Depreciation	(4,047)	(3,978)	(4,047)	(3,978)
Other Non Cash Expenditure	-	-	-	-
Segment Results	(13,806)	(11,506)	(13,806)	(11,506)
Mini Hydro Power				
Revenue	-	-	52,303	72,133
Revenue Expenditure	-	-	(20,542)	(19,827)
Depreciation	-	-	(17,174)	(17,105)
Other Non Cash Expenditure	-	-	(419)	(1,402)
Segment Results	-	-	14,167	33,800
Unallocated				
Revenue	45,729	39,094	45,729	39,094
Revenue Expenditure	-	-	-	-
Depreciation	-	-	-	-
Other Non Cash Expenditure	-	-	-	-
Segment Results	45,729	39,094	45,729	39,094
Total				
Revenue	4,009,007	3,262,361	4,061,310	3,334,494
Revenue Expenditure	(2,993,498)	(2,585,714)	(3,014,040)	(2,605,541)
Depreciation	(136,238)	(138,226)	(153,412)	(155,330)
Other Non Cash Expenditure	(139,355)	(135,911)	(139,773)	(137,313)
Segment Results	739,917	402,510	754,084	436,310

NOTES TO THE FINANCIAL STATEMENTS CONTD.

	Company		Group	
For the year ended 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Gains on fair value of biological assets	9,091	16,743	9,091	16,743
Other Income & Gains	24,329	36,865	22,309	22,452
Administrative Expenses	(160,524)	(143,953)	(169,416)	(153,521)
Finance Income	52,099	8,122	52,099	8,951
Finance Expense	(18,420)	(31,438)	(21,891)	(35,758)
Government Lease Interest	(29,446)	(28,790)	(29,446)	(28,790)
Profit Before Tax	617,045	260,061	616,828	266,388
B) SEGMENT ASSETS				
Non Current Assets				
Tea	2,630,971	2,615,111	2,630,971	2,615,111
Rubber	106,993	105,333	106,993	105,333
Mini Hydro Power	-	-	350,174	364,411
Investment	134,933	134,933	-	-
Consumable Biological Asset	252,739	236,838	252,739	236,838
	3,125,636	3,092,215	3,340,876	3,321,693
Current Assets				
Tea	1,363,678	785,236	1,363,678	785,236
Rubber	804	2,303	804	2,303
Mini Hydro Power	-	-	19,779	27,375
	1,364,491	787,539	1,384,261	814,914
Total Assets	4,490,127	3,879,753	4,725,137	4,136,607
C) SEGMENT LIABILITIES				
Non Current Liabilities and Deferred Income				
Tea	1,401,310	1,393,611	1,401,310	1,393,611
Mini Hydro Power	-	-	1,832	17,526
	1,401,310	1,393,611	1,403,142	1,411,137
Current Liabilities				
Tea	602,186	450,456	602,186	450,456
Mini Hydro Power	-	-	26,708	27,660
	602,186	450,456	628,894	478,116
Total Liabilities	2,003,496	1,844,068	2,032,036	1,889,253
D) SEGMENT CAPITAL EXPENDITURE				
Cost				
Tea	150,973	117,893	150,973	117,893
Rubber	4,751	4,332	4,751	4,332
Consumable Biological Asset	8,988	10,998	8,988	10,998
Mini Hydro Power	-	-	4,018	326
	164,712	133,223	168,731	133,550

8. OTHER INCOME AND GAINS

	Company		Group	
Period ended	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit on Sale of Trees	1,248	8,790	1,248	8,790
Amortisation of Capital Grants	5,300	5,300	5,300	5,300
Profit on Disposal of Assets	12,288	7,521	12,288	7,521
Dividend Income	2,020	14,413	-	-
Lease of land for towers	2,510	719	2,510	719
Sale of Cinnamon	207	122	207	122
Solar Income	756	-	756	-
	24,329	36,865	22,309	22,452

9. FINANCE INCOME/ EXPENSE

9.1 FINANCE INCOME

	Company		Group	
Period ended	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Interest Income	52,099	8,122	52,099	8,951
	52,099	8,122	52,099	8,951
9.2 FINANCE EXPENSES				
Overdraft Interest	(2,285)	(2,777)	(2,288)	(2,779)
Short Term Loan Interest	-	(1,590)	-	(1,590)
Term Loan Interest	(16,135)	(27,071)	(19,604)	(31,389)
	(18,420)	(31,437)	(21,891)	(35,758)
9.3 INTEREST PAID TO GOVERNMENT ON FINANCE LEASE	(29,446)	(28,790)	(29,446)	(28,790)
Net Finance Expense	4,233	(52,106)	761	(55,597)

10. PROFIT BEFORE TAX IS STATED AFTER CHARGING

	Company		Group	
Period ended	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Directors Emoluments	7,728	7,020	7,728	7,020
Key Management Compensation	7,800	7,840	7,800	7,840
Auditors Fees	3,911	3,034	4,207	3,318
Depreciation/Amortisation	136,238	138,226	153,412	155,330
Defined Benefit Plan Costs	139,355	135,911	139,773	136,120
Defined Contributions Plan Costs - EPF & ETF	180,595	162,086	181,481	162,962
Others - Staff Costs	1,831,812	1,575,751	1,841,574	1,585,111

NOTES TO THE FINANCIAL STATEMENTS CONTD.

11. INCOME TAX EXPENSE

The major component of income tax expenses for the period are as follows :

11.1. INCOME STATEMENT

	Company		Group	
Period ended	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Current Tax Expenses				
Current Income Tax Charges	39,010	16,649	41,066	21,910
Under/(over) provision in respect to current income tax of previous years	-	-	(120)	-
	39,010	16,649	40,946	21,910
Deferred Tax Expense				
Deferred Taxation Charge/(Reversal)	27,232	1,118	28,316	2,996
	27,232	1,118	28,316	2,996
Total Tax Expense	66,242	17,767	69,262	24,906

11.2. STATEMENT OF COMPREHENSIVE INCOME

Deferred tax related to items charged or credited directly to OCI during the year;				
Net (gain)/loss on actuarial gains and (losses)	(3,075)	34,305	(3,074)	34,290
Income tax charged directly to other comprehensive income	(3,075)	34,305	(3,074)	34,290

11.3. RECONCILIATION BETWEEN TAX EXPENSES AND THE PRODUCT OF ACCOUNTING

PROFIT MULTIPLIED BY THE STATUTORY EFFECTIVE TAX RATES ARE AS FOLLOWS:

	Company		Group	
Period ended	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit before Tax	617,045	260,061	616,828	266,388
Effective Rate	10.00%	10.00%	10.08%	10.08%
Tax effect on Accounting Profit / (Loss) Before Tax	61,705	26,006	62,167	26,848
Tax effect on Aggregate disallowed items	31,103	31,526	33,477	33,616
Tax effect on Aggregate allowable items	(32,793)	(32,688)	(33,437)	(33,263)
	60,015	24,844	62,206	28,201
Tax effect on Non Tax Receipt	-	-	-	-
Tax effect on Tax Loss B/F & Utilised	(21,005)	(8,695)	(21,684)	(9,930)
	39,010	16,149	40,522	18,271
Dividend Tax @ 10%	-	-	544	3,140
Income Tax Charge/(Reversal)	39,010	16,149	41,066	21,411
Income Tax Provided in Accounts	39,010	16,649	41,066	21,910

11.4. DEFERRED TAX (ASSETS) AND LIABILITIES

Company	2018 Temporary Difference Rs.'000	2018 Tax Effect Rs.'000	2017 Temporary Difference Rs.'000	2017 Tax Effect Rs.'000
As at 1 April	844,926	127,898	611,052	92,475
Amount originating during the year	285,116	30,308	233,874	35,423
As at 31 March	1,130,042	158,206	844,926	127,898
Temporary difference of property, plant and equipment	474,817	66,474	478,525	75,416
Temporary difference Immature/Mature	1,793,060	251,028	1,801,915	283,982
Temporary difference of biological asset	264,863	37,080	246,784	24,678
Temporary difference of retirement benefit obligation	(809,992)	(113,399)	(799,699)	(126,033)
Temporary difference Deferred Income	(150,126)	(21,018)	(155,426)	(15,543)
Carried forward tax losses	(442,580)	(61,961)	(727,174)	(114,603)
As at 31 March	1,130,042	158,206	844,926	127,898
Group				
As at 1 April	717,840	113,076	472,005	75,790
Amount originating during the year	296,784	31,391	245,836	37,286
As at 31 March	1,014,624	144,466	717,840	113,076
Temporary difference of property, plant and equipment	478,349	67,008	476,742	75,630
Temporary difference Immature/Mature	1,793,060	251,028	1,801,915	283,982
Temporary difference of biological asset	264,864	37,081	246,784	24,678
Temporary difference of retirement benefit obligation	(811,824)	(113,619)	(801,101)	(126,201)
Temporary difference Deferred Income	(150,126)	(21,018)	(155,426)	(15,543)
Carried forward tax losses	(559,699)	(76,016)	(851,074)	(129,470)
As at 31 March	1,014,624	144,466	717,840	113,076

	Company 2018 Rs.'000	Company 2017 Rs.'000	Group 2018 Rs.'000	Group 2017 Rs.'000
Deferred Tax Assets	-	-	(13,740)	(14,822)
Deferred Tax Liabilities	158,206	127,898	158,206	127,898
	158,206	127,898	144,466	113,076

NOTES TO THE FINANCIAL STATEMENTS CONTD.

12. EARNINGS PER SHARE

12.1 BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares outstanding during the year.

12.2 DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share is based on the profit attributable to owners of the parent and the weighted average number of ordinary shares outstanding after adjustment for the effect of all dilutive potential ordinary shares.

There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

Basic/diluted earning per share calculated as follows.

	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Amounts used as the Numerator :				
Net profit attributable to equity holders of the parent	550,803	242,295	548,436	233,769
Amounts used as the Denominator :				
Weighted average number of ordinary shares of the parent	23,750,000	23,750,000	23,750,000	23,750,000
Basic/Diluted Earnings Per Share (Rs.)	23.19	10.20	23.09	9.84

13. RIGHT-TO-USE OF LAND

"Right-To-Use of Land on Lease" as above was previously titled "Leasehold Right to Bare land". The change is in order to comply with Statement of Alternative Treatment (SoAT) issued by the Institute of Chartered Accountants of Sri Lanka dated 21 August 2013. Such leases have been executed for all estates for a period of 53 years.

This right-to-use of land is amortized over the remaining lease term or useful life of the right whichever is shorter and is disclosed under non-current assets. The Statement of Alternative Treatment (SoAT) for right-to-use of land does not permit further revaluation of right-to-use of land. However, an adjustment to the "Right-To-Use of Land" could be made to the extent that the change relate to the future period on the reassessment of liability to make the lease payment. The values taken into the 18th June 1992, Statement of Financial Position Date and amortisation of the right to use of land up to 31 March 2018 are as follows.

	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 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
Amortisation				
As at 1st April	34,641	28,550	34,641	28,550
Amortisation charge for the year	5,668	6,091	5,668	6,091
As at 31st March	40,309	34,641	40,309	34,641
Carrying amount	160,619	166,286	160,619	166,286

14. IMMOVABLE ESTATE ASSETS ON FINANCE LEASE (OTHER THAN RIGHT-TO-USE OF LAND)

In terms of the ruling of the UITF of the Institute of Chartered Accountants of Sri Lanka prevailed at the time of privatisation of Plantation Estates, all immovable assets in these estates under finance leases have been taken into the books of the Company retroactive to 22 June 1992. For this purpose the Board decided at its meeting on 8 March 1995, that these assets would be taken at their book values as they appear in the books of the SLSPC, on the day immediately preceding the date of formation of the Company. These assets are taken into the 22 June 1992, Statement of Financial Position and the amortisation of immovable estate assets to 31 March 2018 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 2018	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
Accumulated Amortisation										
As at 1st April 2017	7,341	181,257	61,913	12,007	262,517	7,341	181,257	61,913	12,007	262,517
Amortisation charge for the year	62	2,213	1,913	-	4,188	62	2,213	1,913	-	4,188
As at 31 March 2018	7,402	183,470	63,826	12,007	266,705	7,402	183,470	63,826	12,007	266,705
Written down value										
As at 31 March 2018	1,681	60,369	-	-	62,050	1,681	60,369	-	-	62,050
As at 31 March 2017	1,743	62,581	1,913	-	66,237	1,743	62,581	1,913	-	66,237

These assets are being amortised in equal annual amounts over the following periods:

Mature plantations/improvement to land	28.3 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.

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

	Company				Group			
	Balance as at 01.04.2017 Rs.'000	Additions for the Year Rs.'000	Disposals during the Year Rs.'000	Balance as at 31.03.2018 Rs.'000	Balance as at 01.04.2017 Rs.'000	Additions for the Year Rs.'000	Disposals during the Year Rs.'000	Balance as at 31.03.2018 Rs.'000
Cost								
Buildings	502,052	1,587	-	503,639	502,052	1,587	-	503,639
Motor Vehicles	171,274	48,082	(9,427)	209,929	171,274	48,082	(9,427)	209,929
Plant & Machinery	614,011	24,948	(3,764)	635,194	1,095,417	28,900	(3,764)	1,120,553
Furniture & Fittings	10,280	1,892	-	12,172	10,280	1,892	-	12,172
Equipment & Tools	98,114	22,177	-	120,291	98,696	22,243	-	120,938
	1,395,730	98,686	(13,192)	1,481,224	1,877,718	102,704	(13,192)	1,967,231
	Balance as at 01.04.2017 Rs.'000	Charge for the Year Rs.'000	Accumulated depreciation on disposals Rs.'000	Balance as at 31.03.2018 Rs.'000	Balance as at 01.04.2017 Rs.'000	Charge for the Year Rs.'000	Accumulated depreciation on disposals Rs.'000	Balance as at 31.03.2018 Rs.'000
Accumulated Depreciation								
Buildings	129,309	13,199	-	142,508	129,309	13,199	-	142,508
Motor Vehicles	124,037	17,841	(9,427)	132,451	124,037	17,841	(9,427)	132,451
Plant & Machinery	378,645	20,672	(1,798)	397,518	517,114	36,740	(1,798)	552,055
Furniture & Fittings	8,092	593	-	8,686	8,092	593	-	8,686
Equipment & Tools	78,955	9,845	-	88,801	79,125	9,992	-	89,117
	719,038	62,151	(11,225)	769,964	857,677	78,365	(11,225)	924,817
Written Down Value	676,693			711,260	1,020,041			1,042,414
	Balance `as at 01.04.2017 Rs.'000	Additions for the Year Rs.'000	Capitalised/ Disposed during the Year Rs.'000	Balance as at 31.03.2018 Rs.'000	Balance as at 01.04.2017 Rs.'000	Additions for the Year Rs.'000	Capitalised/ Disposed during the Year Rs.'000	Balance as at 31.03.2018 Rs.'000
Capital Work-in-Progress	9,314	10,975	(9,314)	10,975	9,314	10,975	(9,314)	10,975
TOTAL WRITTEN DOWN VALUE								
	686,006			722,236	1,029,355			1,053,389

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 tangibal assets by the Company since its formation.The assets taken over by way of estate leases are set out in Notes 13 and 14.

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.456.8 Mn (2016/17-Rs. 422.9 Mn).

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

	Company					Group				
	Permanent Land Development Cost Rs.'000	Roads Rs.'000	Immature Plantations Rs.'000	Mature Plantations Rs.'000	Total Rs.'000	Permanent Land Development Cost Rs.'000	Roads Rs.'000	Immature Plantations Rs.'000	Mature Plantations Rs.'000	Total Rs.'000
Cost										
*As at 1st April 2017	23,172	83,025	329,169	2,012,765	2,448,132	23,172	83,025	329,169	2,012,765	2,448,132
Additions	-	-	55,377	-	55,377	-	-	55,377	-	55,377
Transfers	-	-	(102,989)	102,989	-	-	-	(102,989)	102,989	-
As at 31st March 2018	23,172	83,025	281,556	2,115,755	2,503,508	23,172	83,025	281,556	2,115,755	2,503,508
Accumulated Depreciation										
As at 1st April 2017	11,298	81,354	-	553,564	646,217	11,298	81,354	-	553,564	646,217
Amortsation charge for the year	420	360	-	63,452	64,231	420	360	-	63,452	64,231
As at 31st March 2018	11,718	81,714	-	617,016	710,448	11,718	81,714	-	617,016	710,448
Written Down Value										
As at 31st March 2018	11,454	1,311	281,556	1,498,739	1,793,060	11,454	1,311	281,556	1,498,739	1,793,060
As at 31st March 2017	11,874	1,671	329,169	1,459,201	1,801,915	11,874	1,671	329,169	1,459,201	1,801,915

*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 13 and 14. Further investment in immature plantations taken over by way of these leases are shown in the above note. When such plantations become mature, the additional investments, since initial investment to bring them to maturity, will be moved from immature to mature under this note.

The Company has decided to measure the bearer biological assets at cost using LKAS 16 – Property, Plant & Equipment.
Specific borrowings have not been obtained to finance the planting expenditure. Hence, borrowing costs were not capitalized during the period under Immature Plantations (2016/17 - Nil).

15.C. CONSUMABLE BIOLOGICAL ASSETS

TIMBER PLANTATIONS - MANAGED TREES

	Company		Group	
As at 31 March	**2018 Rs.'000**	**2017 Rs.'000**	**2018 Rs.'000**	**2017 Rs.'000**
As at 1 April	**236,838**	217,533	**236,838**	217,533
Increase due to development	**8,988**	9,254	**8,988**	9,254
Transfer From Immature Plantation	-	1,744	-	1,744
Gain/(loss) arising from changes in fair value less cost to sell attributable to physical change	**6,913**	8,941	**6,913**	8,941
Decrease due to harvest	-	(634)	-	(634)
As at 31 March	**252,739**	236,838	**252,739**	236,838

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

The fair value of managed trees was ascertained in accordance with SLFRS 13. The valuation was carried by Messer's Sunil Fernando Associates (Private) Limited, chartered valuation surveyors, using Discounted Cash Flow (DCF) methods. In ascertaining the fair value of timber, a physical verification was carried out covering all the estates.

15.C.1. CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS

	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Change in fair value of consumable biological assets (Note 15 C)	6,913	8,941	6,913	8,941
Change in fair value of produce on bearer biological assets (Note 17)	2,178	7,802	2,178	7,802
	9,091	16,743	9,091	16,743

15.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
			2018	2017	
Consumable Managed Biological Assets	DCF	Discounting Rate	17.5%	17.5%	The higher the discount rate, the lesser the fair value
		Optimum rotation (Maturity)	25-35 Years	25-35 Years	Lower the rotation period, the higher the fair value
		Volume at rotation	25-85 cu.ft	25-85 cu.ft	The higher the volume, the higher the fair value
		Price per cu.ft.	Rs.450/- to Rs. 9,000/-	Rs.450/- to Rs. 9,000/-	The higher the price per cu. ft., the higher the fair value

Other key assumptions used in valuation

1. The harvesting is approved by the PMMD and the Forest Department based on the Forestry Development Plan.
2. The prices adopted are net of expenditure
3. Though the replanting is a condition precedent for harvesting' yet the costs are not taken in to consideration.

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

The carrying amount of biological assets pledged as securities for liabilities as at the date of the statement of financial position is nil. (2016/17- nil).

There are no commitments for the development or acquisition of biological assets.

15.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 2018	19,516	(19,516)
As at 31 March 2017	18,755	(18,755)

Sensitivity variation discount rate

Values as appearing in the Statement of Financial Position are very sensitive to changes of the discount rate applied. Simulations made for timber trees show that a rise or decrease by 1.5% of the discount rate has the following effect on the net present value of biological assets:

	Rs.'000	Rs.'000
	+1.5%	-1.5%
As at 31 March 2018	(1,797)	1,647
As at 31 March 2017	(6,472)	10,534

16. 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.

	Company	
As at 31 March	**2018 Rs.'000**	**2017 Rs.'000**
Ordinary Shares		
TTEL Hydro Power Company (Pvt) Ltd	**35,190**	35,190
TTEL Somerset Hydro Power (Pvt) Ltd	**30,600**	30,600
	65,790	65,790
Preference Shares		
TTEL Hydro Power Company (Pvt) Ltd	**53,108**	53,108
TTEL Somerset Hydro Power (Pvt) Ltd	**16,034**	16,034
	69,143	69,143
Total Investment	**134,933**	134,933

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

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17. PRODUCE ON BEARER BIOLOGICAL ASSETS

	Company		Group	
As at 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
At the beginning of the year	9,947	2,145	9,947	2,145
Change in fair value less cost to sell	2,178	7,802	2,178	7,802
	12,124	9,947	12,124	9,947

Level 2 inputs were used when ariving above figures.

18. INVENTORIES

	Company		Group	
As at 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Biological Assets - Nurseries	9,168	12,536	9,168	12,536
Biological Assets -Harvested Crop	374,277	291,321	374,277	291,321
Input Stocks, Consumables & spares	69,095	68,450	71,439	70,870
	452,541	372,308	454,884	374,728

19. TRADE AND OTHER RECEIVABLES

	Company		Group	
As at 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Produce Debtors	78,937	83,711	87,560	89,439
Advances & Prepayments	65,101	49,215	70,392	57,509
Other debtors	38,878	24,301	38,878	24,301
	182,917	157,227	196,830	171,249

20. AMOUNTS DUE FROM RELATED COMPANIES

		Company		Group	
As at 31 March	Relationship	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Dipped Products PLC	Related Company	804	2,303	804	2,303
Hayleys Global Beverages (Pvt) Ltd	Related Company	137	78	137	78
Horana Plantations PLC	Related Company	161	-	161	-
Kelani Valley Plantations PLC	Related Company	713	-	713	-
		1,815	2,381	1,815	2,381

21. SHORT TERM INVESTMENT

	Company		Group	
As at 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Unit Trust	484,990	213,969	484,990	213,969
Saving Accounts	82,468	12,791	82,468	12,791
Call Deposits	10,990	-	10,990	-
Fixed Deposits	124,000	-	124,000	-
	702,448	226,760	702,448	226,760

22. STATED CAPITAL

	Company		Group	
As at 31 March	2018 No. of Shares	2017 No. of Shares	2018 No. of Shares	2017 No. of Shares
Issued and Fully Paid Ordinary Shares				
Number of ordinary shares including one golden share held by the Treasury which has special rights	23,750,000	23,750,000	23,750,000	23,750,000
	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.

23. NON-CONTROLLING INTEREST

	2018 Rs.'000	2017 Rs.'000
TTEL Hydro Power Company (Pvt) Ltd	90,660	92,388
TTEL Somerset Hydro Power (Pvt) Ltd	80,133	81,221
	170,793	173,609

NOTES TO THE FINANCIAL STATEMENTS CONTD.

23.1 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	
	2018	2017	2018	2017
Non Controlling Interests in %	49	49	49	49
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Accumulated Balance of Non Controlling Interest	90,660	92,388	80,133	81,221
Summarised statement of profit or loss for the year ended 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Revenue	25,607	33,273	26,696	38,860
Cost of sales	(22,180)	(22,734)	(16,955)	16,598
Administrative expenses	(2,453)	(3,270)	(6,439)	(6,298)
Finance cost	(3,471)	(4,320)	-	-
Finance Income	-	60	-	769
Profit/(loss) before tax	(2,497)	3,009	3,302	16,733
Income Tax	(985)	(1,346)	(1,594)	(2,654)
Profit/(loss) after tax	(3,482)	1,663	1,708	14,079
Attributable to owners	(1,776)	848	871	7,180
Attributable to non controlling interests	(1,706)	815	837	6,899
Total Comprehensive income	(3,526)	1,593	1,741	14,039
Dividend paid to non controlling interest	-	-	1,941	13,848
Summarised statement of financial position as at 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Current Assets	15,614	12,946	21,475	15,863
Non Current Assets	210,193	219,264	144,863	151,030
Current Liabilities	39,236	26,352	4,692	2,740
Non current Liabilities	978	16,827	854	698
Total Equity	185,503	189,029	160,793	163,454
Attributable to :				
Equity holders of parent	94,607	96,405	82,004	83,361
Non controlling interests	90,896	92,624	78,789	80,092
Summarised statement of cash flows for the year ended 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Operating cash flows	23,223	14,187	(1,239)	21,801
Investing Cash flows	(1,975)	(165)	(2,043)	(163)
Financing cash flows	(21,499)	(21,498)	(4,402)	(31,402)
Net increase/(decrease) in cash & cash equivalents	(251)	(7,476)	(7,684)	(9,764)

24. INTEREST BEARING LOANS AND BORROWINGS

Company	2018 Repayable within 1 year Rs.'000	2018 Repayable after one year less than five years Rs.'000	2018 Repayable after five years Rs.'000	2018 Sub Total over one year Rs.'000	Total as at 31.03.2018 Rs.'000	2017 Repayable within 1 year Rs.'000	2017 Repayable after one year less than five years Rs.'000	2017 Repayable after five years Rs.'000	2017 Sub Total over one year Rs.'000	Total as at 31.03.2017 Rs.'000
24.1 National Development Bank PLC	30,291	71,470	6,694	78,163	108,455	30,000	87,500	-	87,500	117,500
24.2 Sampath Bank PLC	-	-	-	-	-	13,044	8,692	-	8,692	21,736
24.3 Tea Board Loan	18,951	18,470	-	18,470	37,421	7,778	27,222	-	27,222	35,000
	49,242	89,939	6,694	96,633	145,875	50,822	123,414	-	123,414	174,236

Group	2018 Repayable within 1 year Rs.'000	2018 Repayable after one year less than five years Rs.'000	2018 Repayable after five years Rs.'000	2018 Sub Total over one year Rs.'000	Total as at 31.03.2018 Rs.'000	2017 Repayable within 1 year Rs.'000	2017 Repayable after one year less than five years Rs.'000	2017 Repayable after five years Rs.'000	2017 Sub Total over one year Rs.'000	Total as at 31.03.2017 Rs.'000
24.1 National Development Bank PLC	30,291	71,470	6,694	78,163	108,455	30,000	87,500	-	87,500	117,500
24.2 Sampath Bank PLC	16,124	-	-	-	16,124	34,543	24,816	-	24,816	59,359
24.3 Tea Board Loan	18,951	18,470	-	18,470	37,421	7,778	27,222	-	27,222	35,000
	65,366	89,939	6,694	96,633	161,999	72,321	139,538	-	139,538	211,859

24.1 NATIONAL DEVELOPMENT 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 over one year Rs.'000	Total as at 2018 Rs.'000	Total as at 2017 Rs.'000	Rate of Interest %	Terms of Repayment
Solar Project	291	13,970	6,694	20,663	20,955	-	6.3	72 Monthly installments commencing from March 2019
Relief Package - Tea Sector	30,000	57,500	-	57,500	87,500	117,500	AWPLR+1.5	60 Monthly installments commencing from March 2016
	30,291	71,470	6,694	78,163	108,455	117,500		

NOTES TO THE FINANCIAL STATEMENTS CONTD.

24. INTEREST BEARING LOANS AND BORROWINGS (CONTD.)

24.1 NATIONAL DEVELOPMENT BANK PLC (CONTD.)

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 over one year Rs.'000	Total as at 2018 Rs.'000	Total as at 2017 Rs.'000	Rate of Interest %	Terms of Repayment
Solar Project	291	13,970	6,694	20,663	20,955	-	6.3	72 Monthly installments commencing from March 2019
Relief Package - Tea Sector	30,000	57,500	-	57,500	87,500	117,500	AWPLR+1.5	60 Monthly installments commencing from March 2016
	30,291	71,470	6,694	78,163	108,455	117,500		

24.2 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 over one year Rs.'000	Total as at 2018 Rs.'000	Total as at 2017 Rs.'000	Rate of Interest %	Terms of Repayment
Replanting Loan	-	-	-	-	-	21,736	8.00	Fully settled on May 2017
	-	-	-	-	-	21,736		
Group								
Replanting Loan	-	-	-	-	-	21,736	8.00	Fully settled on May 2017
Mini Hydro - TTELHydro	`16,124	-	-	-	16,124	37,623	8.75	108 monthly instalments Commencing from January 2010
	16,124	-	-	-	16,124	59,359		

24.3 TEA BOARD LOAN

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 over one year Rs.'000	Total as at 2018 Rs.'000	Total as at 2017 Rs.'000	Rate of Interest %	Terms of Repayment
Distress Loan	18,951	18,470	-	18,470	37,421	-	5.00	36 monthly installments commencing from May 2017
Factory Loan	-	-	-	-	-	35,000	11.96	Fully settled on August 2017
	18,951	18,470	-	18,470	37,421	35,000		
Group								
Distress Loan	18,951	18,470	-	18,470	37,421	-	5.00	36 monthly installments commencing from May 2017
Factory Loan	-	-	-	-	-	35,000	11.96	Fully settled on August 2017
	18,951	18,470	-	18,470	37,421	35,000		

25. RETIREMENT BENEFIT OBLIGATIONS

	Company		Group	
As at 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Provision for Retirement Benefit Obligations				
At the beginning of the year	799,699	979,665	801,101	980,733
Interest Cost	89,538	102,362	89,706	102,453
Current Service Cost	49,816	33,549	50,067	33,666
Gratuity Payments for the year	(107,095)	(98,206)	(107,095)	(98,206)
Actuarial (Gain) / Loss due to changes in financial assumptions	41,357	(64,173)	41,357	(64,173)
Actuarial (Gain) / Loss due to changes in experience	(63,323)	(153,498)	(63,323)	(153,374)
At the end of the year	809,992	799,699	811,824	801,101

According to the actuarial valuation report issued by the Actuarial & Management Consultants (Pvt) Ltd as at 31 March 2018, the actuarial present value of promised retirement benefits amounted to Rs.809,992,040 /=. 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. 901,201,259 /=. Hence, there is a contingent liability of Rs. 91,209,219/= , 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.

NOTES TO THE FINANCIAL STATEMENTS CONTD.

25. RETIREMENT BENEFIT OBLIGATIONS (CONTD.)

The key assumptions used by actuary include the following.

	2018	2017
(i) Rate of Discount	11% (per annum)	12% (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 Retirement Benefit Obligation in future years.

	2018 Rs.'000
Within the next 12 months	115,530
Between 1-5years	309,744
Between 5-10 years	218,585
Beyond 10 years	166,133
Total	809,992

The weighted average duration of the Retirement Benefit Obligation at the end of the reporting period is 5.75 years and 6.43 Years for staff and workers respectively.

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 2018	(20,562)	21,421	(6,196)	6,756
As at 31 March 2017	(15,550)	16,181	(5,339)	5,842

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 2018	43,614	(38,924)	6,239	(5,631)
As at 31 March 2017	39,786	(35,583)	5,787	(5,203)

26. DEFERRED INCOME

	Company		Group	
As at 31st March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Deferred Grants and Subsidies				
Balance at the beginning of the year	155,426	151,102	155,426	151,102
Add : Grants received / (refunded) during the year	-	9,624	-	9,624
Less : Amortisation for the year	(5,300)	(5,300)	(5,300)	(5,300)
Balance at the end of the year	150,126	155,426	150,126	155,426

The Company has not received any funding during the year and received fundings in prior years are included under the relevant classification of property, plant & equipment and the grant component is reflected under Deferred Grants and Subsidies. Grants are amortised over the life of the assets for which they are being deployed.

27. LIABILITY TO MAKE LEASE PAYMENT

	Company		Group	
As at 31 March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Gross Liability				
As at 31st March	704,305	729,459	704,305	729,459
Finance cost allocated to future periods	(517,131)	(541,558)	(517,131)	(541,558)
Net Liability	187,174	187,901	187,174	187,901
Payable within one year				
Gross liability	25,154	25,154	25,154	25,154
Finance cost allocated to future periods	(24,333)	(24,427)	(24,333)	(24,427)
Net liability transferred to current liabilities	821	727	821	727
Payable within two to five years				
Gross liability	100,615	100,615	100,615	100,615
Finance cost allocated to future periods	(96,115)	(96,633)	(96,115)	(96,633)
Net liability	4,500	3,982	4,500	3,982
Payable after five years				
Gross liability	578,537	603,690	578,537	603,690
Finance cost allocated to future periods	(396,683)	(420,498)	(396,683)	(420,498)
Net liability	181,853	183,192	181,853	183,192
Net liability payable after one year	186,353	187,174	186,353	187,174

NOTES TO THE FINANCIAL STATEMENTS CONTD.

According to the reassessment, the base rental payable per year has increased from Rs. 7,225,074/= to Rs. 30,459,368/=.

The Statement of Recommended Practice (SoRP) for Right-to-use of Land on Lease was approved by the Council of the Institute of Chartered Accountants of Sri Lanka on 19th December 2012. Subsequently, the amendments to the SoRP along with the modification to the title as Statement of Alternative Treatment (SoAT) were approved by the Council on 21st August 2013. The Company has reassessed the liability up to Financial Year 2013 and not reassessed after that as this was not mandatory requirement. However, if the liability is reassessed according to the alternative treatment (SoAT) on the assumption that the lease rent is increased constantly by GDP Deflator of 4% and discounted at a rate of 13%, liability would be as follows.

	Rs.'000
Gross Liability	1,508,759
Finance Charge	(997,575)
Net Liability	511,184

28. TRADE AND OTHER PAYABLES

	Company		Group	
As at 31st March	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Trade creditors	61,992	41,208	61,992	41,208
Others	242,724	171,560	242,724	171,994
Accrued expenses	222,748	164,202	233,296	171,285
	527,464	376,969	538,012	384,487

29. AMOUNTS DUE TO RELATED COMPANIES

		Company		Group	
As at 31 March	Relationship	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Hayleys PLC.	Ultimate Parent	7,859	6,803	7,859	6,803
TTEL Hydro Power Co. (Pvt.) Ltd.	Subsidiary Company	3,299	1,433	-	-
Kelani Valley Plantations PLC	Related Company	-	232	-	232
Hayleys Power Ltd	Related Company	-	-	2,735	-
Hayleys Business Solutions International (Pvt) Ltd	Related Company	81	81	81	81
		11,239	8,549	10,676	7,117

30. DIVIDENDS PAID AND PROPOSED

	Company	
	2018 Rs.'000	2017 Rs.'000
Dividend paid during the year		
Second Interim Dividend 2016/17-Rs 1.00 per share (Interim Dividend for 2016/17- Rs. 1.00 per share)	23,750	23,750
Interim Dividend for 2017/18 Rs. 4.00 Per Share	95,000	-
	118,750	23,750
Proposed - Final dividend for 2017/18 Rs. 2.50 per share		
Number of ordinary Shares	23,750,000	23,750,000
Dividend per share (Rs.)	5.00	1.00

31. ASSETS PLEDGED

Following assets have been pledged as security for liabilities.

Bank	Nature of Assets	Nature of Liability	2017/18 Facility Amount Rs. Mn	2017/18 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	1.1
National Development Bank PLC	Primary mortgage over lease hold rights of Somerset, Great Western, Holyrood, and Dessford Estates.	Term Loan	150	87.5
		Solar Loan	21	20.9
The HongKong & Shanghai Banking Co.Ltd	Concurrent mortgage over stocks and debtors for Rs. 65 Mn.	Over Draft	50	12.0
Sri Lanka Tea Board	Tea Sales Proceeds	Term Loan	53	37.4

32. CAPITAL COMMITMENTS

	Company	
Followings are the capital commitments as at the Statement of Financial Position date	2018 Rs. (Mn)	2017 Rs. (Mn)
Approved by the Board & Contracted for	12	7
Approved by the Board & not Contracted for	209	163
	221	170

NOTES TO THE FINANCIAL STATEMENTS CONTD.

33. COMMITMENTS AND CONTINGENCIES

Contingent liabilities that may result, depending on the timing of the taxability of certain fair value adjustments amount to approximately Rs. 1.27 Mn (2017 - Rs. 1.67 Mn).

34. 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.

35. RELATED PARTY DISCLOSURES

Transactions with related parties were made on relevant commercial terms with the respective parties. Details of Significant Related Party Disclosures are as follows.

35.1. RECURRENT TRANSACTIONS WITH THE PARENT AND ULTIMATE PARENT COMPANY

Name of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000) 2018	2017
Hayleys PLC	Ultimate Parent	Mr. A. M. Pandithage Dr. K. I. M. Ranasoma	Data Processing Services Secretarial Services , Office Rent & Management Salaries	46,211	39,970
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 Amortisation.)		

The managing agent Hayleys Plantation Services (Pvt) Limited has waived the management fee hereafter with effect from 01/04/2014.

35.2. TRANSACTIONS WITH THE SUBSIDIARIES

Name of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000) 2018	2017
TTEL Hydro Power Company (Pvt) Limited	Subsidiary	Mr. A. M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Mr. W. G. R. Rajadurai Mr. A. R. De Zilva Dr. K. I. M. Ranasoma Dr. A. Sivagananathan	Preference Share Dividends	-	-
TTEL Somerset Hydro Power (Pvt) Ltd	Subsidiary	Mr. A. M. Pandithage Mr. Merrill J Fernando Mr. Malik J Fernando Mr. A. R. De Zilva Mr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma Dr. A. Sivagananathan	Preference and Ordinary Share Dividends	2,020	14,413

35. RELATED PARTY DISCLOSURES (CONT.)

35.3 RECURRENT TRANSACTIONS WITH OTHER RELATED COMPANIES

Name of the Company	Relationship	Name of Director	Nature of Transaction	Amounts (Rs.'000) 2018	2017
Dipped Products PLC	Intermediary Ultimate Parent	Mr. A. M. Pandithage Dr. K. I. M. Ranasoma	Proceeds on latex supplies -receipts	14,564	20,472
Hayleys Travels & Tours (Pvt) Ltd	Common Directors	Mr. A. M. Pandithage	Providing of Air Ticketing Services	292	789
Hayleys Agriculture Holdings Limited.	Common Directors	Mr. A. M. Pandithage	Purchase of Equipment & Chemicals	19,016	35,300
Hayleys Agro Fertilizers (Pvt) Limited.	Common Directors	Mr. A. M. Pandithage	Purchase of Fertilizer	126,663	124,947
Mabroc Teas (Pvt) Ltd.	Common Directors	Mr. A. M. Pandithage Mr. Merrill J Fernando Mr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma	Sale of Teas	111,329	101,750
Kelani Valley Plantations PLC	Common Directors	Mr. A.M. Pandithage Mr. W. G. R. Rajadurai Dr. K. I. M. Ranasoma	Head office maintenance cost - Payments - Receipts Green Leaf Supplies - Payments - Receipts	5,642 3,491 1,044	3,912 1,628 29,801
Hayleys Business Solutions International (Pvt) Ltd.	Common Directors	Mr. A. M. Pandithage	Payroll processing cost	502	469
Logiwiz Ltd	Common Directors	Mr. A. M. Pandithage	Providing of document Storing Service	484	524
Hayleys Agro Farms (Pvt) Ltd	Common Directors	Mr. A. M. Pandithage	Purchase of Chemicals	1,346	2,662
Hayleys Consumer Products(Pvt) Ltd	Common Directors	Mr. A. M. Pandithage	Purchase of Accessories	18	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	2,673	3,779
Dilmah Ceylon Tea Co.(MJF)	Common Directors	Mr. Merrill J Fernando Mr. Malik J Fernando Ms. M. D. A. Perera	Sales of tea at auction	190,663	131,974
Horana Plantations PLC	Common Directors	Mr. A. M. Pandithage Mr. W. G. R. Rajadurai	Reimbursement of Administration Expenses	172	-
Hayleys Aventura (Pvt) Ltd	Common Directors	Mr. A.M. Pandithage	Purchase of VCD/ Stationary	1,353	-

NOTES TO THE FINANCIAL STATEMENTS CONTD.

35.4 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 Note 10 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.

36. RELATED PARTY TRANSACTIONS

There are no related party transactions other than those disclosed in Notes 10, 16, 20, 29 & 35 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.

37. 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.

37.1 FINANCIAL RISK MANAGEMENT FRAMEWORK

The Board of Directors has the overall responsibility for the establishment and oversight of the group's financial risk management framework which includes developing and monitoring the Group's financial risk management policies.

The Group financial risk management policies are established to identify, quantify and analyze the financial risks faced by the Group, to set appropriate risk limits and controls and to monitor financial risks and adherence to limits. Financial risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The TTE PLC Audit Committee oversees how management monitors compliance with the Group's financial risk management policies and procedures and reviews the adequacy of the financial risk management framework in relation to the risks faced by the Group.

37.2 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.

37.2.1 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. 87.6 Mn (2017 – Rs. 89.4 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.

37.2.2 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. 702.4 Mn as at 31st March 2018 (2017 – Rs. 226.7 Mn) which represents the maximum credit exposure on these assets.

37.2.3 CASH AND CASH EQUIVALENTS

The Group held cash at bank and in hand of Rs. 16.2 Mn as at 31st March 2018(2017 – Rs. 29.8 Mn) which represents its maximum credit exposure on these assets.

- Sampath Bank PLC – A+(lka)
- Hatton National Bank PLC –AA – (lka)
- Bank of Ceylon – AA+ (lka)
- Hong Kong and Shanghai Banking Corporation Ltd – AAA(lka)
- Union Bank – BB+ (lka)
- Seylan Bank PLC – A- (lka)

37.3 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 2018	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
Company						
Interest bearing loans & borrowing	-	14,826	42,409	106,122	-	163,357
Short term Interest bearing borrowings	13,419	-	-	-	-	13,410
Trade & other payables	-	421,971	105,493	-	-	527,464
	13,419	436,797	147,902	106,122	-	704,240
Group						
Interest bearing loans & borrowing	-	20,201	53,158	106,122	-	179,481
Short term Interest bearing borrowings	14,018	-	-	-	-	14,018
Trade & other payables	-	430,410	107,602	-	-	538,012
	14,018	450,611	160,760	106,122	-	731,511

NOTES TO THE FINANCIAL STATEMENTS CONTD.

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
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
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

37.4 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.

37.4.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. The Group has not engaged in any interest rate swap agreements.

The Group held long term borrowings with floating interest rates of Rs. 87.5 Mn (2017– Rs. 35 Mn) which represents its maximum credit exposure on these liabilities.

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the group's Profit Before Tax is affected through the impact on floating rate borrowings as follows:

	Increase/ decrease in Interest rate	Effect on profit before tax Rs.'000
Company		
2018	+1%	(118)
	-1%	118
2017	+1%	(77)
	-1%	77
Group		
2018	+1%	(118)
	-1%	118
2017	+1%	(77)
	-1%	77

37.4.2 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.

37.4.3 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.

	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Interest bearing loans & borrowings				
Current portion	49,242	50,822	65,366	72,321
Payable After one year	96,633	123,414	96,633	139,538
Liability to make Lease Payment				
Current portion	821	727	821	727
Payable After one year	186,353	187,174	186,353	187,174
Bank Overdraft	13,419	13,389	14,018	13,465
	346,468	375,526	363,191	413,225
Equity	2,486,631	2,035,686	2,522,318	2,073,745
Equity & debts	2,833,099	2,411,212	2,885,509	2,486,970
Gearing ratio	12%	16%	13%	17%

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash flows), requires an entity to disclose information that enables users of Financial Statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Accordingly, changes in liabilities arising from financing activities for the year ended 31st March 2018 are disclosed below.

The funds borrowed by the Company and the Group are given in Note 24.

	Company Interest-Bearing Borrowings Rs.'000	Group Interest-Bearing Borrowings Rs.'000
Balance as at 01 April 2017	174,236	211,859
Net Cash flows from Financing Activities	(28,361)	(49,860)
Non Cash Changes	-	-
Balance as at 31 March 2018	145,875	161,999

APPENDICES

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APPENDICES I

INVESTOR INFORMATION

1. STOCK EXCHANGE

Interim Financial Statements of the 4th Quarter, for the year ended 31st March 2018, have been submitted to the Colombo Stock Exchange as required by the Listing Rules.

2. COMPOSITION OF THE ORDINARY SHAREHOLDERS AS AT 31ST MARCH 2018

Number of shareholders as at 31st March 2018 is 13,490 (31st March 2017-13,529)

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	13,317	2,093,459	8.8146	6	1703	0.0072	13,323	2,095,162	8.8217
1,001 -10,000	127	388,680	1.6365	3	10,072	0.0424	130	398,752	1.6790
10,001 -100,000	27	731,678	3.0807	1	25,000	0.1053	28	756,678	3.1860
100,001 -1,000,000	6	1,142, 628	4.8111	1	422,080	1.7772	7	1,564,708	6.5882
Over 1,000,000	2	18,934,700	79.7251				2	18,934,700	79.7251
	13,479	23,291,145	98.0680	11	458,855	1.9320	13,490	23,750,000	100.0000

CATEGORY

Individuals	13,404	3,075,840	12.9509	9	11,775	0.0496	13,413	3,087,615	13.0005
Institutions	75	20,215,305	85.1171	2	447,080	1.8824	77	20,662,385	86.9995
	13,479	23,291,145	98.0680	11	458,855	1.9320	13,490	23,750,000	100.0000

Of the issued ordinary share capital, 98.06%, is held by residents of Sri Lanka.

3. PUBLIC HOLDING

Percentage of shares held by the public is 20.27 % (2017-20.27%) held by 13,485 ordinary shareholders (2017- 13,524).

4. MARKET VALUE

The market value of Talawakelle Tea Estates PLC ordinary shares was:

	12 MONTHS ENDED 31.03.2018 Rs.	12 MONTHS ENDED 31.03.2017 Rs.	12 MONTHS ENDED 31.03.2016 Rs.
Highest	61.20 (01st November 2017)	39.30 (12th April 2016)	44.00 (20th May 2015)
Lowest	31.30 (24th April 2017)	29.50 (18th January 2017)	26.10 (10th March 2016)
Year end	54.50	32.00	32.50

APPENDICES I
INVESTOR INFORMATION CONTD.

5. DIVIDEND PAYMENT

	Date of Dividend Paid
Second interim Dividend 2016/17-Rs. 1.00 per Share	14th June 2017
Interim dividend 2017/18-Rs. 4.00 per Share	23rd March 2018

Final dividend proposed for 2017/18-Rs. 2.50 per share.

6.SHARE TRADING

	12 MONTHS ENDED 31.03.2018	12 MONTHS ENDED 31.03.2017	12 MONTHS ENDED 31.03.2016
No. of transactions	2,358	479	2,253
No. of shares traded	2,436,347	363,435	1,416,648
Value of shares traded (Rs.)	129,214,524	13,011,990	34,557,181

7. TWENTY MAJOR SHAREHOLDERS

	NAME OF THE SHAREHOLDER	NO.OF SHARES AS AT 31.03.2018	%	NO.OF SHARES AS AT 31.03.2017	%
1.	HAYLEYS PLANTATION SERVICES (PRIVATE) LIMITED	17,750,000	74.74	17,750,000	74.74
2.	MERRILL J FERNANDO & SONS (PVT) LIMITED	1,184,700	4.99	1,184,700	4.99
3.	ANVERALLY AND SONS (PVT) LTD A/C NO 01	449,573	1.89	613,200	2.58
4.	SEZEKA LIMITED	422,080	1.78	-	-
5.	CAPITAL TRUST HOLDINGS LIMITED	190,799	0.80	-	-
6.	J.B. COCOSHELL (PVT) LTD	179,753	0.76	-	-
7.	MR. N.A. WITHANA	112,100	0.47	112,100	0.47
8.	MR. G.M. WEERAKOON	109,396	0.46	27,283	0.11
9.	COCOSHELL ACTIVATED CARBON COMPANY LIMITED	101,007	0.43	101,007	0.43
10.	MR.D.F.G.DALPETHADO/MRS.H.F.A.K.D FONSEKA	72,374	0.30	1	-
11.	DEE SANDA HOLDINGS (PVT) LTD	60,499	0.25	-	-
12.	MR. P.A.D. SAMARASEKERA	53,400	0.22	53,400	0.22
13.	MR. K.C. VIGNARAJAH	48,800	0.21	48,800	0.21
14.	DFCC BANK PLC/MR. K.S.D. SENAWEERA	36,615	0.15	47,500	0.20
15.	SEYLAN BANK PLC/S.R. FERNANDO	36,600	0.15	-	-
16.	ASSETLINE LEASING COMPANY LTD/MR.L.K.N.K. KULAWARDENA	34,000	0.14	-	-
17.	MR. R.V.D.PIYATHILAKE	32,000	0.13	-	-
18.	SEYLAN BANK PLC/R.P. SUGATHADASA	28,428	0.12	-	-
19.	MR.A.V. EMMANUEL	28,000	0.12	-	-
20.	SEYLAN BANK PLC/M.M.FUAD	27,770	0.12	-	-

APPENDICES II

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE AND LISTING RULES

STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE 2017 (THE CODE) ISSUED JOINTLY BY THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA (CA SRI LANKA) AND THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
SECTION 1 – THE COMPANY			
A. DIRECTORS			
Principle A.1 - The Board			
The Company to be headed by an effective Board that directs, leads and controls it. As at 31.03.2018, the Board comprised 11 directors including the Chairman and the Managing Director. The Directors bring a range of skills and experience to the Board and their ability to leverage their collective skills and wisdom is considered to be the Board's strength. The profiles of the directors are given on pages 32 to 35. The Board seeks to exercise leadership, integrity and judgement in pursuit of strategic goals and objectives, to achieve long-term sustainability, growth and prosperity for the Company and the Group as a whole and the several subcommittees appointed by the Board assists the Board in the discharge of their collective responsibilities.			
A.1.1	Regular Board Meetings	Compliant	The Board meets on a quarterly and additional meetings are held as and when the business exigencies demand. The frequency of Board meetings and the structure and process of submitting the information to the Board at these meetings have been agreed. The details of meetings of the Board and attendance of the members thereat are given on page 190. The Board devoted a substantial time in evaluating the information provided to it at the above meeting, including the information required to be reported under this Section A.1.1 thereby ensuring that appropriate and prompt action was taken to align the strategies and operations of the Company and the Group with the interests and expectations of all stakeholders.
A.1.2	Role and responsibilities of the Board	Compliant	The Board being the highest decision-making body in the Company is responsible for overseeing the Company's overall operations and providing effective governance over its key affairs, setting the Company's vision and mission, approving business strategies and objectives, evaluating performance and assessing major risks faced by the Company, and ensuring compliance with related laws and regulations. The responsibilities and duties of the Board, which include those listed in this Section A.1.2, are documented and communicated to the Directors at the time of their appointment. The role of the Board is described on Page 187.
A.1.3	Compliance with laws and access to independent professional advice	Compliant	The Board collectively as well as individually complied with the laws of the country that are applicable to the Company. The Group Code of Business Conduct and Ethics emphasises the importance of compliance with these laws and regulations by the Board as well as employees. The Directors are permitted to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of the Company.

APPENDICES II

CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE AND LISTING RULES CONTD.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
A.1.4	Access to advice and services of Company Secretary and insurance cover for the directors and key management personnel	Compliant	All Directors have access to the services of the Company Secretary who advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. The removal of the Company Secretary is a matter to be considered by the Board as a whole. The Directors and Officers liability insurance obtained by the ultimate parent of the Company, Hayleys PLC provides worldwide coverto indemnify all past, present and future Directors and Officers of the group.
A.1.5	Independent Judgement	Compliant	The Board functions as an effective and cohesive unit that draws on the strengths of each Director without placing undue reliance on any one individual. Thus, all Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.
A.1.6	Dedicate Adequate Time and Effort to Matters of the Board and the Company	Compliant	Dates of regular Board meetings and regular Board Sub Committee meetings are scheduled well in advance and the relevant papers are circulated ensuring that the Directors are given adequate time to review the same and seek additional information or clarifications, if required. The Board is aware of the other commitments of its Directors and is satisfied that all Directors allocate sufficient time so as to be able to discharge their responsibilities effectively. The details of meetings of the Board and sub-committees and attendance of the members are given on page 190.
A.1.7	Director's right to call for resolutions	Compliant	The Directors are permitted to call for a resolution to be presented to the Board whenever they deem it is in the interest of the Company. However, no such instance occurred during the period under review.
A.1.8	Training for new and existing Directors	Compliant	On their first appointment to the Board, Directors are apprised comprehensively on the general aspects of directorship and matters specific to the industry. The Directors are kept abreast of applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments that could affect the Group and its operations. 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.
Principle A.2 - Chairman and the Chief Executive Officer (CEO) The roles of the Chairman and the Chief Executive Officer of the Company are to be distinct and separate, ensuring the balance of power and authority.			
A.2.1	Divisions of Responsibilities between the Chairman and CEO	Compliant	The roles of the Chairman and the Managing Director are clearly defined and are separated in line with best practices in order to maintain a balance of power and authority.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
Principle A.3 - Chairman's Role			
The Chairman is responsible for providing leadership to the Board and preserving order and facilitating the effective discharge of duties of the Board.			
A.3.1.	Role of the Chairman	Compliant	The Chairman is responsible for preserving good corporate governance and running the Board in an orderly and effective manner. He encourages directors to share their views on matters discussed and ensures the participation of both executive and non-executive directors thereby maintaining a balance of power between executive and non-executive directors. The Chairman approved the agenda for each meeting in consultation with the Managing Director and the Company Secretary and ensured that all Board proceedings were conducted in a proper manner.
Principle A.4 - Financial Acumen			
The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
A.4.1	Availability of sufficient financial acumen and knowledge	Compliant	Three Directors of the Board, including the Chairman of the Audit Committee, are Fellow Members of CA Sri Lanka ensuring sufficient financial acumen within the Board on matters of finance. In addition, all members of the Board possess experience in various aspects of financial management.
Principle A.5 - Board Balance			
Board to have a balance of executive and non-executive directors such that no individual or small group of individuals can dominate the Board's decision-making.			
A.5.1	Presence of Non-Executive Directors of sufficient calibre and number	Compliant	Eight out of the eleven Directors on the Board are non-executive directors facilitating an appropriate balance within the Board, which has been maintained throughout the financial year. Since the majority of the Board comprises non-executive directors, their opinions and views carry a significant weight in the Board decision making process.
A.5.2	Presence of Independent Non-Executive Directors	Compliant	Four out of the Eight non-executive directors are independent thus complying with the requirement of this Section A.5.1. that two or one-third of the non-executive directors should be independent.
A.5.3	Independence of Non-Executive Directors	Compliant	All of the four Independent Non-Executive Directors met the criteria for independence as set out in the applicable rules and regulations and are deemed to be independent of management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.
A.5.4	Annual declarations by Non-Executive Directors of their independence or non-independence	Compliant	During the year under review, self-declarations were submitted by each non-executive director declaring his/her status of independence in terms of the applicable rules and regulations.

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
A.5.5	Determination of the independence or non-independence of Non-Executive Directors	Compliant	Based on the self- declarations submitted by the directors of their independence, the Board determined that the following directors who were in office during 2017/18 were independent, (i) Dr S S S B D G Jayawardena (ii) Dr N T Bogahalande (iii) Mr S L Athukorala (iv) Mr M H Jamaldeen
A.5.6	Alternate Directors	Compliant	Alternate Directors appointed by Non-Executive Directors are not executives of the Company. Further, none of the Independent Directors have appointed an alternate as at the reporting date.
A.5.7 & A.5.8	Senior Independent Director	Compliant	The Managing Director and Chairman are not one and the same person. As such, there is no requirement to appoint a Senior Independent Director.
A.5.9	Chairman to hold meetings with the Non-Executive Directors without the presence of Executive Directors	Compliant	As and when the need arises and at least once in every year Chairman holds meetings with the Non Executive Directors without the presence of the Executive Directors.
A.5.10	Recording of Directors' concerns in Board Minutes	Compliant	The Directors' concerns pertaining to unresolved matters are discussed and recorded by the Company Secretary in the board minutes in sufficient detail. Further discussions on these matters are pursued at the next Board meeting with a view to resolving them. However, no such issues arose during the year under review.
Principle A.6 - Supply of Information The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.			
A.6.1	Management's obligation to provide the Board with appropriate and timely information	Compliant	The Management ensures that the Board is provided with timely, accurate, relevant and comprehensive information before the Board meeting every month, with adequate time for them to review the same and prepare for discussions. The Board made inquiries for additional information from the Management where necessary. Further, the Chairman ensures that all Directors are adequately briefed on issues arising at Board meetings.
A.6.2	Board Papers and Agenda to be circulated seven days prior to meetings	Compliant	The Agenda and Board Papers are circulated at least seven days prior to Board meetings thus providing the Directors with adequate time to study the papers and prepare themselves for constructive discussions at Board meetings. Directors who are unable to attend a meeting is apprised of the proceedings of such meeting through formally documented minutes, which are also discussed at the next meeting and minutes of a meeting is ordinarily provided to Directors at least within two weeks after the meeting date.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
Principle A.7 - Appointments to the Board			
There should be a formal and transparent procedure for the appointment of new Directors to the Board.			
A.7.1	Availability of a formal and transparent procedure for new appointments through an established Nomination Committee	Compliant	The Nomination Committee of the parent company, Hayleys PLC acts as the Nomination Committee of the Company and makes recommendations to the Board on all new appointments of Directors. The composition of the Nomination Committee is given on Page 190.
A.7.2	Annual assessment of the Board-composition by the Nomination Committee	Compliant	During the annual self-evaluation process, the Board as a whole assesses its own composition to ascertain whether the experience and the exposure of the Board members are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken in to consideration in the appointment of new Directors.
A.7.3	Disclosure of information to Shareholders upon appointment of new Directors	Compliant	All appointments of new Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange and subsequently through the Company's Annual Report.
Principle A.8- Re-election			
All Directors should submit themselves for re-election at regular intervals.			
A.8.1	Non Executive Directors are appointed for specified terms subject to re-election	Compliant	Non-Executive Directors are appointed for a specified term subject to re-election and to the provisions of the Companies Act relating to the removal of a director and their re-appointment is not automatic.
A.8.2	All Directors including Chairman to be subject to re-election at first opportunity after appointment and re-election at least every three years thereafter	Compliant	In terms of the Articles of Association of the Company, all Directors are subject to re-election by shareholders at the first opportunity after their appointment and to retirement by rotation thereafter at intervals of no more than three years. However, the Managing Director is not subject to retirement by rotation. The names of directors submitted for election or re-election are accompanied by a resume to enable shareholders to make informed decisions on such elections/re-elections.
A.8.3.	Reasons for resignations of Directors	Compliant	If and when a Director is resigning prior to the completion of his term of appointment, he/she provides the Board with a written communication thereon indicating his/her reasons for the resignation.
Principle A.9 - Appraisal of Board Performance GRI 102-28,33,34			
Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.			
A.9.1	Annual appraisal of Board Performance	Compliant	The Board annually appraises its own performance to ensure that it is discharging its responsibilities satisfactorily. This process requires each Director to fill a Performance Evaluation Questionnaire in line with the provisions of the Code.
A.9.2	Annual appraisal of the Board Committees	Compliant	The self-evaluation that is carried out by the Board includes an evaluation of the performance of the Board as a whole as well as of its committees.
A.9.3.	Review of Directors' contribution to and engagement with the Company at the time of their re-election	Compliant	The Nomination Committee of the parent company, Hayleys PLC which is responsible for making recommendations to the Board on all appointments of Directors, takes into account the overall contribution, participation and engagement of the individual directors when considering their re-appointments.

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
A.9.4	Disclosure of the method of appraisal of the Board and Board Sub Committee performance	Compliant	The Board evaluation process is carried out by the Remuneration Committee and other sub-committees of the parent company, Hayleys PLC in accordance with its mandate.
Principle A.10- Disclosure of Information in respect of Directors Shareholders should be kept advised of relevant details in respect of Directors.			
A.10.1	Annual Report to disclose specified information regarding Directors	Compliant	Name, qualifications, expertise, brief profiles material business interests and key appointments are given on pages 32 to 35. Details of whether a Director is Executive, Non Executive / or Independent, Non Independent are given on page 190. Related Party Transactions are given on pages 250 to 251. Membership of Board Sub Committees and attendance at Board Meetings and Board Sub Committee meetings are given on page 190.
Principle A.1 - Appraisal of Chief Executive Officer (CEO) The Board should be required, at least annually to assess the performance of the CEO.			
A.11.1	Set reasonable financial and non-financial targets to be met by the CEO (Managing Director in the case of the Company)	Compliant	At the commencement of every financial period, the Board in consultation with the Managing Director sets financial and non-financial targets that should be achieved by him in line with the short, medium and long term objectives of the Company.
A.11.2	Evaluate performance of the CEO (Managing Director in the case of the Company) with reference to targets	Compliant	Assessment of the performance of the managing Director by the Board is an on-going process. The performance of the Managing director is evaluated by the Board quarterly and at the end of each financial year to ascertain if the financial and non-financial targets set at the beginning of the financial year have been achieved and if not, the reasons and circumstances justifies the failure to achieve same.
B. DIRECTOR'S REMUNERATION **Principle B.1 - Remuneration Procedure** GRI 102-35, 36 The Company should establish a formal and transparent procedure for developing policy on both Executive and non-executive directors remuneration			
B.1.1	Appointment of a Remuneration Committee	Compliant	The Remuneration Committee of Hayleys PLC, the parent company, acts as the remuneration committee of the Company and is responsible for the oversight of remuneration related policies and practices of the Company. The Committee makes recommendations to the Board within agreed Terms of Reference, on the Company's framework of remunerating the executive Directors.
B.1.2	Remuneration Committee to comprise exclusively Non Executive Directors	Compliant	The Remuneration Committee comprises four Non-Executive Directors three of whom including the Chairman are Independent Directors.
B.1.3	Requirement to list the Chairman and members of the Remuneration Committee in the Annual Report	Compliant	The composition of the Remuneration Committee is given on page 190.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
B.1.4	Remuneration for Non Executive Directors	Compliant	Within the limits set out in the Articles of Association, the Board of the parent company, Hayleys PLC collectively decides the remuneration of the Non-Executive Directors, including the members of the Remuneration and Nomination Committee. The Non-Executive Directors receive a fee for attending meetings of the Board and Board Committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable.
B.1.5	Remuneration of Executive Directors	Compliant	The Remuneration Committee consults the Chairman on its proposals relating to the remuneration of other Executive Directors and is empowered to seek appropriate professional advice inside and outside the Company as and when it is deemed necessary by the Committee.
Principle B.2 - The level and make up of Remuneration GRI 102-35 The remuneration of executive and non-executive directors should be sufficient to attract and retain the services of Directors.			
B.2.1& B.2.2	Remuneration for Executive Directors should attract, retain and motivate	Compliant	Remuneration for Executive Directors is designed to attract, retain and motivate the Executive Directors as determined by the Remuneration Committee within appropriate limits.
B.2.3	Positioning Company remuneration levels relative to other companies	Compliant	GRI 102-37 The Remuneration Committee is aware that reward strategies and remuneration structure should be designed to attract, motivate and retain high-calibre people, at all levels of the organisation, in a highly competitive environment. Therefore, the remuneration structure of the Company is reviewed from time to time with comparison to that of peers in the industry.
B.2.4	Positioning Company remuneration levels relative to the Group	Compliant	The remuneration Committee is sensitive to remuneration and employment conditions of other companies within the Hayleys Group.
B.2.5	Performance related elements of remuneration for Executive Directors	Compliant	A performance related element of remuneration for Executive Directors has been implemented.
B.2.6	Executive share options	Not applicable	The Company does not have any executive share option schemes at present.
B.2.7	Designing schemes of performance related remuneration	Compliant	The Remuneration Committee follows the provisions set out in Schedule E to the Code in designing schemes of performance related remuneration.
B.2.7 & B.2.8	Compensation for early termination of employment of Directors	Not applicable	Special early termination clauses are not included in the contract of employment of Executive Directors that would entitle them to extra compensation. However, any such compensation would be determined by the Board of Directors.
B.2.10	Levels of remuneration for Non-Executive Directors	Compliant	Non-Executive Directors are remunerated in line with market practices also taking into account the commitment and responsibilities of their role. However, they are not entitled to receive any performance based remuneration share options.
Principle B.3 - Disclosure of Remuneration The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.			
B.3.1	Composition of the Remuneration Committee, Remuneration Policy and Disclosure of Aggregate Remuneration Paid to Directors	Compliant	The composition of the Remuneration Committee is given on page 190. The aggregate remuneration paid to Executive and Non Executive Directors are given in Note 10 to the Financial Statements on page 231. The Remuneration Policy of the Company is given on page 264.

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
C. RELATIONS WITH SHAREHOLDERS			
Principle C.1 Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings			
The Board should use the AGM to communicate with shareholders.			
C.1.1	Notice of Meeting	Compliant	The Annual Report including financial statements and the notice of the meeting are sent to shareholders at least 15 working days prior to the date of the AGM in compliance with the applicable statutes. The Annual Report for the year 2016/17 was submitted to the Colombo Stock Exchange on 01st June 2017 and was dispatched to all shareholders on the same day. The AGM was held on 28th June 2017.
C.1.2	Separate resolutions for each substantially separate Issue	Compliant	The Company proposes separate resolutions on each substantially separate issue giving shareholders the opportunity to vote on each such issue separately. The adoption of the Annual Report of the Board of Directors, the Financial Statements of the Company and the Report of the Auditors thereon are considered as a separate resolution.
C.1.3	Count proxy votes lodged	Compliant	As a matter of practice, proxy votes together with the votes of the shareholders present at the AGM are considered by the Company for each resolution. The Company has a mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against such resolution.
C.1.4	Availability of Board Sub Committee Chairperson at AGM	Compliant	The Chairman of the Board ensures that the Chairmen of Board sub-committees are present at the AGM to answer any query by shareholders. The Chairmen of the Board Sub committees were present at the previous years' AGM held on 28th June 2017 and no queries were raised by the shareholders to them.
C.1.5	Summary of procedures governing voting at the AGM	Compliant	A summary of the procedures governing voting at the AGM is provided in the Proxy Form, which is circulated to shareholders 15 working days prior to the AGM.
Principle C.2 - Communication with Shareholders			
The Board should implement effective communication with Shareholders.			
C.2.1	Channel to reach all Shareholders of the Company	Compliant	The Company reaches its shareholders through its website and the CSE in order to disseminate timely information.
C.2.2	Policy and methodology for communication with Shareholders	Compliant	Any information that the Board considered as price sensitive is disseminated to the shareholders as necessary.
C.2.3	Implementation of the policy and methodology for communication with Shareholders	Compliant	Shareholders are provided with Quarterly Financial Statements and the Annual Report, which the Group considers as its principal communication with them and other stakeholders and are published through the CSE.
C.2.4	Contact person in relation to Shareholder matters	Compliant	Shareholders may bring up their concerns on communication with the Company Secretary.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
C.2.5	Process to make all Directors aware of major issues and concerns of Shareholders	Compliant	The Chairman ensures that all Directors are aware of major issues and concerns of shareholders.
C.2.6	Identification of a person to be contacted on shareholder matters	Compliant	Shareholders may bring up their concerns either with the Company Secretary or the Chairman as appropriate.
C.2.7	Process of responding to Shareholder matters	Compliant	The Chairman and the Directors answer all the queries raised by the shareholders at the AGM. The Company Secretary maintains a dialogue with the shareholders to answer and to attend to all the correspondences.
Principle C.3 - Major and Material Transactions Directors should disclose to Shareholders all proposed material transactions which would materially alter the net asset position of the Company and Group if entered into.			
C.3.1	Need to Disclose major and material transactions	Compliant	During the year, there were no major or material transactions engaged in or committed to by the Company as prescribed by the Code that required disclosure to the shareholders.
C.3.2	Compliance with disclosure and shareholder approval requirements under applicable rules and regulations	Compliant	The Company will ensure compliance with all disclosure and shareholder approval requirements necessitated by various rules and regulations applicable to it if and when a major or material transaction is proposed to be entered into by the Company.
D. ACCOUNTABILITY AND AUDIT **Principle D.1 - Financial Reporting** The Board is required to present a balanced and understandable assessment of the Company's financial position, performance and prospects.			
D.1.1 & D.1.2	Interim reports, price-sensitive public reports, regulatory reports and statutory information requirements	Compliant	The Board's is aware that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be furnished by statutory requirements. Accordingly, the Company has complied with the requirements of the Companies Act No.7 of 2007 in the preparation and presentation of its annual and interim financial statements in conformity with Sri Lanka Accounting Standards. During 2017/18, the interim accounts and annual financial statements were published on a timely basis and regulatory reports were filed by the due dates. Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year
D.1.3	Declarations by CEO and CFO	Compliant	Prior to approving the financial statements covering a particular financial period, the Board obtains the declaration of the Managing Director and the Chief Financial Officer on their responsibility in respect of financial reporting. Managing Director's and Chief Financial Officer's Statement of Responsibility is given on page 201.
D.1.4	Declarations by Directors in the Directors' Report	Compliant	The declarations by the Directors as required by the Code are included in the Annual Report of the Board of Directors on the Affairs of the Company on Pages 196 to 199.

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Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
D.1.5	Responsibilities of the Board for the preparation and presentation of Financial Statements and Statement by the Auditors about their reporting responsibilities	Compliant	Statement on Directors' Responsibility for Financial Reporting is set out on Pages 206 to 207. Auditors' responsibility over Financial Statements is covered in the Independent Auditors' Report on Pages 206 to 207. Directors' Statement on Internal Controls over Financial Reporting is set out on Page 200.
D.1.6	Inclusion of a Management Discussion and Analysis in the Annual Report	Compliant	Management Discussion and Analysis is set out on Pages 52 to 175.
D.1.7	Notify Shareholders in case Net Assets of the Company fall below 50%	Not applicable	The situation has not arisen during the year 2017/18 and the likelihood of such a situation is remote. However, should such a situation arises, an EGM would be convened to keep the shareholders informed thereof.
D.1.8	Disclosure of Related Party Transactions in the Annual Report	Compliant	each related party has submitted signed and dated quarterly declarations annually mentioning whether they have related party transactions with the Company as required under regulations applicable to the Company to comply with the disclosure requirements; The Company Secretary keeps a record of related party transactions and makes necessary disclosures accordingly; A record on related party and related party transactions is maintained by the Company to capture information to comply with the respective related party disclosure requirements imposed by SEC / Accounting Standards / Auditing Standards and similar regulations. Details of the Related Party Transactions Review Committee are disclosed in the Related Party Transactions Review Committee Report on Page 192. Details on related party transactions during 2017/18 are disclosed under Note 35 on Pages 250 to 251 in the Financial Statements.
Principle D.2 - Internal Controls The Company should have a process of risk management and a sound system of internal control to safeguard Shareholders' investments and the Company's assets.			
D.2.1	Annual review of internal controls	Compliant	The Company's internal controls are designed to support the identification, evaluation and management of risks affecting its overall operations. These cover financial, operational, compliance and information technology controls, as well as risk management policies and mechanisms. Risks and controls are reviewed and monitored quarterly for relevance and effectiveness. The Audit Committee assist the Board in this regard.
D.2.2	Directors' assessment of the risks facing the Company	Compliant	Details of the risks facing the Company and the measures taken to mitigate same are explained in the Risk Management Section on pages 178 to 183.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
D.2.3	Need for an internal audit function	Compliant	The Company has its own internal audit function and also employs independent professional accounting firms to complement the work done by them. Details on the internal audit function are set out in the Audit Committee Report on Page 191.
D.2.4	Audit Committee to review the process and effectiveness of risk management and internal controls	Compliant	The Audit Committee carries out reviews of the process and the effectiveness of risk management and internal controls and document to the Board and the Board takes responsibility for the disclosure on the Company's system of internal controls.
D.2.5	Responsibilities of Directors in maintaining a sound system of internal control and content of Statement of Internal Control	Compliant	Information on Directors' responsibility for maintaining a sound system of internal control is disclosed in the Directors Statement on Internal Controls over Financial Reporting on Page 200.
Principle D.3 - Audit Committee Board should establish formal and transparent arrangements for selecting and applying accounting policies, financial reporting and internal control principles.			
D.3.1	Composition of the Audit Committee	Compliant	Audit Committee consists of three Non-Executive Directors appointed by the Board of whom two including the Chairman of the Committee are Independent Directors. 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. The composition of the Audit Committee is disclosed on Page 190.
D.3.2	Terms of Reference of the Audit Committee	Compliant	The Audit Committee operates within clearly defined Terms of Reference approved by the Board. The duties and responsibilities of the Committee as set out in the said Terms of Reference are in line with the Code. The Terms of Reference of the Board Audit Committee is detailed in the Audit Committee Report on Page 191.
D.3.3.	Disclosures relating to the Audit Committee	Compliant	The report of the Audit Committee covering the information referred to in this Section D.3.3. is given on page 191.
Principle D.4 – Related Party Transactions Review Committee Board should establish a procedure to ensure the proper management of related party transactions.			
D.4.1	Definition of related parties and related party transactions	Compliant	The Company follows the definition set out in LKAS 24 in determining the related parties and related party disclosures.
D.4.2	Related Party Transactions Review Committee	Compliant	The Related Party Transactions Review Committee of the parent company, Hayleys PLC, oversees the related party transactions of the Company.

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D.4.3.	Terms of Reference of the Related Party Transactions Review Committee	Compliant	The Related Party Transactions Review Committee operates within clearly defined Terms of Reference approved by the Board. The duties and responsibilities of the Committee as set out in the said Terms of Reference, are in line with the Code.
Principle D.5 - Code of Business Conduct and Ethics Companies must adopt a Code of Business Conduct and Ethics for Directors and key management personnel and must promptly disclose any waivers of the Code for Directors or others.			
D.5.1	Disclosures on the presence of a Code of Business Conduct and Ethics	Compliant	The Company is governed by the Group Code of Business Conduct and Ethics, "The Hayleys Way" which is applicable to Directors, other KMPs, and all other employees.
D.5.2	Identification and reporting of price sensitive information	Compliant	The Company has in place an effective mechanism for identification of information that could be perceived as price sensitive information and prompt disclosure of same to the relevant regulatory authorities.
D.5.3	Policy governing dealing in shares	Compliant	The Group Code of Business Conduct and Ethics, "The Hayleys Way" entails as part of it a comprehensive policy and processes governing dealings by the Directors, KMPs and employees in the shares of the Company.
D.5.4	Chairman's affirmation on compliance with the Code of Business Conduct and Ethics	Compliant	The required affirmation is given in "Chairman's Statement on Corporate Governance' on page 184 of the Annual Report
Principle D.6 - Corporate Governance Disclosures The Directors should disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.			
D.6.1	Inclusion of a Corporate Governance Report in the Annual Report	Compliant	Manner in and the extent to which the Company has complied with the Code is set out on Pages 184 to 201.
SECTION 2 – SHAREHOLDERS			
E. INSTITUTIONAL INVESTORS **Principle E.1 - Shareholder Voting** Institutional Shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.			
E.1.1	Regular and structured dialogue with shareholders	Compliant	The Annual General Meeting (AGM) is used as a forum to have a structured and objective dialogue with shareholders on matters that are relevant to the general membership. From the company's perspective, the AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions of the directors and to use their votes responsibly. Additionally, the Company has an ongoing programme of dialogue and meetings with institutional shareholders, where a wide range of relevant issues is discussed.
Principle E.2 - Evaluation of Governance Disclosures When evaluating the Company's governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.			
E.2.	Encourage institutional investors to give due weight to relevant governance arrangements	Compliant	Sufficient attention has been given to the interests of institutional investors and they are at liberty to give due weight when exercising their voting rights on resolutions relating to the Board structure and the composition.

Reference to the Code	Corporate Governance Principle	Status of Compliance	Manner of compliance and implementation
F. OTHER INVESTORS			
Principle F.1 - Investing/Divesting Decisions			
F.1	Encourage individual shareholders to seek independent advice in investing or divesting decisions	Compliant	Individual shareholders are at liberty to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions.
Principle F.2 - Shareholder Voting			
F.2	Encourage individual shareholders to participate in General Meetings and exercise voting rights	Compliant	Individual shareholders are encouraged to participate at general meetings and cast their votes. To achieve this purpose, the notices of meetings are dispatched to all shareholders within the prescribed time periods.
G. INTERNET OF THINGS AND CYBERSECURITY			
Principle G.1 – Internet of Things			
G.1	Process to identify connections to the Company's network and cybersecurity risks	Compliant	Hayleys Group's IT Usage Policy by which the Company is governed, comprehensively cover IT discipline, use of licensed software, closer monitoring of the usage of the internet, email and mail server and the use of antivirus and firewall servers and software.
Principle G.2 - Chief Information Security Officer			
G.2	Appointment of Chief Information Security Officer and cybersecurity risk management policy	Compliant	The functions of the Chief Information Security Officer is delegated to the Head of Hayleys Group IT. The details relating to the policy on cybersecurity risk management can be found in Risk Management section from pages 178 to 183.
Principle G.3 - Cybersecurity Risk Management			
G.3	Board discussions on cybersecurity risk management	Compliant	Risks relating to all IT matters including that arising from cybersecurity are discussed and assessed in detail by the Audit Committee and the Board too dedicates a considerable time to discuss matters relating to cybersecurity and the Head of Hayleys Group IT is present during such discussions.
Principle G.4 – Independent Reviews and Assurance			
G.4	Independent reviews and assurances to be carried out to ensure effectiveness of cybersecurity risk management	Compliant	Audit Committee engages the services of independent/outsourced Information Technology Auditors whenever they deem that expert advice is required. Review of Information Security has been carried out by the External auditors at the yearend audit as well.
Principle G.5 – Identification of Cybersecurity Risks			
G.5	Disclosure in the Annual Report of the process of identifying cybersecurity risks	Compliant	The manner in which cybersecurity risks are identified and mitigated are disclosed in Risk Management section from page 178 to 183 of this report.

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H. SUSTAINABILITY REPORTING			
Principle H.1 – Environment, Society and Governance (ESG)			
The Company's Annual Report should contain sufficient information on ESG risks and opportunities.			
H.1.1	Reporting on ESG relevance to business model and risks and opportunities	Compliant	The Company is one of the first few entities to champion ESG and ESG reporting. ESG principles are embedded in our business operations and considered in formulating our business and operational strategy and reported with a holistic view. Information required by this Section of the Code is given in the following section: Management Discussion and Analysis on Pages 52 to 175. Governance and Risk Management on Pages 176 to 201.
Principle H.1.2– Environmental Factors			
H.1.2.1	Reporting on Environmental Governance	Compliant	Details on environmental governance measures are given on Pages 194 to 195 of this Report.
Principle H.1.3 – Social Factors			
H.1.3.1	Reporting on Social Governance	Compliant	Details on Social Governance practices of the Company are given on Pages 194 to 195 of this Report.
Principle H.1.4 – Governance			
H.1.4.1	Reporting on Governance Structures	Compliant	Details on governance structures of the Company are given on Pages 194 to 195 of this Report.
Principle H.1.5 – Governance			
H.1.5.1	Board's Role on ESG Factors	Compliant	Details Board's role on ESG factors are given on Pages 194 to 195 of this Report.

APPENDICES III

GRI CONTENT INDEX

GRI Standard	Disclosure	Page number(s) and/or URL(s)	Omission		
			Part Omitted	Reason	Explanation
GRI 101: Foundation 2016					
General Disclosures					
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GRI 102: General Disclosures 2016	102-1 Name of the organisation	285			
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Materials					
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GRI 308: Supplier Environmental Assessment 2016	308-1 New suppliers that were screened using environmental criteria	113-114			
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GRI 400 Social Standards Series					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	133			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	133			
	103-2 The management approach and its components	133			
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GRI 402: Labor/ Management Relations 2016	402-1 Minimum notice periods regarding operational changes	150			
Occupational Health and Safety					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	133			
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GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee	145			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	133			
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Forced or Compulsory Labor					
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GRI 409: Forced or Compulsory Labor 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	139			
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GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	123			
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GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	129,149			
	413-2 Operations with significant actual and potential negative impacts on local communities	129			
Supplier Social Assessment					
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	111			
	103-2 The management approach and its components	111			
	103-3 Evaluation of the management approach	111			
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	114			
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GRI 419: Socioeconomic Compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	129			

10 YEAR SUMMARY

	2018 Rs.'000	2017 Rs.'000	**2016 Rs.'000	*2015 Rs.'000	2013 Rs.'000	2012 Rs.'000	**2011 Rs.'000	***2010 Rs.'000	2009 Rs.'000	2008 Rs.'000
Trading Summary										
Group revenue	4,061,310	3,334,494	3,434,579	4,761,101	3,646,837	3,318,149	2,744,505	3,002,624	2,772,125	2,264,085
Profit/(loss) before taxation	616,828	266,388	186,546	286,380	236,786	231,283	(22,198)	169,200	(27,887)	111,958
Taxation	(69,262)	(24,906)	(42,696)	(18,919)	(37,215)	(4,585)	(10,532)	(4,691)	(2,514)	(3,952)
Profit/(loss) after taxation	547,567	241,482	143,850	267,461	199,571	226,698	(32,730)	164,509	(30,401)	108,006
Non-controlling Interest	(870)	(7,713)	(28,122)	(28,165)	(26,038)	(10,748)	18,690	(17,071)	(8,118)	(1,273)
Profit/(loss) attributable to owners of the parent	548,437	**233,769**	**115,728**	**239,296**	**173,533**	**215,950**	**(51,420)**	**147,438**	**(22,283)**	**109,279**
Funds Employed										
Stated capital	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Revenue reserve	2,172,318	1,723,744	1,330,415	1,336,757	1,148,363	1,005,405	782,115	892,909	660,904	712,875
Equity attributable to equity holders of the parent	2,522,318	2,073,744	1,680,415	1,686,757	1,498,363	1,355,405	1,132,115	1,242,909	1,010,904	1,062,875
Non-controlling Interest	170,793	173,609	179,798	167,338	152,855	136,921	128,329	122,623	54,376	62,494
Liability to make lease payment	187,174	187,901	188,361	188,971	189,617	171,503	171,873	172,176	135,688	137,416
Interest Bearing Borrowings (short and long-term)	176,018	225,322	364,201	501,556	666,006	724,417	920,554	764,400	1,121,792	1,022,766
Assets Employed										
Non -current assets	3,340,876	3,321,693	3,340,891	3,347,168	3,248,131	3,237,928	3,197,861	3,138,780	2,923,602	2,782,252
Current assets	1,384,270	814,914	581,541	718,037	798,662	620,040	532,418	482,681	717,923	538,701
Current liabilities net of borrowings	(548,688)	(391,605)	(285,346)	(368,452)	(394,373)	(358,488)	(297,388)	(317,746)	(411,043)	(320,697)
Retirement benefit obligation	(811,824)	(801,101)	(980,734)	(922,369)	(912,752)	(888,170)	(826,914)	(730,622)	(664,524)	(490,804)
Deferred tax liability	(158,206)	(127,898)	(92,475)	(63,145)	(41,869)	(12,772)	(26,574)	(20,511)	(21,262)	(25,984)
Deferred income	(150,126)	(155,426)	(151,102)	(166,617)	(190,958)	(210,292)	(226,532)	(250,474)	(221,936)	(197,917)
Capital Employed	3,056,303	**2,660,576**	**2,412,775**	**2,544,622**	**2,506,841**	**2,388,246**	**2,352,871**	**2,302,108**	**2,322,760**	**2,285,551**
Cash Flows										
Net Cash inflow/(outflow) from operating activities	815,693	485,370	393,444	532,290	301,099	336,133	108,711	321,845	315,964	298,251
Net Cash inflow/(outflow) from investing activities	(153,229)	(103,204)	(94,286)	(259,610)	(126,460)	(131,654)	(165,069)	(170,378)	(231,723)	(530,418)
Net Cash inflow/(outflow) from finance activities	(201,010)	(115,128)	(209,166)	(327,359)	(168,629)	(66,040)	(164,130)	(249,640)	176,655	149,279
Increase/(decrease) in cash & cash equivalents	461,454	267,038	89,991	(54,680)	6,010	138,439	(220,488)	(98,173)	260,896	(82,888)
Key Indicators										
EPS (basic) (Rs.)	23.09	9.84	4.87	10.08	7.31	9.09	(2.17)	6.21	(0.94)	4.60
Net assets per share (Rs.)	106.20	87.32	70.75	71.02	63.09	57.07	47.67	52.33	42.56	44.75
Market price per share (Rs.)	54.50	32.00	32.50	35.10	24.00	24.00	29.70	46.40	25.25	13.00
Price earning ratio (times)	2.36	3.25	6.67	3.49	3.28	2.64	(13.72)	7.47	(26.86)	2.80
Current ratio (times)	2.20	1.70	1.23	1.16	1.28	1.16	0.88	1.17	1.17	0.90
Return on equity (%)	21.74	11.27	6.89	14.19	11.58	15.93	(4.14)	12.73	-2.20	10.22
Debt to equity (%)	13.49	18.39	29.70	37.3	51.8	60.0	86.7	65.80	124.39	109.20
Dividend per share (Rs.) - Company	4.00	2.00	-	3.00	3.00	2.50	-	2.50	-	1.25
Dividend payout ratio (times) - Company	0.17	0.20	-	0.31	0.41	0.27	-	0.40	-	0.27

* 15Month results, Restated - Statement of Financial Position

**Restated - Statement of Profit or Loss

*** Restated - Statement of Financial Position

GLOSSARY

FINANCIAL TERMS

ACCOUNTING POLICIES
Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

AGRICULTURAL ACTIVITY
Is the management by an entity of the biological transformation and harvest of biological assets for sale or for conversion into agricultural produce or into additional biological assets.

AGRICULTURAL PRODUCE
The harvested product of the entity's biological assets.

HARVEST
Detachment of produce from a Biological Asset or the cessation of Biological Assets life processes.

AMORTISATION
The systematic allocation of depreciable amount of an intangible asset over its useful life.

BEARER BIOLOGICAL ASSETS
Biological assets those are not to be harvested as agricultural produce or sold as biological assets. The biological assets other than the consumable biological assets.

CONSUMABLE BIOLOGICAL ASSETS
Includes managed timber trees those that are to be harvested as agricultural produce or sold as biological assets.

BORROWINGS/DEBT
Bank loans, overdrafts, long term loans, debentures, finance lease obligations and interest bearing liabilities.

CAPITAL EMPLOYED
Shareholder's funds plus non controlling interests and debts.

SHAREHOLDERS' FUNDS
Total of stated capital, capital reserves and revenue reserves.

CASH EQUIVALENTS
High liquid investments that are readily convertible to know amounts of cash and which are subject to an insignificant risk of change in value.

CONTINGENT LIABILITY
A condition or situation existing at the balance sheet date due to past events, where the financial effect is not recognised because:
1. The obligation is crystallised by the occurrence or non occurrence of one or more future events or,
2. a probable outflow of economic resources is not expected or,
3. It is unable to be measured with sufficient reliability

CURRENT RATIO
Current assets divided by current liabilities.

DEBT/ EQUITY RATIO
Debt as a percentage of shareholders funds and non controlling interests.

DEFERRED TAXATION
The net tax effect on items which have been included in the Income Statement, which would only qualify for inclusion on a tax return at a future date.

DIVIDENDS
Distribution of profits to holders of equity investments.

DIVIDEND PAY OUT
Dividend per share divided by Earnings per share.

EBIT
Abbreviation for Earnings Before Interest and Tax.

EBITDA
Abbreviation for Earnings Before Interest Tax Depreciation & Amortisation.

EBITDA MARGIN
EBITDA divided by Revenue.

EARNINGS PER SHARE
Profit attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period.

COP
Cost of Production. This generally refers to the cost of producing a kilo of produce (Tea/ Rubber).

COS
Cost of Sale. The cost incurred on preparation to salable condition of the goods sold.

CROP
The total produce harvested over a given period of time. (Usually during a financial year).

INTEREST COVER
Consolidated profit before interest and tax over finance expenses.

IFRS
International Financial Reporting Standards.

SLFRS
Sri Lanka Financial Reporting Standards.

LKAS
Sri Lanka Accounting Standards.

SORP
Statement of Recommended Practices.

MARKET CAPITALISATION
Number of shares in issue at the end of the period multiplied by the market price at the end of period.

NET ASSETS
Total assets less current liabilities less long term liabilities less non - controlling interests.

NET ASSETS PER SHARE
Net assets as at a particular financial year end divided by the number of shares in issue as at the current financial year end.

NON CONTROLLING INTEREST
Part of the net results of operations and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through Subsidiaries, by the Parent Company.

PRICE EARNINGS RATIO
Market price of a share divided by earnings per share.

RELATED PARTIES
Parties who could control or significantly influence the financial and operating policies of the business.

RETURN ON EQUITY (ROE)
Profits attributable to shareholders as a percentage of average shareholders' funds.

GLOSSARY CONTD.

RETIREMENT BENEFITS

Present value of a retirement benefit obligation
Is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Current service cost
Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost
Is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Actuarial gains and losses
Is the effects of difference between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

REVENUE RESERVES
Reserves considered as being available for distributions and investments.

SEGMENT
Constituent business units grouped in terms of nature and similarity of operations.

WORKING CAPITAL
Capital required financing day-to-day operations (Current Assets less Current Liabilities).

UITF
Urgent Issue Tasks Force of The Institute of Chartered Accountants of Sri Lanka

NON-FINANCIAL TERMS

BIODIVERSITY
The variability among living organisms from all sources including, among others, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.

CARBON DIOXIDE SEQUESTRATION
The capture of atmospheric carbon dioxide (CO_2) 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 organisations that promote the social and environmental sustainability of agricultural activities by developing standards. SAN promotes efficient agriculture, biodiversity conservation and sustainable community development by creating social and environmental standards.

REPLANTING
A method of field development where an entire unit of land is taken out of "bearing" and developed by way of uprooting the existing tree/bushes and replanting with new trees/bushes.

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

GRI 102-1,2,3,5

NAME OF COMPANY
Talawakelle Tea Estates PLC

LEGAL FORM
Public Limited company
Incorporated in Sri Lanka on 22nd June 1992

COMPANY NUMBER
PQ 36

FINANCIAL YEAR END
31st March

PRINCIPAL LINE OF BUSINESS
Cultivation and Manufacture of Black Tea

STOCK EXCHANGE LISTING
The ordinary shares of the Company are listed on the Colombo Stock Exchange of Sri Lanka.

DIRECTORS
Mr. A M Pandithage - Chairman
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
Dr. K I M Ranasoma
Ms. M D A Perera
Dr. N T Bogahalande
Mr. D S Seneviratne
Mr. S L Athukorala
Mr. M H Jamaldeen

MANAGING AGENT
Hayleys Plantation Services (Private) Limited,
400,Deans Road, Colombo 10, Sri Lanka.

REGISTERED OFFICE
400, Deans Road, Colombo 10, Sri Lanka.

HEAD OFFICE
400, Deans Road, Colombo 10, Sri Lanka.
Telephone: (94-11) -2627754-5, 2697203
Fax : (94-11) -2627782
e-mail: tpl.tea@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,
Sri Lanka.

TAX ADVISORS
M/s Ernst & Young
Chartered Accountants
201,De Saram Place, Colombo 10,
Sri Lanka.

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NOTICE OF MEETING

Talawakelle Tea Estates PLC
Company No. PQ 36

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twenty Sixth Annual General Meeting of Talawakelle Tea Estates PLC will be held at the Registered Office of the Company, No.400, Deans Road, Colombo 10, Sri Lanka, on Monday, 25th June 2018 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 2018, with the Report of the Auditors thereon.

2) To declare a dividend as recommended by the Directors.

3) To re-elect Mr. A.M.Pandithage, who retires by rotation at the Annual General Meeting, a Director.

4) To re-elect Mr.N.T.Bogahalanda, who retires by rotation at the Annual General Meeting, a Director.

5) To re-appoint Mr. Merrill J Fernando, who retires having attained the age of Eighty Eight years and the Company has received special notice of the undernoted ordinary resolution in compliance with section 211 of the Companies Act No.07 of 2007 in relation to his re-appointment.

ORDINARY RESOLUTION

That, Merrill Joseph Fernando a retiring Director, who has attained the age of Eighty Eight 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.

6) To re-appoint Dr. S.S.S.B.D.G. Jayawardena, who retires having attained the age of Seventy Five 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 a retiring Director, who has attained the age of Seventy Five 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.

7) To authorise the Directors to determine contributions to charities for the year 2018/19.

8) 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 2018/19 in terms of Section 158 of the Companies Act No.07 of 2007.

9) To consider any other business of which due notice has been given.

Note :

1) A Shareholder is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a shareholder of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office No. 400, Deans Road, Colombo 10 by 10.00a.m. on 23rd June 2018.

2) It is proposed to post ordinary dividend warrants on 05th July 2018 and in accordance with the rules of Colombo Stock Exchange the shares of the Company will be Quoted ex-dividend with effect from 26th June 2018

By Order of the Board
TALAWAKELLE TEA ESTATES PLC
Hayleys Group Services (Private) Limited
Secretaries

Colombo
23rd May, 2018

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