

Managing Director’s Review

Appendices

Financial Reports

Statement of ESG Performance

Risk and Governance

Management Discussion and Analysis

Overview

“Our employee satisfaction rate is 99% as surveyed under the Great Place to Work certification”



Sri Lanka’s plantation industry demonstrated remarkable maturity and resilience to adapt to the new status quo which followed the country’s economic and political crisis of the preceding year. Against this backdrop, Talawakelle Tea Estates PLC (TTE) responded with its characteristic agility and spirit, leveraging on our inherent strengths and core competencies to surmount the challenges of the year. My review herein will highlight how we implemented our strategy in the financial year 2023/24, with unwavering coherence to achieve commendable operational and financial results, whilst outlining our future course of action for long-term success.

Cohesive Management Approach

Against a demanding operating environment, we actioned a timely and holistic strategy, rooted in precision, decisiveness, and inclusivity. Through a central line of command, we were able to roll out our action plans, reaching out to our corporate team, estate management team, field officers and estate workers. With clear communication, our entire team

was on the same page—understanding and appreciating their roles and responsibilities—culminating in effective coordination, conformity and execution of actions at every tier of our operations. This integrated management strategy essentially and successfully paved the way to oversee and manage our large-scale operations, in both elevations, under complex business circumstances that prevailed in the year under review.

Consolidating our positioning for best quality teas, we adopted a data-driven decisions-based management approach. This strategy aligns perfectly with our ‘Regen Agenda 2030’, guiding us to rethink, revamp and refine the way we do business—by integrating climate smart and rejuvenative agronomic practices into our field operations including replanting, soil and water management whilst employing ‘SMART’ precision agri-management. This underlined improved processes, higher productivity, strategic capex and cost optimisation, thereby, sustaining a long-term view to value creation through improved quality and healthy margins.

Our goal is to create meaningful value for all our stakeholders—by setting science-based sustainability targets—be it in terms of developing our products and markets; deepening our engagement with our people; and reducing our carbon footprint to achieve net zero emissions within the next three decades.

Role of Digitalisation

Driving for science and precision based agronomic and management solutions, we continued to focus on data insights as a critical enabler, underscoring our efforts to bring in operational efficiency and performance management. Through our strategic investments in digital systems, we have in place real-time data collection capabilities with advanced analytics and key performance dashboards. Our dedicated team tasked with monitoring and analysing data, plays a pivotal role, underlining a total management system across all aspects of the estate—field and factory operations as well as in sales, marketing and distribution.

Financial Performance

Benefiting from our focused climate-smart and regenerative agronomic practices, we achieved a notable crop performance even amidst inclement weather patterns. Complemented by both elevations, tea production in the reporting year improved by 12% year-on-year, reaching to 5.72 million kilograms. However, market sentiments at the Colombo Tea Auctions were bearish, normalising from the rallying we witnessed in the previous year. Yet, our commitment to deliver exceptional quality paid dividends, enabling us to fetch premium prices and sustain our rankings, once again, at number one for both high and low grown teas, consistently exceeding the national elevation averages.

Overall prices in the year were 18.9% lower compared to the previous year. Given higher tea sales volumes, we managed to curtail the reduction in topline earnings to mere 5%, reaching to Rs 7,695 million.



Managing Director's Review

“As the first organization in the country to verify science-based targets, TTE became the sole representation from Sri Lanka in the UN Global Compact-Accenture SDG Stocktake Report - 2023”

Cost of sales increased by 12% reflecting industry-wide cost escalations, which together with the decline in top line affected our overall profitability. Our profit before tax reached Rs. 2,136 million, a contraction of 35% year-on-year. Our return on equity stood at 25.8% compared to 41.80% in the previous year. Our dividends in the year totaled to Rs. 1,275 million, with a payout ratio of 78%.

We generated positive cash flows from our operations. We also sustained a healthy financial position as at the year-end 31st March 2024 with asset growth at 8% to reach Rs 9,858 million. During the year, we acquired the balance 49% ownership stake in our two subsidiary companies in hydropower, allowing us to fully own these entities for a purchase consideration of Rs 90.86 million.

Productivity and Wellbeing

Reaffirming our multi-pronged approach, we continued to focus and drive for higher productivity and well-being of our estate workforce. Strengthening our productivity-based wage model, we offered a dynamic compensation structure, tied up with an incentive scheme on productivity—empowering our workers to increase their earning potential.

Taking a step further, and steadily moving away from the conventional attendance system, the new paradigm on revenue-share gained ground—which has now become an integral part of our estate work culture.

Many of our estate workers have opted to work as independent block mangers, tending to assigned plots on flexible working arrangements. Currently, nearly 45% of our operations have successfully adopted this model which we believe is the only way forward for a labour intensive industry such as ours. In fact, our employee satisfaction rate of 99% as surveyed under the Great Place to Work certification amply reflects the success of this model. This year, we made a concerted effort to prioritise employee health and wellbeing. Key areas of priority included eye screening camps, affordable medical insurance schemes and the construction of eco-friendly sanitation facilities within our estates for the female workforce.

Team Development

Team development across the grades remained a top strategic priority, with the Company investing Rs.14.4 million in skill and capacity building. Training programmes were facilitated by both external resource persons and our own management cadre, thereby nurturing a culture of sharing and mentoring. In the year, we trained 17,169 personal head counts, totaling to 38,554 training hours including overseas training at the executive cadre level. As of date, 72 field staff have successfully completed their vocational studies, NVQ Level III & IV, under NAITA. We also continued to strengthen to our planter trainee programme, recruiting 7 dynamic school leavers during the year who are now training on-the-job.

In a unique, industry-first initiative the Company sought to transform a traditionally-male dominated role with the recruitment of 24 young women as field supervisors. These aspiring young women were equipped with the technical and soft skills to thrive, thereby improving the gender balance in leadership roles while also creating a more conducive work environment for female estate workers.

We also appointed 30 high achiever estate women tea harvesters as team leaders, steadily crafting a career advancement path for those working in the fields who

traditionally have fewer opportunities to climb the ranks.

Community Support

Staying true to our ethos, ‘doing good is good for business’, we invested Rs 103.6 million in our holistic social responsibility programme, ‘Home for Every Plantation Worker’, entailing community housing, infrastructure development, health and nutrition, capacity building and youth empowerment.

We also continued to engage and collaborate with the Save the Children Fund and the Centre for Child Rights and Business, implementing meaningful measures to safeguard the wellbeing of our female workers and the children of our estates. With a dedicated focal point at each estate, we implemented a comprehensive policy across our operations and achieved certification as ‘Mother and Child-friendly Estates’—another first in our industry.

Environmental Footprint

Committed to environmental stewardship and driven by our Regen Agenda 2030, we strived to go beyond mere conventional ways of creating a net positive nature impact on our soils, ecosystems, biodiversity and climate action. Our certifications—Rainforest Alliance, Ecolabel and ISO standards for environmental, energy and emissions management—enabled us to systematically manage and curtail our environmental footprint. We also followed through the Science Base Targets Initiative to monitor and manage our emission targets more efficiently. Our overall investment in this regard stood at Rs. 62 million.

This year, we partnered with an international company to commercialise our Biochar pilot project which we initiated in the preceding year—offering an eco-friendly alternative for synthetic fertilisers to enhance soil health and fertility. Furthermore, complementing Hayleys Group’s environment conservation programme, the ‘KIRULA’ project, we

collaborated with the Wildlife Nature Protection Society and the University of Colombo to conduct a biodiversity assessment at the Dessford estate. We are also proud to announce the completion of the construction of our state-of-the-art Tea Factory at Kiruwanaganga estate, in keeping with Sri Lanka Green Building Standards. Apart from these, we continued with our investments in renewable energy, both hydropower and solar, enabling us to generate electricity exceeding our consumption needs by over 100 percent from the national grid.

Exemplary Corporate Citizen

The Company continues to receive both national and international recognition for its exemplary business practices and commitment to excellence.

Amongst the many awards we received this year, we were humbled and honoured to be the first plantation company and the first company under Rs 15 billion turnover category, to clinch the coveted Overall Winner at the Best Corporate Citizens Sustainability Awards, organised by the Ceylon Chamber of Commerce. We were ranked among the three most awarded organisations with 66 awards by LMD Magazine's "Hall of Fame -The Top 50". We also consider it our privilege to have been recognised as winner under the Manufacturing Large category at the Sri Lanka National Quality Awards organized by the Sri Lanka Standard Institution.

We remain committed to embracing global best practices in corporate reporting and our Annual Report 2022/23 won the joint Gold award in the Plantation Sector category at the TAGS Awards 2023 organised by CA Sri Lanka; whilst ranking amongst the Ten Best Integrated Reports and winning the Best Integrated Report – Plantation Sector category, at the 2023 CMA Excellence in Integrated Reporting Awards.

Path Ahead

With mounting downside risks characterised by slow-paced global

economy and turbulent geopolitics, combined with the domestic macroeconomic uncertainties, low growth, impending elections and ongoing wage negotiations are likely to weigh down on industry prospects in the short to medium term. With strategic interventions in place to reset and reinforce our core competencies based on regenerative business practices, we are confident that we can sustain our resurgence and retain our positioning at the top within the plantation industry from a long-term standpoint. Our efforts to achieve our ESG goals will further complement this market positioning.

Following through with our five-pillar strategy, we will seek to further consolidate our core, tea operations, particularly, driving for higher productivity, innovation and cost efficiencies. Our priority will be on developing and promoting value-added specialty teas and organic offerings for discerning markets, underscoring their strategic significance within our business approach. In addition, we will continue to focus on our crop diversification programme—making headway with cinnamon, coconut and commercial agro-forestry. We will leverage and promote our high-end tea centers—Talawakelle TeaTel Boutique in Colombo which we established in the year under review, and our revamped and upgraded Somerset Tea Boutique in Nanu Oya. Offering specialty teas of our estates, these premium tea centers will seek to tap into the tourism market, as well as the perceptive tea enthusiasts within the domestic market arena.

In Appreciation

This was a year of consolidation, strengthening our systems, processes and practices to steer through a complex and rapidly evolving business environment. I extend my appreciation to our Chairman, my colleagues on the Board and the Group Management Committee for their forward-thinking and strategic leadership, which has kept our organisation at the

forefront of the industry. A special note of gratitude to our director, late Deshamanya Merrill J Fernando. His visionary guidance was invaluable to our organisation, leaving behind an enduring impact that we deeply appreciate. I commend and thank our Chief Executive Officer, our Corporate Management and Operational Management teams for their foresight and fortitude in resetting and securing our path towards long-term success amidst significant challenges.

I sincerely appreciate our team, at the head office and across the estates for working tirelessly with passion and dedication, each doing their part to reach out to our corporate goals. A heartfelt thank you to all, for a job well-done.

To our valued shareholders, buyers, brokers and business partners, thank you for your confidence. We earnestly hope that you will continue to stand beside us in our ambitious journey ahead.



Roshan Rajadurai
Managing Director
Talawakelle Tea Estates PLC

09th May 2024

