

Risk and Opportunity Management

Appendices

Financial Reports

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Risk and Governance

Management Discussion and Analysis

Overview

KEY DEVELOPMENTS IN 2023/24

- Reviewed and updated key risk & opportunity related policies through risk and Opportunity registers.
- Effective, robust and stringent framework for Controlling risks.
- Adequate resources and systems infrastructure for grabbing opportunities
- Management system optimization
- Established comprehensive processes and policies to manage climate-related risks
- Employing climate-related scenario analysis to identify potential risks and opportunities

Refer: Risk and Opportunity Management Report on Pages 190 to 199

How to Mitigate Key Risks

- Based on the risk identified, the Board of Directors, Managing Director & Chief Executive Officer together with the management team initiates risk response strategies developed to manage risk by accepting, mitigating, transferring or avoiding it.
- Based on risk response selected, gaps in Risk Management Capabilities are re-examined and adjusted with expert advice.
- The Risk Management Process is executed by TTE's Corporate Management Committee under the stewardship of the TTE Board and the Board Audit Committee. The Internal and External Audit Committee play a vital role in providing independent verification and assurance regarding the efficacy of the Risk Management Process.
- Continuous monitoring of TTE PLC through environmental impact assessments, use of IoTs and field tests.

KEY RISK FACTORS

Operating Environment Risk

- R1-Geo-political developments
- R2- Macroeconomic and political developments
- R3- Threat from civil unrest
- R4- Change in consumer demand behavior
- R5- Inflation Risk

Financial Risk

- R6- Liquidity Risk
- R7- Interest Rate Risk
- R8- Credit Risk
- R9-Exchange Rate Risk
- R10-Financial Covenant Breach

Operational Risk

- R11- Talent attraction/Retention and labour management
- R12- Resilience to incidents or disruptions or control breakdown
- R13- Occupational health and safety
- R14- Fraud and anti-corruption
- R15-Brand reputation and impact
- R16-Technology and data leakage risk
- R17-Competitor Risk

Environmental Risk

- R18- Climate Change Risk

Compliance Risk

- R19- Risk arising out of non-compliance with Laws, Regulations, By-laws and Statutory requirements

Sustainability Related Risks

- R20 Non-Financial Reporting and Disclosures

 Refer page 190 to 199

Key Opportunity Factors

- Growing Demand for Sustainable Products
- Rising Demand for Certain Commodities
- Explore opportunities for expansion into new markets with growing populations and increasing demand for products
- Investing in research and development of high-yielding, disease-resistant and drought-tolerant crop varieties
- The natural beauty while promoting sustainable practices, attracting new visitors, and contributing to the local community.

How to Grab Key Opportunities

On realizing the opportunity, the Board of Directors, together with the Managing Director and Chief Executive Officer with the members of ESEG Steering Committee initiates strategies to grab the Opportunities by pursuing, exploring or accepting.

- Commitment to the strategy
- Aligning strategy with organizational structure & culture
- Creating an environment where strategy succeeds
- Setting realistic targets for delivery across a set time Period
- Build strong partnerships with research institutes, universities and NGOs to access knowledge, expertise and resources for innovation and sustainable development

KEY RISK PREDICTED IN 2024/25

Financial Risk

- Geopolitical conflicts
- Fuel and energy prices
- Climate Risks
- Talent/Labour migration and cost of labour
- Changing demographic that demand a product differentiation
- Currency fluctuations

Risk Assessment

The four different yet connected elements of TTE's risk management process—risk identification, risk assessment, risk mitigation, and risk monitoring create an ecosystem that safeguards the company from both present and potential hazards.

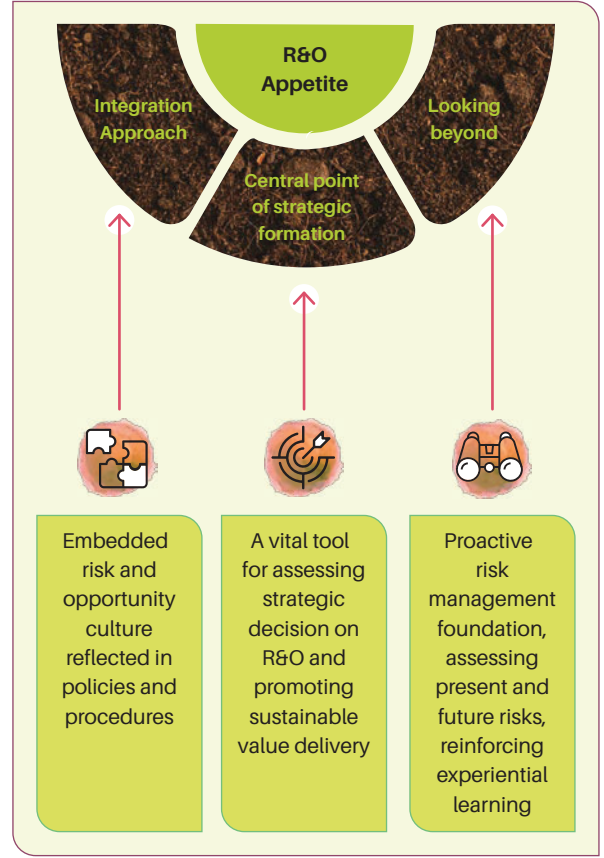
Opportunities Assessment

The process of managing opportunities also revolves around a 4-step process that begins with the identification and recording of opportunities in the Opportunity Register, followed by the evaluation of the opportunity to establish the final opportunity factor rating.

Evaluating Our EROM Journey: Current State and Future Vision

At TTE, we are committed to continuously improving our risk and opportunity management practices as a vital part of our journey towards greater strategic resilience. We understand that this journey is essential for enabling sustained value creation within the framework of Environmental, Social, and Governance (ESG) principles without limiting to economical aspect. By embracing this journey, we aim to enhance our organization's ability to navigate challenges, capitalize on opportunities, and drive positive impact in a rapidly evolving business landscape.

	Our Past: Tracing Our Progress	Our Current Position: Assessing Our Progress	Our Desired Destination: Envisioning Our Future
 Maturity Level of EROM	Foundational risk management systems with limited business risk insights	Adopted a more integrated and frequent approach to risk and opportunity management.	Proactively identifying and assessing R&O while implementing comprehensive management plan
 Compliance	Ensure adherence to statutory requirements within the prescribed scope of compliance.	Emphasizing best practices while maintaining compliance with statutory requirements.	Establishment compliance management that adds business value and provides unique insights.
 Strategic Value Enabler	Minimum of integration with business functions	Integration of ESG considerations into risk and opportunity management practices.	Strategic value-driven approach enabling execution and delivery of Redefine's value proposition through forward-looking strategies.



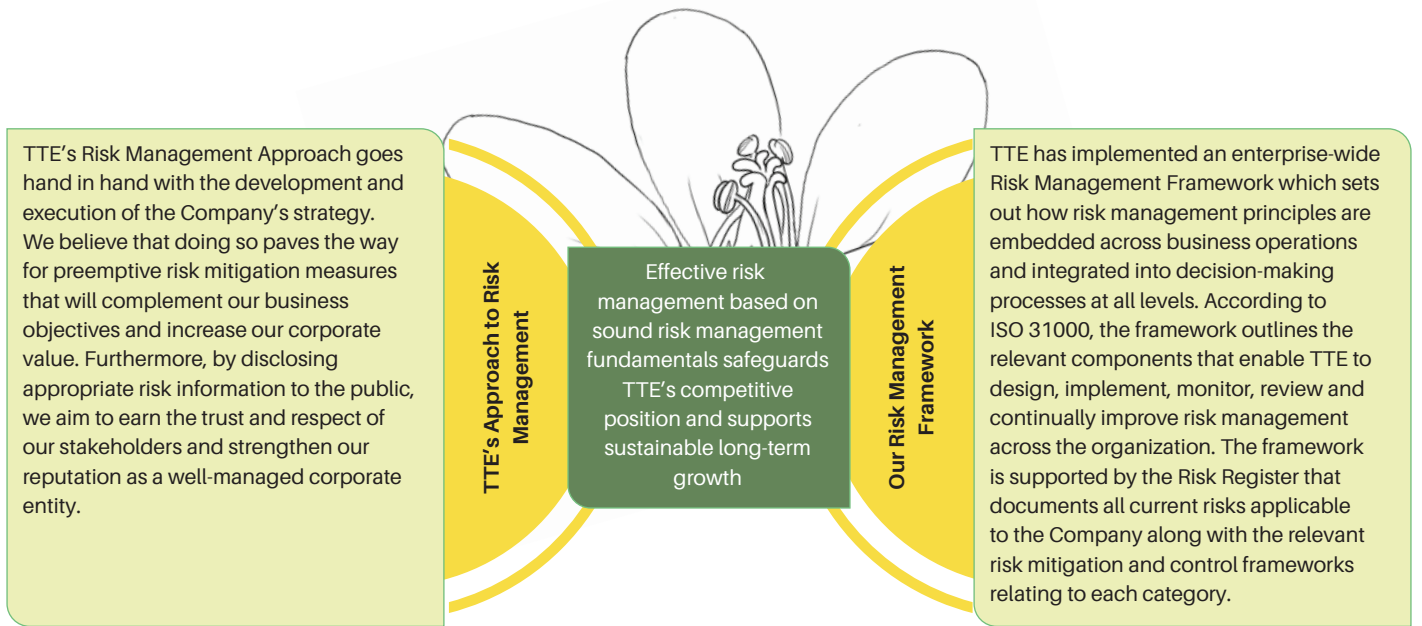
Maturity level of EROM				
1	2	3	4	5
Initial	Developing	Developed	Integrated	Optimized
Some informal practices exist. Formal policies and processes are not developed. Issues are dealt with reactively.	Systems and processes are in place and effective in some parts of either design and/or operation. Approaches are partially aligned to business operations.	Frameworks and systems are formally established, embedded and operating to meet expectations contained within recognized standards.	Systems and processes are integrated, collaborative and enhanced so that it drives a coordinated strategic and efficient response to current and emerging risks.	Systems, processes and culture are integrated with key organizational programs, linked directly with the strategic priorities, and use technology to optimize governance, risk management and monitoring/reporting.
Compliance				

TTE is embedded with Hayleys group compliance monitoring procedure and TTE monitors the compliance procedure.

Risk and Opportunity Management Report

“As a leading manufacture of the famous Ceylon Tea, and operating in diverse markets, TTE is exposed to a variety of risk factors that can impact the business. These include economic, political, operational, financial, and legal risks and any other unprecedented events taking place in the environment it carries out its business.”

As TTE navigated through these, we continued to evolve through the aftermath of the economic crisis, geopolitical tension escalations, interest rate fluctuations, sluggish global trade, mass-labour migration and advancing climate risks that primarily impact an agro trade such as the Tea industry. Through effective risk management, we aimed to create a sustainable business for all our stakeholders.

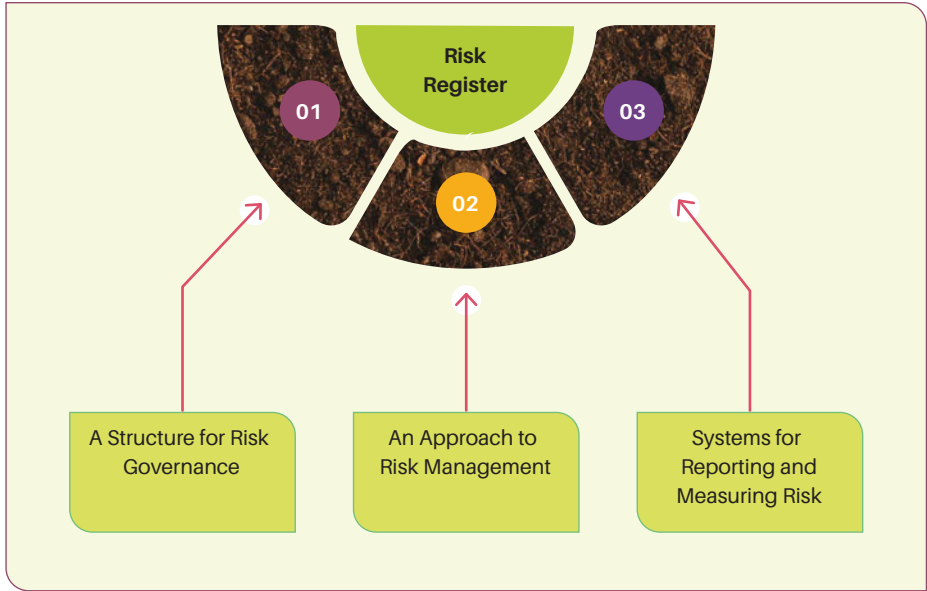


Although the pandemic is now history, its aftermath lingers on, mostly in the sluggish global trade and fluctuating commodity prices and inflationary trends. The volatility of the global market conditions tempered consumer demand, reducing import demand for most items. Energy crisis and potential inflationary impacts further influenced global trade and consumer demand. We trusted in our capabilities to adopt a systemic approach to manage risk that allowed us to effectively anticipate, mitigate, and manage risks while taking advantage of the opportunities present, despite the uncertainties.

Enterprise Risk and Opportunity Management (EROM)

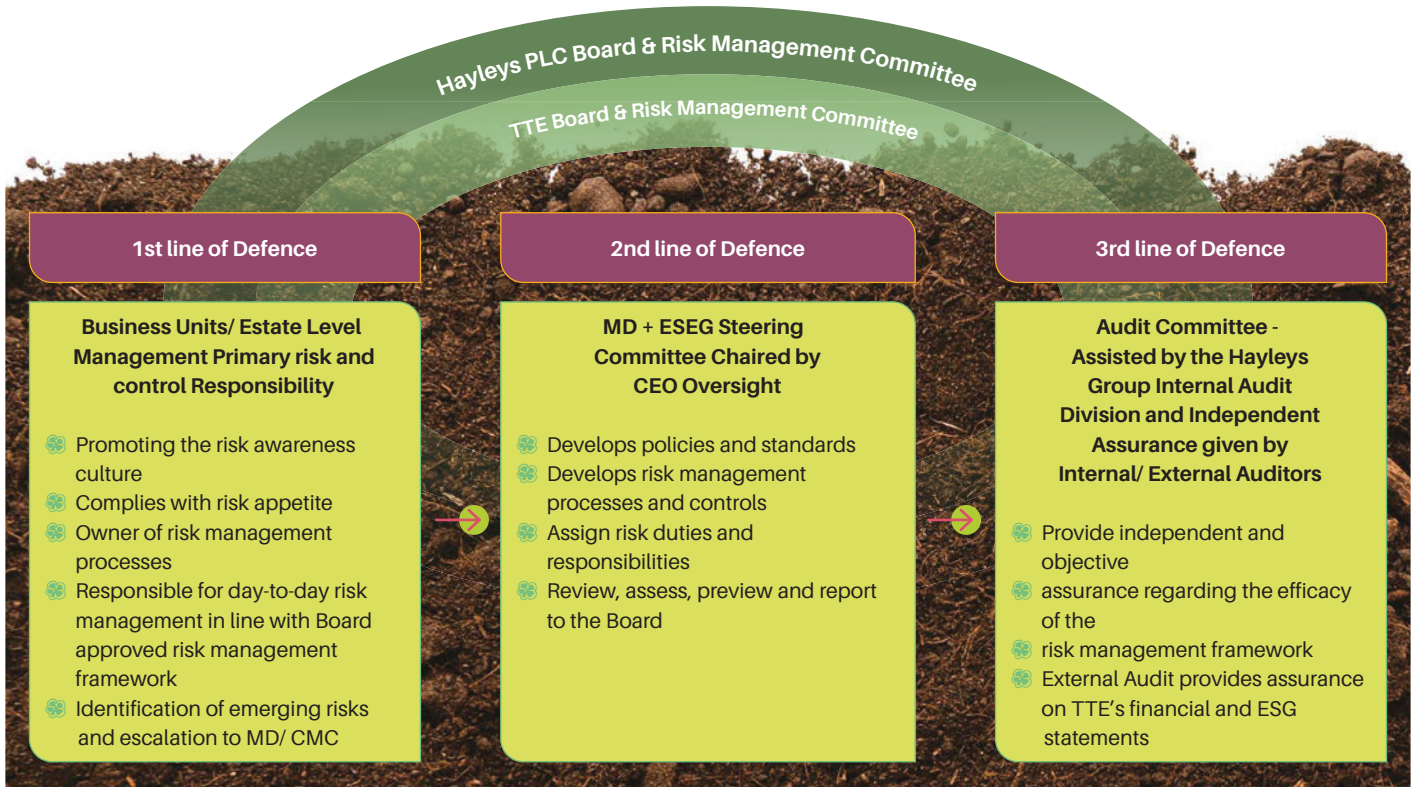
We continued with our EROM approach to identify, mitigate, and manage risk, adjusting to a challenging market condition, intrusively focused on achieving our strategic imperatives. While risk is an inherent aspect of business, opportunities that arise from a well risk mitigated landscape are an achievement. This is what we concentrated on achieving in 2023/24. The emphasis on people, processes and technology ensured performance was not compromised, while navigating through the headwinds the business encountered, especially in the first quarter of 2023.

To strike a good balance between risk management and performance optimization, we continued with the key components of our Risk Management Framework which included three aspects.



Risk Governance and Management Framework

TTE implemented a risk management process proportionate to the size complexity of the Company, integrating risk management and oversight into its governance processes. Different lines of defense in managing risk which is then subjected to internal and external audit assurances establish the rigorous controls that are inherently required to manage risk for sustainability.



Risk governance is parallel to the corporate governance structure of the Company and permeates across all business units and functions in an integrated manner to identify risk and opportunities and to manage them effectively.

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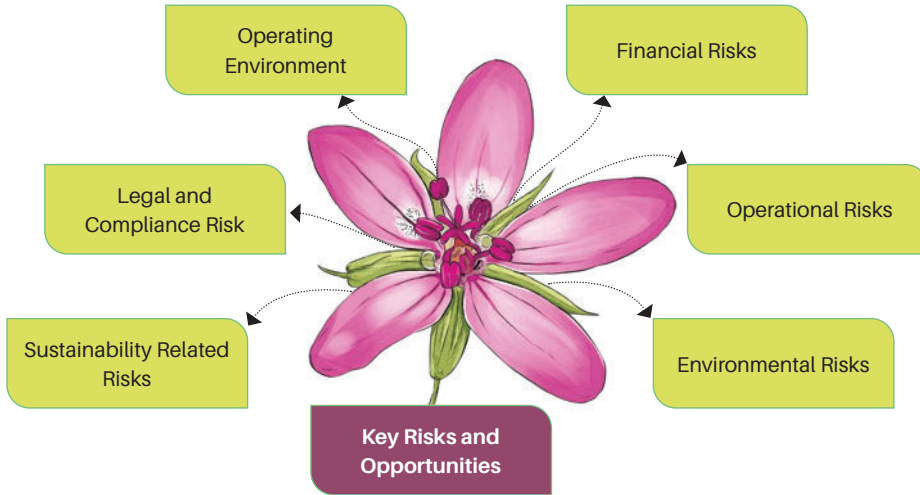
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Risk and Opportunity Universe

Our EROM Universe represents the risks that are central to our operation. Categorized in to six Segments, we have also documented below their impact, our mitigation actions and the risk weightage.

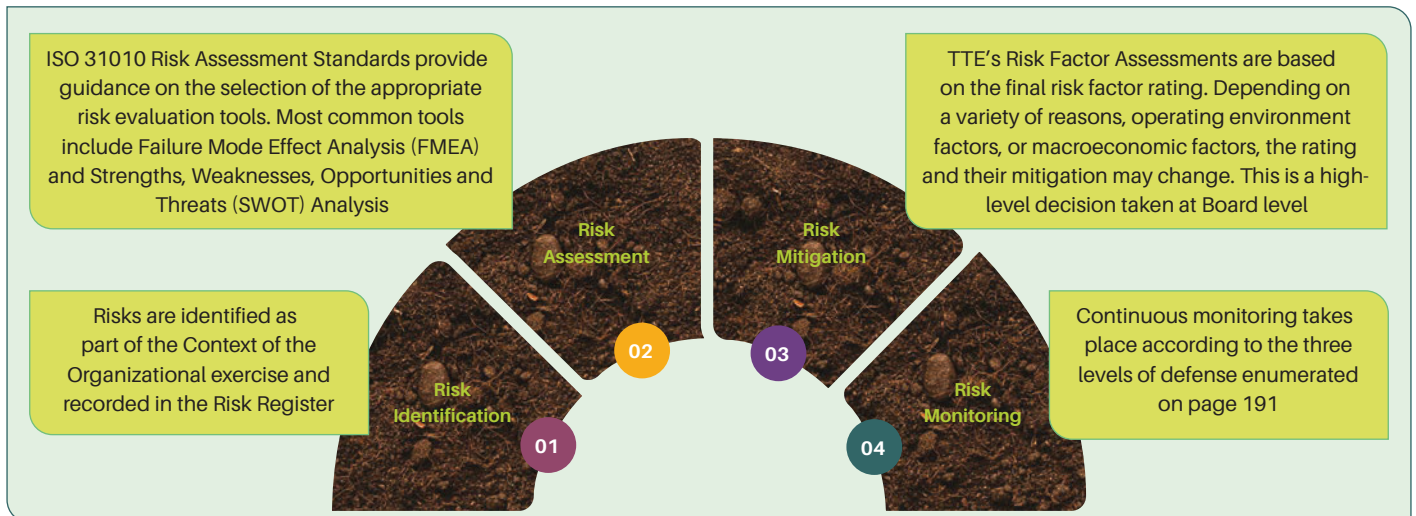


These are the top risks we identified. Table on page 191 indicates the risk categories that are encapsulated in these top risks, their impact on the business and the risk weightage.

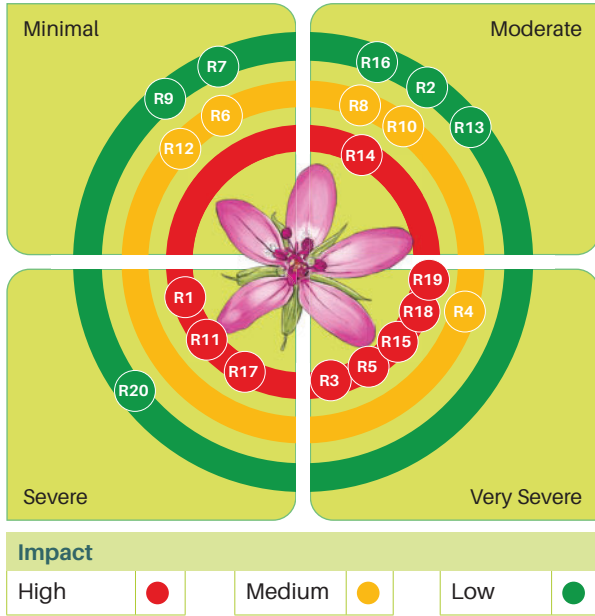
Risk and Opportunity Management Process

To manage significant risk, we rely on both internal and external data as well as qualitative reports on macroeconomic scenarios. We follow a four-step process in risk and opportunity management, which allows us to stringently focus on the risk issues, depending on the risk appetite we carry. This is an integral part of all business processes, including strategy development, business process re-engineering, capital allocation, investment decisions, internal control and dictates our approach to human capital management, and be sustainably engaged in a labour intensive agro product. While each business unit has a high level of business autonomy, the Board is responsible for key decision making and defining policies, procedures, and resource allocation that underpin that autonomy.

Four-steps that are distinct but interconnected:



Risk Hierarchy Matrix



Insurance As a Risk Management Tool

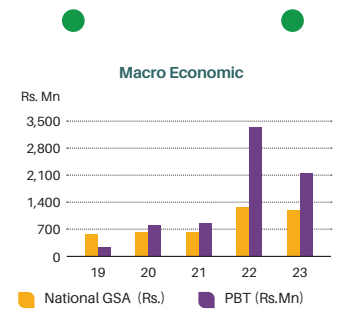
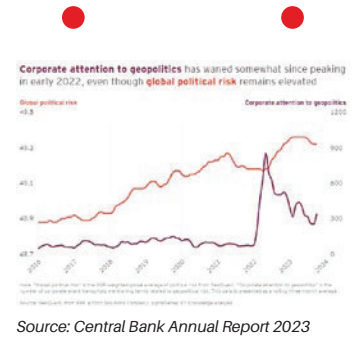
We use Insurance as a risk management tool, where we periodically assess the insurance risks against the unforeseen, thereby minimizing potential business interruptions. Insurance coverage includes the plantations, factories and their storage along with risk factors affecting machinery, building, stocks, and work in progress.

Business Continuity and Crisis Management Plans

Our comprehensive plan for business continuity and crisis management ensures likely business disruptions are handled with the minimum loss to property, plant, equipment and any danger to human life. Though annually reviewed, the plan is e-visited where necessary making any required adjustment depending on the disruptive factor in hand.

Risk Factors, Risk Grading and Mitigation Action

Risk Factor	Risk Exposure	Key Controls and Mitigating Actions	Risk Grading	
			2023/24	2022/23
Operating Environment				
R1.Geo-political developments	Conflicts in the European and Middle Easter regions that are largest importers of tea requiring to explore new markets and be aware of shipping route disruptions exacerbated by the need to source new ports of unloading.	<ul style="list-style-type: none"> Continuous and proactive evaluation of factors that affect the business given the geopolitical conflicts and uncertainties Market entry strategies to source new markets Being in close contact with business partners domestically and internationally for early detection of disruptive occurrences Enhancing geographical coverage Preparing contingency plans 	●	●
R2.Macroeconomic and political developments	Macroeconomic instability in the domestic economy impacts both the demand and supply	<ul style="list-style-type: none"> Scenario testing and proactively identifying action plans to mitigate risks Being in close contact with trade organizations and various associations that are relevant to the tea industry to be in touch with latent and emergent demands of the domestic consumer 	●	●



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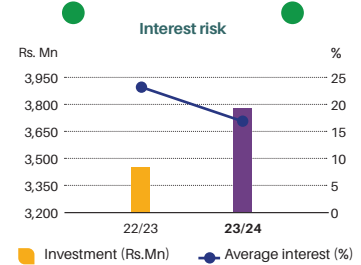
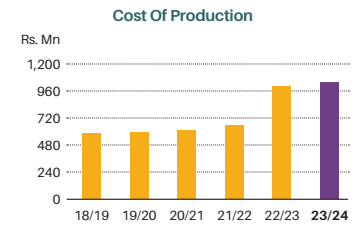
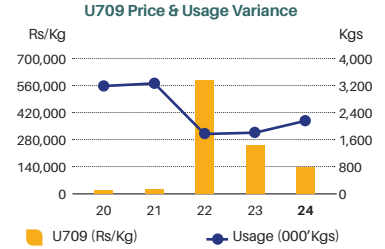
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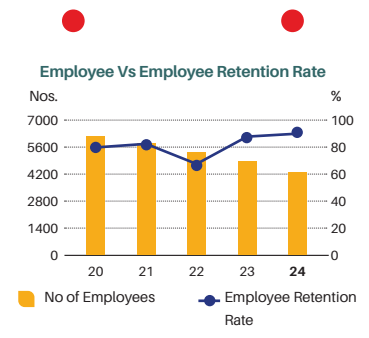
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Risk Factor	Risk Exposure	Key Controls and Mitigating Actions	Risk Grading	
			2023/24	2022/23
R3.Threat from civil unrest	Disruption to production process and/or damage to property and plant due to unrest in the plantation areas	<ul style="list-style-type: none"> Implement the Business Continuity Plan 	●	●
R4.Change in consumer demand behavior	<p>Demand for organic and ethically produced tea is on the rise as the global consumers become more aware of gender and wage disparity and labour injustices across the trade</p> <p>Growing global demand for black teas and speciality teas, mainly post the pandemic where fruit/flower and green teas gained a centre place for immunity boosting and healing properties. This is prevalent among the younger generation of tea drinkers.</p>	<ul style="list-style-type: none"> The Company has carved out three tea gardens which are nurtured agro chemical free. With a strong brand name in the global market the Company capitalized on promoting its black tea brand, while cultivating various other tea species with healing and immune boosting properties. While our strong R&D team researching into new varieties Radella Green Tea center is equipped with both steamed and pan-fried equipment. Diversification to non-tea less labour intensive agro products 	●	●
R5.Inflation Risk	Leading to currency depreciation and making exports less competitive, high inflation can create uncertainty to instability in the economy impacting demand and supply. This can impact both global and domestic economies paving the way to a sluggish trade cycle.	<ul style="list-style-type: none"> Export management and expanding the markets Build up cost saving methods and efficient logistic handling Improve Supply chain sustainability Focus on productivity development through field optimization and modernizing factory set up 	●	●
Financial Risk				
R6.Liquidity Risk	Geopolitical and domestic macroeconomic uncertainties can adversely impact the cash flow	<ul style="list-style-type: none"> Preserve cash flow and unutilized credit facilities to ensure being liquid 	●	●
R7.Credit Risk	Risk of customer defaulting on payments	<ul style="list-style-type: none"> Evaluate customer creditworthiness Stringent credit policies in place Periodic confirmations on outstanding balances Regular follow up 	●	●



Risk Factor	Risk Exposure	Key Controls and Mitigating Actions	Risk Grading	
			2023/24	2022/23
R8. Interest Rate Risk	Fluctuations impact investments and borrowing costs	<ul style="list-style-type: none"> Prudent management of financial assets Closely monitor the financial markets and regulatory stand-point Close relationships and negotiations with financial institutions Diversifying the investment and liability portfolios 	●	●
R9. Exchange Rate Risk	Depreciation of the Rupee is likely to increase operating cost and dollar-borrowing costs	<ul style="list-style-type: none"> Regular monitoring of the currency fluctuations Hedging the exposure through financial instruments 	●	●
R10. Financial Covenant Breach	The possibility of breaching repayments due to finance institutions due to liquidity constraints	<ul style="list-style-type: none"> Closely monitor debt repayments Where necessary, re-negotiate with banks to adjust repayment terms 	●	●
Operational Risk				
R11. Talent attraction/ Retention and labour management	Talent and labour migration due to the economic downturn in 2022 that severely impacted livelihoods well into the 3rd quarter of 2023.	<ul style="list-style-type: none"> Continued with the non-wage model to increase earning capacities of individuals Automated manual processes to engage more of human capital Special incentive schemes and motivation plans to induce productivity and retention Invest in employee wellbeing by enhancing the quality of estate infrastructure 	●	●
R12. Resilience to incidents or disruptions or control breakdown	The nature of our business exposes us to a variety of operational risks such as safety, plant and equipment breakdowns, losses due to theft, inability to meet demand commitment due to utility breakdowns, and other unforeseen factors, triggered by any issue in the operating environment.	<ul style="list-style-type: none"> Robust policies, procedures and processes in place Periodic audits to ensure the effectiveness of internal controls Strengthening the Business Continuity Plan to ensure smooth operations in case of disruption Robust documentation process supported by technology to lodge disruptive incidents Periodic review of the Risk Register Improving the operational KPIs to generate service efficiency Continue to invest in renewable energy Utilize Group synergies to circumvent disruptions 	●	●



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Risk Factor	Risk Exposure	Key Controls and Mitigating Actions	Risk Grading	
			2023/24	2022/23
R13.Occupational health and safety	Non compliance with health and safety standards can disrupt operations and post a threat to human capital wellbeing	<ul style="list-style-type: none"> Well documented health and safety procedures Periodic audits to test the strength of internal controls Periodic training to inculcate a safe working environment 		
R14.Fraud and anti-corruption	Theft, misappropriation of assets, misstatement of financial disclosures, quality reduction in production, unethical business practices to gain favours, loss of Brand reputation, penalties and fines	<ul style="list-style-type: none"> Sound internal controls supported by audit and assurance Pre-employment screening Board mandated ethics framework and Code of Conduct Operation of the Whistleblower policy Continuous training and awareness 		
R15.Brand reputation and impact	Events that can negatively impact the Brand reputation and confidence of stakeholders, breakdown of trust and business relationships	<ul style="list-style-type: none"> Brand positioning, development and marketing Periodic training and development of staff Strict adherence to statutory and regulatory requirements Channeling all media communications through a central team 		
R16.Technology and data leakage risk	Potential for system failures resulting in non-availability of data for quick decision making, data leakages jeopardizing TTE's market standing and loss of stakeholder confidence, cyber-attacks preventing smooth and timely production, and delayed and accurate financial reporting	<ul style="list-style-type: none"> Dedicated IT experts manning the IT team Use licensed software Periodic IT audits Implementation of Disaster Recovery with latest technologies to support business continuity Conduct user awareness sessions to upgrade knowledge and application Continuous devise monitoring to prevent cyber-attacks 		
R17. Competitor Risk	Emergence of new competitors, locally and globally, declining the revenue in captive markets	<ul style="list-style-type: none"> Reinforce product stewardship towards the customer base Product diversification through innovation Develop new global markets 		

GRI 201-1

Risk Factor	Risk Exposure	Key Controls and Mitigating Actions	Risk Grading	
			2023/24	2022/23
Environmental Risk				
R18.Climate Change Risk	TTE’s footprint in Sri Lanka exposes its business to current and emerging climate risks such as extreme weather changes, deforestation, natural disasters, droughts and global warming.	<ul style="list-style-type: none"> Setting up standards, training and monitoring the responsible consumption of water, energy, and effective management of effluents and emissions Long-term expansion plans to consider long-term climate change and impact on the business Promoting a sustainable operation Voluntary adoption of global climate action protocols R&D input to develop drought resistant cultivars and improve soil-health Invest in renewable energy Invest in crop diversification Promote and operate in a way to conserve biodiversity management for a circular economy Implement environment friendly agricultural practices for a sustainable Planet and a business 		
Legal and Compliance Risk				
R19.Legal and Compliance Risk	Risk aligned to non-adherence of stipulated laws, regulations, financial and other disclosures and operating within the requirements of labour laws and international standards	<ul style="list-style-type: none"> Monthly report and review statutory compliance Legal policies and procedures Screening processes to avoid dealing with sanctioned entities Improved governance structure Periodic self-evaluation and audits testing the effectiveness of internal controls 		
Sustainability Related Risks				
R20.Non or inaccurate financial disclosures	Risk aligned to violation of requirements in IFRS S1 and S2 sustainability reporting resulting in loss of reputation, imposed a fine or closure of business.	A robust financial reporting, sustainability reporting, and an integrated annual reporting process is in place, with adherence to local and global reporting standards.		

Impact

High		Medium		Low	
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Realizing Our Opportunities Strategically

O1: Growing Demand for Sustainable Products



2022/23	●
2023/24	●
2024/25	●

Context

- Climate change, deforestation and resource depletion have raised awareness of the need for sustainable practices.
- Consumers are looking for products with minimal environmental impact.
- Issues such as fair labor practices and ethical sourcing are increasing.

How we realised

- Conduct market research, analyze consumer trends, or consult with industry experts to understand growing demand for sustainable products.
- Organizing internal discussions or strategic planning meetings where the team recognizes the importance of sustainability.

O2: Rising Demand for Certain Commodities



2022/23	●
2023/24	●
2024/25	●

Context

- The impact of rising commodity prices varies depending on the country concerned with the specific commodity.
- Governments may implement policies to mitigate the impact of rising commodity prices, such as subsidies or import quotas.
- Technological innovation can play a role in increasing the efficiency of resource extraction and developing substitutes for scarce goods.

How we realised

- TTE PLC can analyze their own sales data to identify trends in demand for specific products and a significant increase in orders for products dependent on a specific product indicates growing demand.
- Attending industry events and conferences allows for networking and discussion with other stakeholders, providing a platform to learn about market trends and potential shortages.

O3: Explore opportunities for expansion into new markets with growing populations and increasing demand for products investing in research and development of high-yielding, disease-resistant and drought-tolerant crop varieties.



2022/23	●
2023/24	●
2024/25	●

Context

- Conduct thorough research to identify new markets with favorable conditions, growing population and demand for company products.
- Consumers are increasingly interested in sustainable practices and emphasize company commitment to responsible land management and environmentally friendly production methods when entering new markets.
- Improved crop varieties require less water and pesticides, contributing to more sustainable agricultural practices.

How we realised

- The company has initial observations of the rising global population and its impact on food security and this decision involving a collaborative effort and thoughtful analysis.
- Emphasize the company's commitment to growth and innovation.

O4: Investing in research and development of high-yielding, disease-resistant and drought-tolerant crop varieties.



2022/23	●
2023/24	●
2024/25	●

Context

- ☼ The world population is projected to grow significantly in the coming decades. This puts a lot of pressure on food security, which requires increased agricultural production to feed a large population.
- ☼ Overuse and unsustainable agricultural practices can lead to soil erosion and depletion, reducing land productivity and limiting future food production capacity.
- ☼ Disease-resistant and drought-tolerant varieties are less prone to crop failure, providing more consistent yields and higher profits for farmers.

How we realised

- ☼ Ensuring long-term crop security, profitability and contributing to a more sustainable agricultural future.
- ☼ The emphasis should be on finding solutions and ensuring long-term growth.

O5: The natural beauty while promoting sustainable practices, attracting new visitors, and contributing to the local community.



2022/23	●
2023/24	●
2024/25	●

Context

- ☼ The plantation often boasts stunning natural beauty, diverse plant life and opportunities for wildlife viewing. These can be a major attraction for eco-tourists looking for unique experiences.
- ☼ Eco-tourism provides an additional income stream beyond traditional plantation products.
- ☼ By partnering with local communities, they benefit from ecotourism and foster cultural exchange. This may include employing local guides, showcasing local crafts and traditions, and supporting community-led conservation projects.

How we realised

- ☼ TTE PLC recognizing the potential of natural beauty for eco-tourism. This approach demonstrates a strong connection to nature, a commitment to sustainability, and a desire to contribute positively to the local community.

Risk Factors Envisaged in 2024/25

January to December 2023 cumulative tea exports totaled 241.9 million kgs, indicating a marginal decrease compared to the same period in 2022. In February 2024, tea production totaled 19.99 kgs, indicating an increase of 1.24 million kgs for the same period in 2023.

We are closely monitoring the situation in the global conflicts that are old and new and plan to review our strategy, if necessary, to ensure our business is sustainable in the long term. As the conflicts inherently impact the shipping routes and disrupt air transportation to some degree, we are mindful of the arduous journey ahead. With a long

cultivated strong and reputed brand and our many domestic and international strong business relationships, we are confident of navigating any new headwinds and managing emergent risk factors within the strong governance structure we have curated for TTE.

We will be intrusively focused on:

- ☼ Geopolitical conflicts
- ☼ Fuel and energy prices
- ☼ Climate Risks
- ☼ Talent/Labour migration and cost of labour
- ☼ Changing demographic that demand a product differentiation
- ☼ Increasing competition
- ☼ Currency fluctuations
- ☼ Domestic regulations impacting inflation and market volatility