



The Human and Natural capitals are the plantations wealth, we believe that the synergies combined will lead to increased productivity and economic growth.

Dear Stakeholder,

The financial year 2023-24 was a year of consolidation for HPL, focused on operational improvements, strengthening climate resilience, and extending innovative, science-based solutions, to enhance the Company's ability to tap into diverse opportunities within a volatile environment. Accordingly, the Company demonstrated a healthy performance amidst numerous challenges, driven by strategic foresight and an emphasis on circularity and sustainability.

On the domestic front, the stabilisation of key economic indicators created a more favorable operating environment. The gradual reduction in inflation and interest rates supported businesses, although operating costs continued to remain elevated. The rupee appreciation on the other hand, was double edged for the plantation sector - while prices of imports declined, earning from Tea also declined parallelly. The plantation sector

also continued to witness escalating implications of climate change, while labour migration from the sector persisted during the year leading to acute labour shortages.

Geopolitical uncertainty, especially in large tea consuming nations led to subdued consumer demand together with disruptions to shipping routes, and an increase in freight rates stemming from the higher risk premiums.

KEY FINANCIAL HIGHLIGHTS

Tea prices, which spiked due to the sharp rupee depreciation of Sri Lankan Rupee (LKR) in 2022, normalised at a lower level in 2023/24, with stability in exchange rate and instability in the major Tea markets. As the largest contributor to HPL's Revenue, the decline in tea prices had an inevitable impact on financial performance. Total revenue declined by 11% to Rs. 3,386 Mn, from Rs. 3,794 Mn in the previous year and profitability also declined to Rs. 105 Mn from Rs. 170 Mn. However, there were

also many operational improvements that should be factored in, when evaluating HPL's financial performance for the 12 months under review.

While administrative and operational costs continued to remain elevated reflecting the high cost-of-living, HPL also benefited from cost savings from multiple areas. Significant finance cost savings were accrued by negotiating better terms for outstanding loans, along with reduction in the market interest rates and improvement in domestic banking system liquidity. Savings from renewable energy, as well as circular economy projects, and other sustainability initiatives also contributed towards improvement in the bottom line. Please refer the Financial Capital chapter for details on the financial status as at end March 2024.

Despite the cost increases, HPL continued to optimise the application of fertilizer while pursuing good crop management practices. This ensured that outputs of

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most crops increased during the year, despite extreme weather patterns that prevailed throughout the year. The outlay on fertilizer and agrochemicals increased compared to the previous year, which allowed HPL to maintain quality standards and to command above average prices in most cases.

HPL also continued its capital expenditure investment plan, including replanting, climate change adaptation, expansion of renewable energy and technology investments, to safeguard the Company's production and revenue capabilities for the future. The total capital expenditure increased on Biological Assets 21% year-on-year, to Rs. 342 Mn which was mainly directed towards planting Coffee and repurposing Rubber lands towards more profitable and extreme-weather resilient crops. We are confident these good agricultural practices will generate returns in the long run in the form of sustained high yields and a more climate change resilient income statement. Please also refer the Manufactured Capital chapter and Intellectual Capital chapter for details on the Company's capital investments during the year.

Our company continued to maintain multiple certifications and accreditations throughout the year; three of our estates, Alton, Gouravilla and Fairlawn had the distinction of being awarded with ISO 45001 : 2018, the first occupational health and safety certification for its processing Centres in the plantation industry, production quality, food safety and scientific agricultural practices, as well as for ethical business practices. These certifications independently confirm the Company's international quality standards with regards to its products and practices. The benefits include better market access to all major export destinations and in

some cases, higher prices and a loyal customer base. The ethical certifications in particular, align the company with socially and environmentally friendly practices that differentiate HPL as an ethical manufacturer in highly competitive global markets. In 2023, HPL commenced work on EUDR certification for its estates on Rubber.

Therefore, HPL's financial performance should be evaluated in context of its overall, long-term business sustainability strategy, as well as its immediate financial statements.

REVIEW OF OPERATIONS

Tea Sector

Despite the adverse weather conditions, proactive harvest planning ensured that Tea outputs increased slightly by 1% to 2.19 Mn kg. However, Tea prices declined by Rs. 244/- per kg, on average, against the previous financial year. The increased shipping costs to the Middle East, Sri Lanka's largest ceylon tea buying region, also negatively affected the Tea industry. However, HPL's Net Sales Average (NSA), remained well above the national average on the basis of its strong reputation for quality, as attested by the host of certifications, quality, and ethical accreditations of HPL Tea.

As the primary crop of HPL estates, Tea accounted for 76% of total revenue during 2023-24. The cost of production continued to increase at 9% year-on-year. The gross profits from Tea recorded for 2023-24 was Rs. 461 Mn.

Rubber Sector

Given increasing implications of climate change impacts, subdued rubber prices and the cost structure increase, HPL is phasing out rubber cultivation, although

certifications such as Forest Stewardship Council obtained by HPL has enabled it to command above average pricing. Although existing cultivations are maintained, there was no new investment into Rubber replanting during the year. Instead, rubber lands are being repurposed to diversify HPL's crop portfolio towards more commercially viable crops. Crop diversification also offers an effective mechanism to drive climate resilience in our operations.

During 2023, rainfall in rubber growing regions peaked above 7,000mm compared to the normal range of 3,400mm to 3,800mm. The extreme wet weather caused the lowest tapping days in years, at only 62 days for the year, compared to the average of 180 days. The country's rubber plantations also continued to be troubled by the pestalotiopsis leaf disease, which took hold of Rubber estates in 2022.

Due to notable decline in rubber outputs by 18% against the previous financial year, to only 0.52 Mn kg from 0.63 Mn kg, HPL's total rubber revenue decreased by 28% to Rs.373 Mn. The share of gross profit of the rubber sector declined to Rs. 74 Mn during the year, from Rs. 103 Mn in the previous year.

Oil Palm

HPL has utilized 250 hectares of unused rubber land for oil palm cultivation, which continued to generate more stable income compared to rubber, due to better climate resilience and more consistent production patterns. However, the prices of oil palm decreased over last year resulting in a decline in revenue. While the prevailing ban on oil palm cultivation continued, discussions with the relevant authorities of the plantation ministry on oil palm are ongoing and we are hopeful of a positive response.

The total revenue from oil palm decreased by 10% to Rs. 233 Mn mainly due to the decrease in NSA by 23% to Rs. 82/- per kg from Rs. 107/- per kg. The total yield marginally increased by 3% to 2.84 Mn kg. The gross profit from the oil palm sector decreased from Rs 154 Mn to Rs. 115 Mn in the current financial year.

Diversified Crops

HPL's diversified crop extent was expanded from 103 hectares during the year, with coconut extent in the Low Country expanding to 422 hectares, from 385 hectares one year ago, and other crop extent also being increased. The land for the expansion of coconut and other cash crops came from rubber lands that were already demarcated and approved for coconut cultivation by the national authorities. HPL with its deep commitment to biodiversity conservation, has not converted natural eco systems by encroached on, or by deforesting reserves, or other forest lands, for its crop diversification.

HPL's diversified crops portfolio currently comprises coconut, cinnamon, coffee and ancillary crops, which achieved a combined revenue of Rs. 24 Mn. The majority of the diversified crops are yet in immature state. We intend to increase the diversified crop segment once approval is granted for cultivation of Oil Palm.

SUSTAINABLE BUSINESS PRACTICES

Building resilience to climate change implications remains a key priority for the Company, given the plantation sector's vulnerability to physical risks associated with climate change. These measures include adopting modern scientific approaches that are being tested including very technology and bio char while the Company crop diversification efforts

are also expected to strengthen climate resilience. In 2023, the Company also tested drone spraying in one of its Tea estates, and is also experimenting with robotic Rubber tapping in its Rubber estates.

HPL's solar project that was registered with the Sri Lanka Climate Fund, commenced obtaining climate credits in 2023, which will accrue towards offsetting HPL's carbon footprint. In addition, two mini hydro power plants were also commissioned during the year. This has increased the renewable energy contribution to 331.6 Mwh, which accounted for 13% of total electricity consumption during the year.

As a fundamental aspect of its sustainability strategy, HPL maintained its training and development investments for all employees, with emphasis on technical and quality related training. In this regard, I am proud to report that 40 Rubber tappers from HPL Rubber estates obtained NVQ 3 certification following an assessment of their skills by the Rubber Research Institute. Further HPL has retained its Great Place to Work title.

The Human and Natural capitals are the plantations wealth, we believe that the synergies combined will lead to increased productivity and economic growth, our emphasis in investing and empowering our people and prioritizing to protect and enrich our biodiversity would be a comprehensive Social and Environmental measure to succeed during challenging eras.

In 2022, HPL received the Mother and Child Friendly seal for its work to make estates safer for women and children. In 2023, HPL introduced another initiative we are extremely proud of - the She Essentia project. The project, which is

entirely a social welfare initiative, where the Company gains absolutely no financial benefits, was originally designed to support health and hygiene of women and girls in HPL estates. The project was initiated with a grant of Rs 1 Mn, from the Centre for Child Rights and Business, to manufacture reusable sanitary napkins at HPL's Alton estate, as the current cost of living made disposable sanitary napkins unaffordable for a majority of females in the estates. The project's success is now attracting attention and support from both local as well as international parties, and the project itself, is expanding into a women's livelihood program with other income generating activities also coming into the picture. We will continue to extend our fullest support to expand this project in a financially sustainable manner, for the benefit of our female workers and their families. Please refer the Social Capital chapter for details.

HPL being an initial signatory to the Pekoe Trail, the largest sustainable tourism project, has two of its estates, namely Stockholm and Mahanilu amidst a 300 Km curated, twenty two stage long distance walking trail through the central highlands of Sri Lanka. A one-of-its kind trails, the Pekoe Trails feature the diverse ecosystems from grass lands to tropical forest where leopards roam, to rich heritage and intriguing history of Ceylon plantations.

OUTLOOK

The outlook for the new financial year has improved with the gradual recovery of the domestic economy. However, we anticipate continued uncertainty due to the unpredictable geopolitical conditions, ongoing structural changes in the domestic economy and proposed wage revisions. We firmly believe that the industry should pursue a revenue sharing productivity-

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based incentive methodology as practiced across all smallholders. Such a mechanism would sustain the growth of the industry on a longer-term perspective and greater financial rewards could be shared ensuring increased dignity of labour in the estates with an enduring new business model. A key component of this growth will stem from the continued diversification of HPL's crop basket, coupled with innovative technology solutions and mechanization of HPL estates.

APPRECIATIONS

As the Company's success is driven by its internal stakeholders, I extend my appreciation to the Chairman and the other Directors of the HPL Board, as well as HPL's management teams and employees for their passion, hard work and dedication. I also thank the Board of Hayleys PLC, for their continued counsel during the year. The regulatory and supervisory bodies have been extremely supportive of our activities and for that I am grateful. I also thank our shareholders, suppliers and other stakeholders, for their continued support and I look forward to their cooperation in the new financial year as well.



Dr. Roshan Rajadurai
Managing Director

13th May 2024