

HPL's strategic imperatives of Diversification, Community Empowerment, Circular Economy, and Automation and Digitalization aim to maximize stakeholder value.

GRI 2-22

It is with pleasure that I present to you the Integrated Annual Report and Financial Statements of Horana Plantations PLC (HPL) for the financial year of 2023/2024.

THE YEAR IN REVIEW

Effects of the country's worst post-independence economic and political crisis lingered in 2023, with the country's GDP contracting by 2.3% during the year. However, the economic adjustment programme, characterised by decisive policy interventions and structural reforms have positioned Sri Lanka on a road to recovery, as evidenced by the growth in GDP in the last quarter of 2023. Accordingly, inflation measured by Colombo Consumer's Price Index (CCPI) fell from a peak of 69.8 % in September 2022 to 4.0% in December 2023.

The year under review saw the prospects of all three major crops of Tea, Rubber and Oil Palm industries adversely affected by a combination of external and often uncontrollable elements. Sri Lankan Tea

production increased marginally over the past year by 1.7%, although the country's contribution to global Tea production continued to decline, falling from 3.93% in 2022 to 3.88% in 2023. Further, the average Tea auction price in 2023 fell to USD 3.59 per kg as against the previous year's USD 3.83 per kg. The appreciation of the local currency against the US dollar and geopolitical tensions, especially in major Ceylon Tea buying regions resulted in lower demand. We continued to see the escalating implications of climate change on our crops; for instance, erratic weather patterns and the highest ever rainfall on record in the rubber growing regions aggravated the pestalotiopsis disease that resulted in further reductions in the Rubber output.

PERFORMANCE RECAP

HPL recorded growth in the production of tea and oil palm crops over the previous year. However, Revenue recorded a decline of 11% to Rs. 3,386 Mn driven primarily by the decline in tea prices compared to the

previous year. Though Oil Palm recorded a volume growth of 18%, Revenue declined by 10% owing to subdued prices. The rubber crop declined by 18% compared to the previous year, due to pestalotiopsis and a very high wet day count and heavy rainfall recorded. Rubber crop declined by 18% over last year, the only crop to show a contraction over last year, resulting in a loss of revenue.

Despite these numerous challenges, the Company remained profitable, delivering a resilient performance to generate a Profit After Tax of Rs. 105 Mn, a decline of 39% over the previous year. Your Company has paid a dividend of Rs 2.65 per Share on the positive performance as proposed by the Directors for the financial year 2023/2024.

INTEGRATING ESG

Your Company has made significant progress in adopting and aligning to the Hayleys Group's ESG Roadmap, the Hayleys Lifecode. In doing so, your Company has undertaken many strategic

CHAIRMAN'S MESSAGE

projects on emission reduction, biodiversity preservation, women empowerment and child welfare. The Company maintains its position as a member of the United Nations Global Compact (UNGC) and has committed to the 10 principles of responsible business.

Your Company's commitment to be carbon neutral by 2033 has been demonstrated by two Tea estates Alton and Gouravilla, being certified as Carbon Neutral. The work carried out thus far on Science Based Targets Initiative (SBTI) has been commendable and I am confident that the Company would obtain verification of its targets and drive strategic decarbonisation through continued investments in solar power generation and other forms of renewable energy use.

HPL partnered with the Wildlife and Nature Protection Society in the country's largest private sector supported Ecosystem Restoration, which entails creating fifty-five hectares of forest corridor along the banks of Maskeli-oya and a hundred hectares of forest cover in Kaluganga basin, in rehabilitating the riverine ecosystems. To ensure compliance with global best practices this project was audited by Preferred by Nature, an independent global auditing agency, making this project, the first such initiative to receive such a verification in Asia. The project accommodates commodity manufacturing requirements under the European Union Deforestation Regulations (EUDR) which will come into effect in 2025.

In women empowerment, HPL launched the unique SHE ESENTIA programme, with the objective of addressing period poverty among our estate communities. HPL remained resolute in its commitment in driving operational efficiencies and process improvements, which contributed

towards the Company's resilience during the year. We addressed the issues arising from the migration of workers through unique remuneration models which includes out grower or revenue sharing and semi mechanisation on plucking. I am confident that once implemented successfully, these interventions will improve the long-term scalability and sustainability of the plantations, while empowering livelihoods through access to potentially higher income. Meanwhile, parallel to our tea replanting, high density Tea planting initiatives have continued with Coconut and Cinnamon. As part of our agri business growth model, we have sought to increasingly diversify our crop base, and have ventured into Coffee planting in large extents in the high elevations of upcountry estates. HPL will diversify away from Rubber plantations with the planting of Oil Palm, once clearance obtained, and Agro forestry in maturing rubber estates in line with our Diversification strategy.

OUR PEOPLE

Your Company continued to invest in strengthening its employee value proposition, and has received multiple accolades for its people propositions. I am delighted that Horana Plantations was selected amongst the 6th in the large size work places category of the best work places in Sri Lanka 2023 and 48th in Asia's best large work places in 2023 by "Great Place to Work".

GOVERNANCE

As a member of the Hayleys Group, your Company has embraced the highest standards of integrity and transparency, by showcasing and promoting professional standards and ethical business practices that are propagated throughout the organisation. During the year, the Company effected the changes required

to comply with the immediate compliance requirements of the new Listing Rules on Corporate Governance. The Company also adopted the Hayleys Group's Bribery and Anti-Corruption Policy and Shareholder and Investor Communications Policy which were rolled out during the year. The Company is committed to consistently strengthening the 'G' in ESG by adopting both regulatory and voluntary standards which aid in embedding ethical business and responsible leadership.

Mr. Jayantha Perera, who functioned as an Independent Non-Executive Director retired on 31st December 2024. We express our gratitude for his invaluable contribution to the progress of our Board, and wish him the very best in his future endeavors. We warmly welcome Mr. Timothy Speldewinde and Mr. Malaka Talwatte who joined the Board as Independent Non-Executive Directors. I look forward to working with them and am certain that the experience and knowledge they bring will enhance the Company's decision-making.

ACCOLADES

We are inspired by the recognitions and accolades your Company has received nationally and internationally, ranging from financial reporting and environmental stewardship to sustainability initiatives. Three of our processing plants, Fairlawn, Gouravilla and Alton Estates were certified on Occupational health and safety as a first of its category in the tea plantations.

STRATEGIES AND OUTLOOK

HPL's strategic imperatives of Diversification, Community Empowerment, Circular Economy, and Automation and Digitalization aim to maximise stakeholder value while effectively addressing the challenges facing the country's plantation sector. Worker migration continues to

be a key challenge that requires urgent attention; we firmly believe that outgrower or revenue share models can play an instrumental role in addressing the issue of labour migration and supporting the longevity of the plantation industry.


As mentioned in my last year's report, we like to stress that wages to plantation industry should transform from the current archaic model to productivity linked remuneration model, thereby ensuring economic empowerment of workers as well as commercial sustainability of the RPCs. The importance of a fresh approach in wage setting cannot be over emphasised. As opposed to fixed wage hikes, the industry requires a productivity-linked model which would enable plantation workers to earn a comparatively higher income, while driving increased productivity and ensuring the global competitiveness of Ceylon Tea in the international market. Yet again, we also reiterate the vital importance of lifting the ban on Oil Palm. Importation of Palm Oil leads to the outflow of valuable foreign exchange which could be preserved if Sri Lankan plantation companies were allowed to cultivate oil palm. As mentioned in my last year's outlook, RPCs are still awaiting a decision from policy makers on the extension of the lease agreements. The delay will only hinder new investments thereby further impacting the long-term productivity of plantations.

For long term sustainability, the Company intends to diversify into less worker intensive crops in the low elevated region of Horana planting District. Coffee planting has been introduced in large extents in the high grown regions to ensure a sustainable crop diversification. We will continue to uphold the core principles of circular economy that has enabled our resilience over the years, while leading to cost

efficiencies and continuous innovation. Our passionate thrust on ESG will gather momentum in the coming years as we continue to build a resilient business which creates long-term stakeholder value and drives positive social and environmental outcomes.

APPRECIATION

I am grateful to my colleagues on the Board for their valuable council and guidance. It is our teams that have powered our strategy and ensured our resilience in a challenging year and I fully acknowledge the contributions by HPL's management team and all employees. As always, I appreciate the trust and confidence placed in us by our customers, suppliers, business partners and shareholders. We shall make all efforts to meet your expectations as we continue our journey.



Mohan Pandithage

Chairman - Executive Director

13th May 2024