



## ECO SOLUTIONS

The Sector is a leading exporter of traditional and value-added coconut fibre products, generating significant local value addition through procurement of various types of coconut coir fibre from local supply chains and manufacturing a range of innovative and sustainable solutions catering to a global network of retailers, industries and households.

## ECO SOLUTIONS

### Procurement of coconut husks

The Sector injects value across the coconut value chain through procurement of husks, while supporting knowledge transfer and capacity building

### Value addition across supply chain

30% smallholder suppliers

Rs. 5.65 bn payments to suppliers

### Economic Value

Rs. 828 mn tax contributions  
USD. 37 mn forex generated to Sri Lanka

### Socio-economic value generation

#### Local community engagement

1,201 beneficiaries and Rs. 3 mn CSR investment in supporting education, environmental awareness and uplifting livelihoods



**Rs. 3.25 bn**  
Economic value creation



**2%**  
Contribution to Group's value creation









**Manufacturing a range of coconut-fibre based products in line with national and international quality standards**

**Employee value**  
 Rs. 1.46 bn  
 employee payments  
 1,119 jobs created  
 1,666 indirect employees

**PRODUCT APPLICATIONS WHICH SHAPE A BETTER FUTURE**

-  **Growing media** solutions which facilitate plant growth in limited spaces by providing suitable substitutes for plant growth
-  **Erosion control** solutions which preserve soil quality and support agriculture
-  **Horticulture products** and bedding products which encourage cultivation and home gardening in households
-  A range of **brushware and floor covering** catering to the needs of industries and households

						
<b>Revenue</b> Rs. 13.85 bn (-9%)	<b>Profit Before Tax</b> Rs. 68.09 mn (-97%)	<b>Loss After Tax</b> Rs. 16.77 mn (-101%)	<b>Assets</b> Rs. 19.91 bn (+7%)	<b>Liabilities</b> Rs. 8.77 bn (+14%)	<b>Employees</b> 1,119 (+23%)	<b>Carbon footprint</b> 5,522 tCO <sub>2</sub> e (-22%)

+ denotes y-o-y growth - denotes y-o-y decline

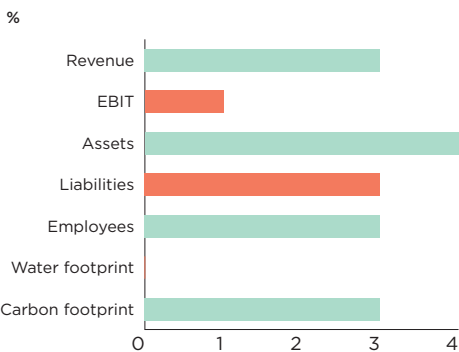
# ECO SOLUTIONS



## SECTOR OVERVIEW

The Group's Eco Solutions Sector is a pioneering and leading manufacturer of value-added coconut fibre products, offering an array of tailor-made, innovative and environmentally sustainable solutions across several product categories. The Sector was the first business interest of the Hayleys Group, and has over the past 147 years sharpened its product capabilities, domain knowledge and competitive edge thereby catering to the rapidly evolving requirements of its global customer base.

## CONTRIBUTION TO GROUP



### ECO FIBRE

Manufacture a range of value-added coir fibre products

**Contribution to Sector**  
Revenue: 67%  
PBT: 574%

**Performance 2023/24**  
Revenue: 40% growth  
PBT: 73% decline

### BRUSHWARE

Pioneer in the brush market, catering to both the local and international markets

**Contribution to Sector**  
Revenue: 15%  
PBT: -454%

**Performance 2023/24**  
Revenue: 28% decline  
PBT: 452% decline

### FLOOR COVERING & MATTRESSES

Manufacturer of coir, rubber, flocked door mats and PU mattresses

**Contribution to Sector**  
Revenue: 18%  
PBT: -221%

**Performance 2023/24**  
Revenue: 18% decline  
PBT: 420% decline

to oscillating freight rates. While Sri Lanka's macro-economic conditions stabilised compared to the preceding year, the volatility and appreciation of the Sri Lanka Rupee towards the latter part of the financial year adversely affected exporters. Meanwhile persistently escalating cost of production driven by adjustments to fuel prices and rising labour costs continued to pressure margins, given the highly price sensitive nature of the Sector's key product verticals. Supply chain dynamics also remained challenging during the year, with Sri Lanka's coconut industry plagued by escalating implications of climate change, relatively low yields and limited application of technology. The long-term outlook for eco-fibre products, however, remain optimistic, reflecting increased eco-consciousness of customers and more stringent environmental regulations in major export markets.

## OPERATING ENVIRONMENT

Global demand dynamics for eco-fibre products remained somewhat subdued during the year, with the retail sector witnessing a downturn in view of unfavourable geopolitical conditions and tightening global monetary conditions. Meanwhile, global geopolitical tensions continued to disrupt global trade flows leading

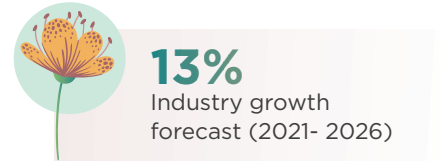
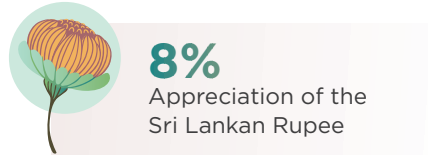
## COMPETITIVE POSITION

A portfolio of **leading brands** including Ravi, Rileys, Hayleys Fibre and Hayleys Mattresses

Over **1000 product varieties** across our key verticals of Eco Fibre (value-added coir fibre products), brushware and floor coverings.

**12 manufacturing facilities Overseas Locations** including 1 manufacturing location in India, and regional marketing offices in the UK, Netherlands and Japan

The Sector caters to a global base of over **300 customers across 80 markets** ranging from Fortune 500 companies to international supermarket chains and local customers.



**Summary of external drivers**

	Driver	Driver Significance of impact	Implications on Sector
Economic and geo-political context	Appreciation of Sri Lankan Rupee	H	- Reduced competitiveness in the global market and adverse implications on volume and market share
	Global geopolitical tensions	M	- Subdued demand and disruptions to trade flows
	Gradual decline in interest rates	H	+ Reduction in borrowing costs
Industry context	Escalation in cost of production	H	- Adverse impact on competitiveness and profitability margins
	Increasing demand for growing media products amidst limited availability of land and prevalence towards healthy diets	H	+ Potential for business growth
	Increasing stringency of global environmental regulations	H	+ Growth opportunities in new market segments and applications
Sustainability context	Migration of talent	M	- Challenges in business continuity
	Implications of climate change on coconut crop	H	- Disruptions to the supply chain - Volatility in raw material pricing - Adverse implications on water security
	Escalating customer requirements on sustainability considerations	H	+ Opportunity to strengthen competitive position by catering to emerging requirements + Cost efficiencies

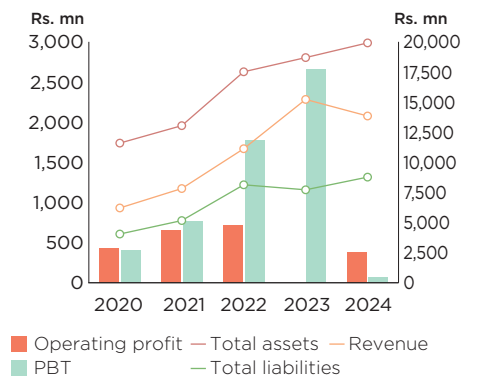
H-High, M-Medium, L-Low. Brown circle represents adverse effect while yellow circle represents positive affect

**STRATEGY AND INTEGRATED PERFORMANCE REVIEW**

The Sector's performance was adversely affected by adverse macro-economic and market conditions during the year, resulting in Revenue and Profit Before Tax declining by 9% and 97% respectively. The Sector demonstrated resilience in the face of global challenges to record a 28% increase in volumes; however top line growth was affected by the appreciation of the Sri Lankan Rupee during the year. Profitability margins were impacted by challenges in passing on cost increases to customers given the price sensitive nature of several products in key verticals. In order to counter these externalities, the Sector placed strategic focus on cost management, process efficiencies and backward integration which softened adverse impacts to a certain extent.

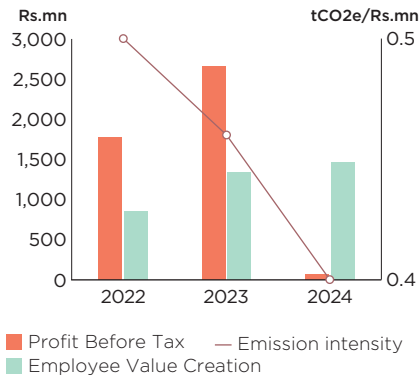
In terms of products, growing media recorded commendable growth supported by favourable demand dynamics and penetration in new markets such as Mediterranean, Middle East and CIS regions. The Sector has strengthened

**SECTOR FINANCIAL PERFORMANCE**



## ECO SOLUTIONS

### INTEGRATED PERFORMANCE



its global market position in this category, now ranking within the top 3 exporters in Sri Lanka for value-added growing media. Brushware experienced a challenging year due to subdued demand conditions as well as unfavourable exchange rate dynamics and the Sector focused on sustaining customer relationships in this segment. In floor covering, emphasis was placed on improving product design and quality while increasing efficiencies to offer attractive pricing. Despite a decline in profitability in view of subdued domestic demand, the mattress business performed commendably amidst challenges.

Innovation remains a key priority for the Sector and during the year considerable progress was made in the growing media and value-added fibre products segments. In the former, the Sector launched a specialised range of grow bags for tomatoes, strawberries, cucumbers and chillies. During the year, the Sector also obtained a patent for its new water proof coir pots. New applications in coco fibre, including horticulture, rubberised coir car seats are also showing considerable upside potential and the Sector sought to drive increased penetration in these segments.

Strategic emphasis on proactive inventory planning enabled the Sector to mitigate the impact of supply chain disruptions during the year, although persistent declines in the country’s coconut yield and crop poses a significant medium-term risk to the Sector. During the year, the Sector sought to diversify its supply chains through commencing backward integration in the Jaffna region. The Sector has established a palmyrah fibre processing plant in Jaffna, supporting both supply chain security while contributing to socio-economic empowerment of women among these communities.

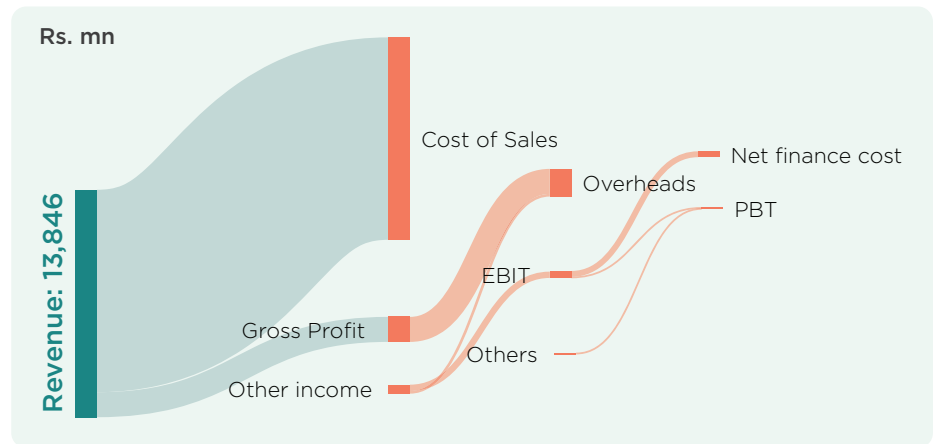
The Sector’s people strategy for the year was centered on increasing retention among shop floor teams and strengthening leadership tiers through leadership development programmes and effective succession planning. Rs. 1.19 mn was invested in training and development during the year, with employees receiving a total of 4,880 training hours.

### ESG IN ACTION

In aligning its ESG agenda with that of the Hayleys Group, the Sector

launched its 2030 ESG Roadmap, ‘Entwine’ during the year, marking a step change in its sustainability aspirations. Entwine offers a blueprint for shared responsibility and collective action in embedding environmental and social consciousness into the Sector’s strategy and processes, serving as a guiding framework for sustainable business. The Roadmap is directly aligned to the Sector’s corporate purpose of “inspiring innovative and eco-friendly living” and centers on the four pillars of nurturing the planet, optimising resources, improving lives and responsible leadership.

- Establishment of Sector ESG Steering Committee
- Strengthen ESG risk assessment and integration with existing risk processes
- Monthly and quarterly monitoring and reporting of performance against ESG targets
- Third-party verification of GHG emissions (2022/23)





HOW WE DEFINE VALUE



HOW WE CREATE VALUE

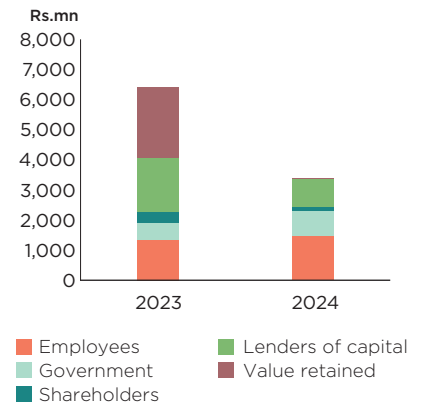
Strategic priorities	Market expansion	Supply chain management	Strategic integration of ESG
<b>Resource Allocation</b>	<b>Rs. 329 mn</b> Sales and marketing expenses	<b>Rs. 202 mn</b> Investment in backward integration	Launch of 'Entwine'- the Sector's ESG Roadmap
<b>Strategic KPI/ Pre-financials</b>	<b>CIS/ Middle East</b> New markets entered	<b>Rs. 5.94 bn</b> Payments to suppliers	<b>67%</b> Reliance on renewable energy
	<b>60</b> New customers acquired	<b>8</b> New suppliers added	<b>Rs. 3 mn</b> Community investment

HOW WE DELIVER AND PRESERVE VALUE

- Total economic value generated during the year declined by 46% in view of challenging operating conditions
- Payments to employees increased by 9% demonstrating continued commitment to employees.
- Value generated to Governments (in Sri Lanka and overseas) increased by 53%
- Value retained in the business amounted to Rs. 64 mn



VALUE DISTRIBUTION



## ECO SOLUTIONS

### FINANCIAL PERFORMANCE

Rs.mn	2024	2023	% y-o-y	2022
Revenue	13,846	15,221	(9)	11,131
Earnings before interest and tax	384	2,430	(84)	718
Net finance income/(cost)	(357)	134	(366)	984
Profit before tax	68	2,656	(97)	1,768
Profit after tax	(17)	2,471	(101)	1,500
Assets	19,911	18,694	7	17,515
Liabilities	8,775	7,722	15	8,131
Operating cash flow	(494)	3,555	(114)	(436)
<b>Performance against targets</b>				
	<b>Target</b>	<b>Actual</b>	<b>Reason for variance</b>	
ROE	>10%	-0.2%	Challenging exchange rate dynamics and intense price competition	
Gearing	<55%	41%	In line with target	
<b>OPERATIONAL HIGHLIGHTS</b>				
	<b>2024</b>	<b>2023</b>	<b>% y-o-y</b>	<b>2022</b>
Production volumes (MT)	6,157	4,901	26	6,291
Energy intensity (GJ/Revenue Rs.mn)	9.6	6.4	49	8.3
Water intensity (Litres/Revenue Rs.mn)	1,331	1,195	11	1,347
Carbon intensity (tCO <sub>2</sub> e/Revenue Rs.mn)	0.4	0.5	(14)	0.5
No. of employees	1,119	908	23	844
Revenue per employee (Rs.mn)	12.4	16.8	(27)	13.2
Remuneration per employee (Rs.mn)	1.3	1.5	(13)	1.0

### ESG HIGHLIGHTS



#### CLIMATE ACTION

The Sector relies primarily on renewable energy (biomass) which has enabled it to gradually reduce its carbon footprint over the years.

	2024	2023	Y-o-y	Target
Energy consumption (GJ)	132,477	97,445	+36	
Carbon footprint (tCO <sub>2</sub> e)	5,522	7,043	-22	15% reduction in carbon footprint
Reliance on renewable energy	73%	59%	+14%	

#### WATER SAVING

Improving monitoring of water and focus on efficiency improvements

**Target:** 15% reduction in water intensity

**Actual:** 11% Increase reduction in water intensity



#### SUSTAINABLE PRODUCTS

The Sector's product portfolio consists of innovative and sustainable solutions, which address several emerging environmental problems.

- Erosion control products
- Seedling pads
- Eco-friendly mats with biodegradable properties





#### EMPOWERING WOMEN ACROSS OUR SUPPLY CHAIN

The Sector has established a palmyrah processing plant in Jaffna providing employment to 12 impoverished women in the region.






## PROSPECTS AND PLANS

While demand is likely to be subdued in the near-term reflecting softening global economic conditions, long-term demand dynamics remain favourable, particularly in categories such as growing media, erosion control and horticulture. Exchange rate volatility remains the key downside risk in the near term and lack of predictability on the trajectory of the Sri Lankan Rupee has rendered the short-to-medium term outlook challenging to predict. Meanwhile intensifying pressure from regional counterparts (such as India) could pose a risk in the near term, underscoring the critical importance of Sri Lankan manufacturers driving cost efficiencies and refining business models. The Sector's risk and opportunity landscape is summarised below.

## INDUSTRY RISK AND OPPORTUNITY LANDSCAPE

### - Exchange rate volatility

The continued appreciation of the Sri Lankan Rupee in recent months presents a significant short-term risk to the Sector, with potential impacts on global competitiveness and profitability margins.

#### Response

Daily monitoring of exchange rate trends and forward booking of contracts and flexible pricing strategies with customers

### - Global geo political dynamics

Escalating geopolitical tensions and unprecedented monetary tightening is likely to dampen demand over the short-term

#### Response

Drive penetration in non-traditional markets

### - Relatively high cost of production

Upward revision of fuel prices and escalation in other manufacturing costs could impact the Sri Lanka's competitiveness in the global market

#### Response

Product and market diversification

Increase contributions from value-added products

### + Increasing demand for growing media

Population growth, increased focus on healthy diets and limited availability of land and soil infertility fuelling demand for growing media products.

#### Response

Expansion of growing media product portfolio and penetration of markets

### +/- Sustainability as a competitive edge

Environmental and social considerations are increasingly featuring in customers' purchasing decisions, presenting both opportunities and risks.

#### Response

Leveraging sustainability as a competitive advantage to access new markets and customer segments

### Sustainability related risks and opportunities (SRRO)

#### Physical climate risk

Implications of temperature rise and rainfall patterns on coconut production and availability of coconut husk

< 1 year	Implications on moisture content and quality of raw materials
1-5 years	Shortages arising from the decline in nut production and price volatility of materials which in turn will impact profit margins
>5 years	If mitigation measures are not adopted, climate change will lead to significant disruptions of the supply chain
Response	Backward integration and diversification of raw material sources

### Increasing stringency of environmental regulations

Increasing stringency of environmental regulations and prevalence towards eco-friendly products, particularly in the European region

< 1 year	Necessity to prepare for implications of upcoming EU regulations (particularly EU Green Deal)
1-5 years >5 years	Pronounced demand for sustainable products and increased compliance requirements
Response	Increased focus on embedding sustainability considerations across the business

### Employee safety

As a Sector which is considerably exposed to fire risk due to the combustible nature of the raw material, employee health and safety is a critical concern

< 1 year 1-5 years >5 years	Potential risks on employee safety could impact employee well-being, corporate reputation and ability to attract and retain employees.
Response	Implementation of health and safety systems and procedures through obtaining certifications  Upgrade of manufacturing infrastructure and technology



## ECO SOLUTIONS

Despite short-term pressures, the Sector will continue to focus on penetrating non-traditional markets, pursuing expansion in new applications and strengthening its position in the domestic market. Building supply chain security through backward integration will also remain a key priority over the short-to-medium term.

FUTURE PLANS	
Short-term	Medium-to-long term
<ul style="list-style-type: none"> <li>• Pursue growth in new product applications and market segments</li> <li>• Distributor acquisition in key markets</li> <li>• Ensure supply chain security through backward integration</li> <li>• Strategies to increase retention of shop floor employees</li> <li>• Optimise loan mix to mitigate currency and interest rate risk</li> </ul>	<ul style="list-style-type: none"> <li>• Optimise business model through gradual curtailment of loss leaders</li> <li>• Unlocking growth through the Sector's ESG strategy 'Entwine'</li> <li>• Embracing digital technology in driving better customer service</li> <li>• Enhance value-added portfolio through investments in R&amp;D</li> </ul>
<b>Short-term goals</b> ROCE>10% Gearing<50%	<b>Medium-to-long term goals</b> ROCE>12%