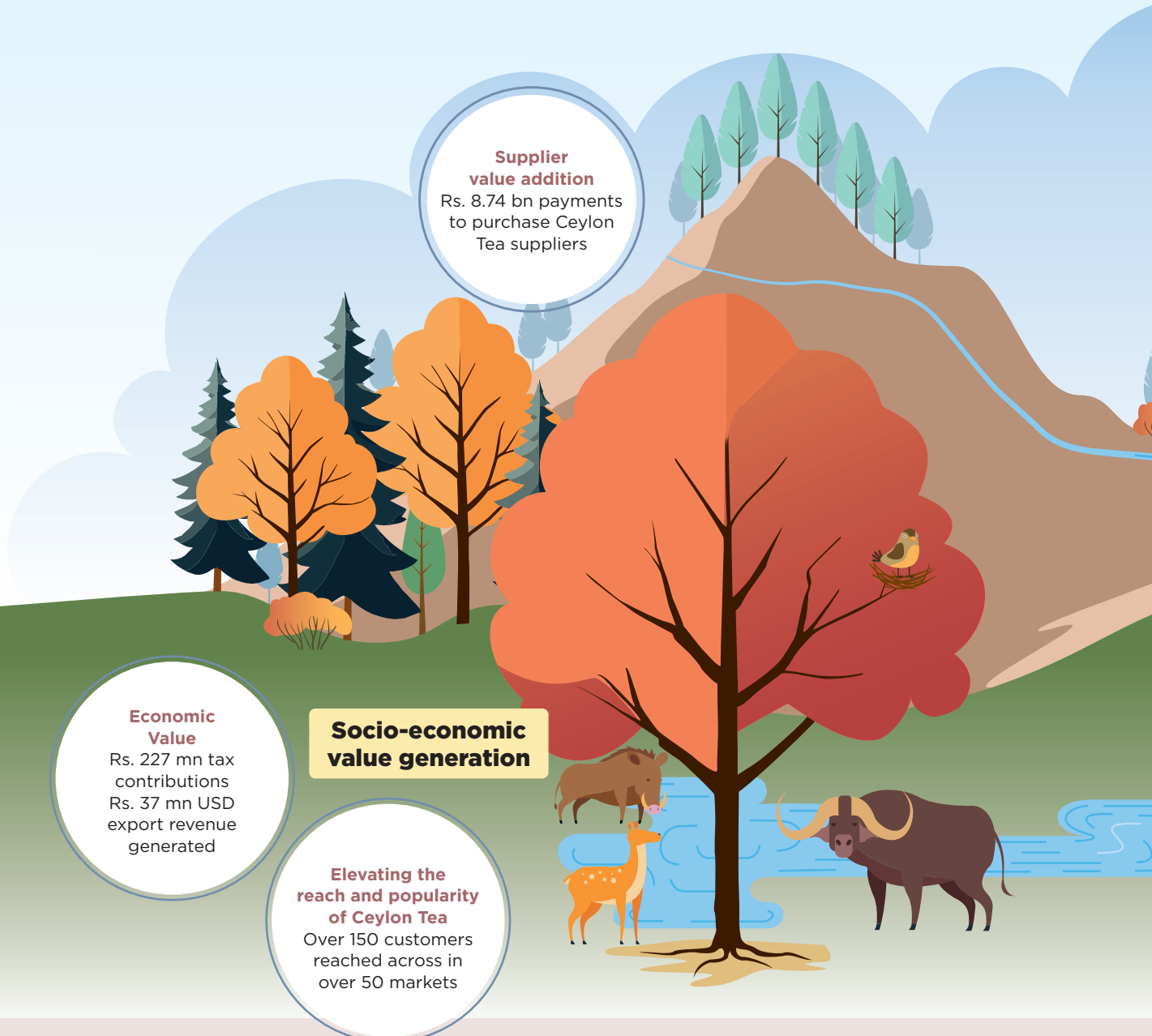




TEA EXPORTS

As one of Sri Lanka's largest value-added tea exporters, the Sector drives significant local value addition, taking Ceylon Tea to the world through extensive distribution networks and long-standing customer relationships. The Sector plays a vital role in expanding the global reach and popularity of Ceylon Tea which is critical for ensuring the longevity of the country's tea industry

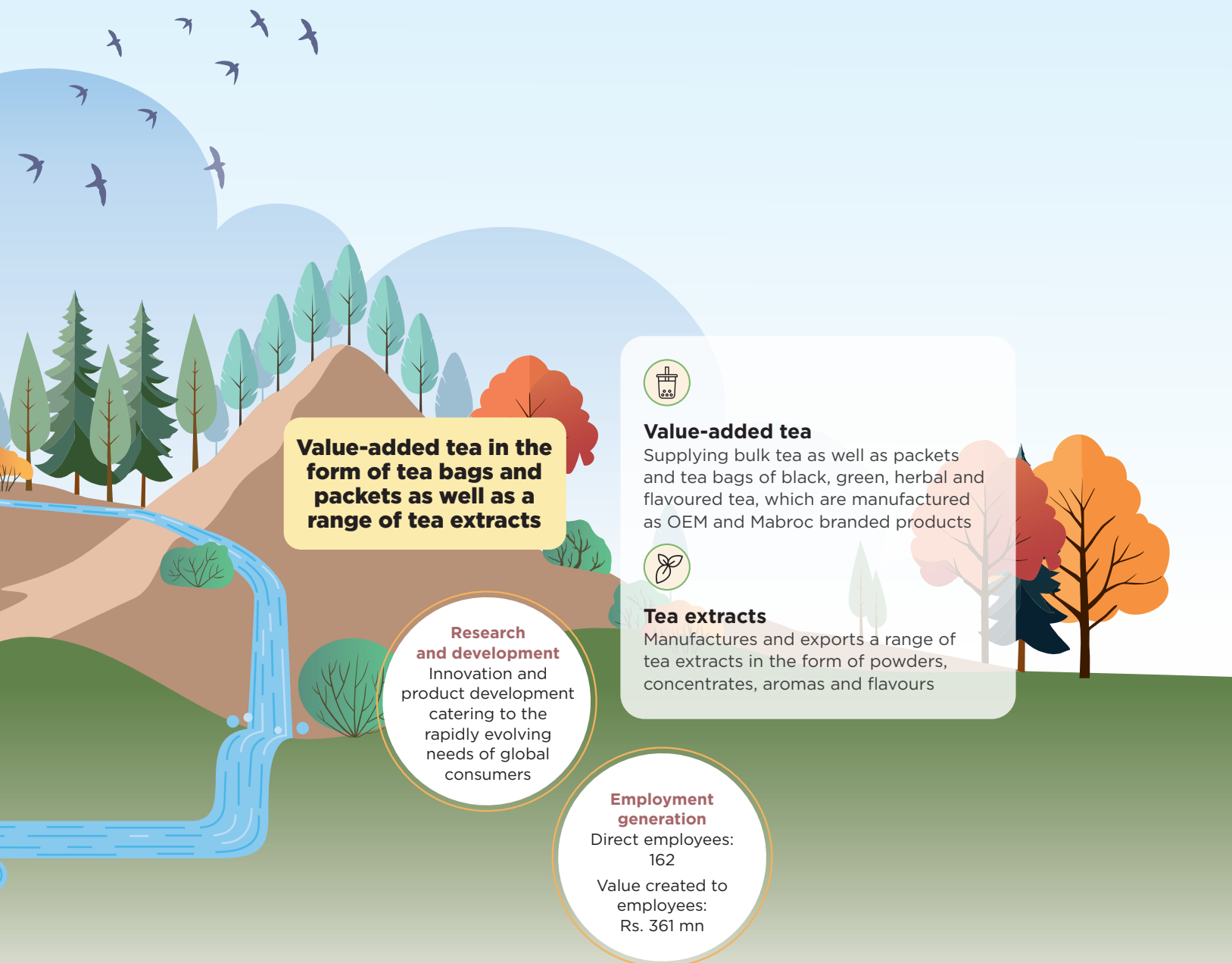
TEA EXPORTS



Rs. 1.48 bn
Economic value added



1%
Contribution to Group's value creation



Revenue
Rs. 12.2 bn
(-3%)



Profit Before Tax
Rs. 824 mn
(-41%)



Profit After Tax
Rs. 614 mn
(-49%)



Assets
Rs. 4.64 bn
(+3%)



Liabilities
Rs. 1.87 bn
(-15%)



Employees
162
(+17%)



Carbon footprint
384 tCO₂e
(+13%)

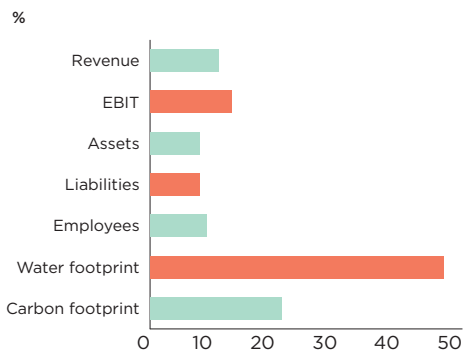
+ denotes y-o-y growth - denotes y-o-y decline

TEA EXPORTS

SECTOR OVERVIEW

The Group's Tea Exports Sector is represented by two entities; Mabroc Teas (Pvt) Ltd, one of Sri Lanka's leading value-added and bulk tea exporters and Martin Bauer Hayleys (Pvt) Ltd, an innovative manufacturer and exporter of Ceylon tea extract powders and tea aroma in the liquid and powder form. Both companies serve as export arms of the Group's plantation companies and create significant local value addition through sourcing bulk of their tea requirements from Hayleys Plantations. Martin Bauer Hayleys (Pvt) Ltd is a joint venture between Hayleys and global leader in botanicals, German-based Martin Bauer Group (MBG).

CONTRIBUTION TO GROUP



MABROC (PVT) LTD

Exporter of value -added tea

Performance 2023/24
Revenue: (0.3%) decline
PBT: (34%) decline

MARTIN BAUER HAYLEYS (PVT) LTD

Manufacturer and exporter of tea extracts

Contribution to Sector
Share of profit of associates: Rs 167.20 mn

OPERATING ENVIRONMENT

The Sector experienced a challenging year during the year, mirroring the complexities faced by the country's plantation sector. Rising cost of tea amidst relatively low production volumes, the recent surge in fertilizer costs as well as high labour costs adversely impacted profitability margins. The country's tea crops continue to be affected by the shortage of labour and low yields which have resulted in sub-optimal production volumes. Meanwhile, exchange rate dynamics also remained unfavourable to exporters during the year given the sharp appreciation of the Sri Lankan Rupee for most part of the year. On the other hand, global demand for both value-added tea and tea extracts remain healthy, reflecting consumers' increasing tilt towards products that contribute to their health and well-being.

STRATEGY AND INTEGRATED PERFORMANCE REVIEW

The Sector performed commendably in a challenging year, with Mabroc and Martin Bauer Hayleys delivering strong volume growth through new customer acquisitions and deeper penetration of existing customers. The latter also benefitted from increased local demand for 3 in 1 instant milk tea given the sharp increase in milk powder prices. Performance was however affected by unfavourable exchange rate dynamics which saw Revenue (representing Mabroc) declining by 3% to Rs. 12.20 bn. Profit contribution from Martin Bauer Hayleys (which is accounted for an equity accounted investee) also declined to 159.06% mn during the year due to the appreciation of the Sri Lankan Rupee. Overall the Sector's Profit Before Tax amounted to Rs. 823.65 mn, a decline of 41% compared to the previous year which was also buoyed by significant exchange gains.

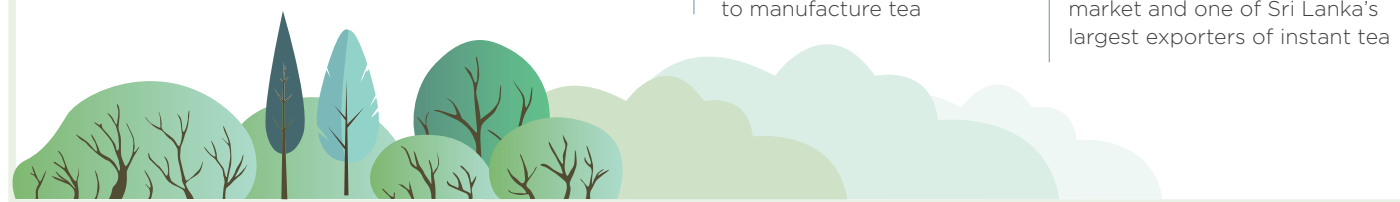
COMPETITIVE POSITION

Mabroc's OEM and branded products as well as Martin Bauer's products are sold to **leading retailers and supermarket chains in over 71 countries**. Mabroc's products are also sold in over 20,000 retail outlets in the domestic market

The Sector is committed to maintaining the highest standards of quality and product responsibility as attested by **numerous Food Safety and Quality certifications**.

In value-added tea, the Sector has capabilities to **customise and skillfully blend teas** to supply e a range of packets and tea bags of black, green, herbal and flavoured tea. Martin Bauer Hayleys is the only Sri Lankan manufacturer with capabilities to manufacture tea

Mabroc Teas is **one of Sri Lanka's largest tea exporters** and the 3rd largest exporter of bulk tea. It is also the largest exporter of tea from Sri Lanka to China and Taiwan. Martin Bauer Hayleys (Pvt) Ltd is the leading exporter of Ceylon Tea aroma to the global market and one of Sri Lanka's largest exporters of instant tea



Summary of external drivers

	Driver	Driver Significance of impact	Implications on Sector
Economic and geo-political context	Appreciation of the Sri Lankan Rupee	H	- Adverse implications on international competitiveness and profitability margins
	Global geo political tensions	M	- Volatility in demand conditions and disruptions to shipping routes
Industry context	High cost of tea production in Sri Lanka	H	- Implications on international competitiveness and attractiveness of Ceylon Tea
	Intensifying global competition	M	- Intensifying price competition and implications on market share and profitability margins
	Relatively low labour productivity in estate sector	H	- Long term implications on crop volumes and ability to serve demand conditions
Sustainability context	Global recognition of tea as a beverage with significant health benefits	M	+ Growth opportunities in new market segments
	Escalating implications of climate change	M	- Impacts of erratic weather patterns on quantity and quality of crop

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

Geographical diversification remains a key priority for Mabroc and during the year the Company strengthened its position in Poland through an investment in one of the leading FMCG distribution companies expanding its product range and volumes to drive increased penetration across the country's leading supermarket chains. In diversifying its supply chains, Mabroc also entered Kenya during the year establishing a fully-fledged tea export company in Mombasa - Kenya. This is expected to strengthen the Company's competitive edge in the medium to long-term as it leverages on multi-origin tea blends and existing relationships in Europe to access new market segments. Meanwhile, Mabroc also strengthened its position in the domestic market, through successfully marketing the Talawakelle Supiri Kahata brand in the general and modern trade in Sri Lanka.

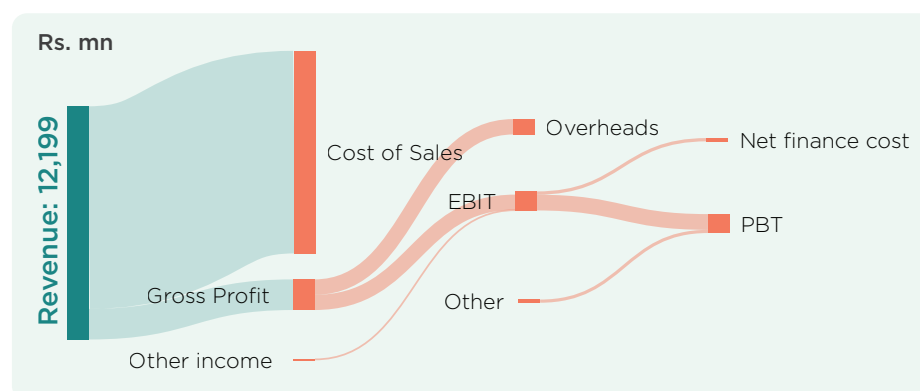
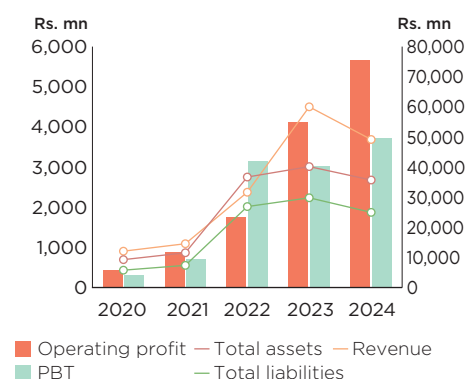
The Sector also continued to leverage its best-in-class research and development capabilities to widen its product offerings. During the year Mabroc sought to develop a range of herbal teas and is exploring opportunities of further expanding its fruit teas. Meanwhile Martin Bauer leveraged on the domain knowledge and global insights of the

Martin Bauer Group to further widen its portfolio of aroma and concentrations. Both companies also strengthened its product development and manufacturing capabilities during the year through investments in infrastructure and talent.

As part of the Hayleys Group, the Sector benefits from traceability up to field level through the procurement of tea from Hayleys Plantations which are pioneers and global leaders in industry sustainability. This partnership has enabled the Sector to strengthen its competitive edge through accessing single garden products which are

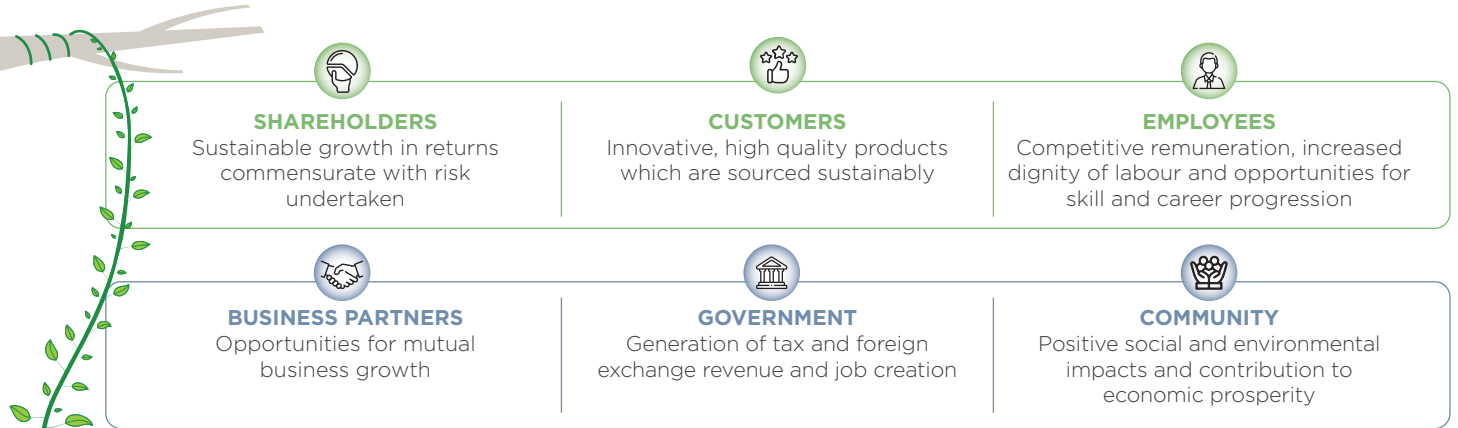
cultivated under stringent certification requirements, underpinned by strong social and environmental practices.

SECTOR FINANCIAL PERFORMANCE

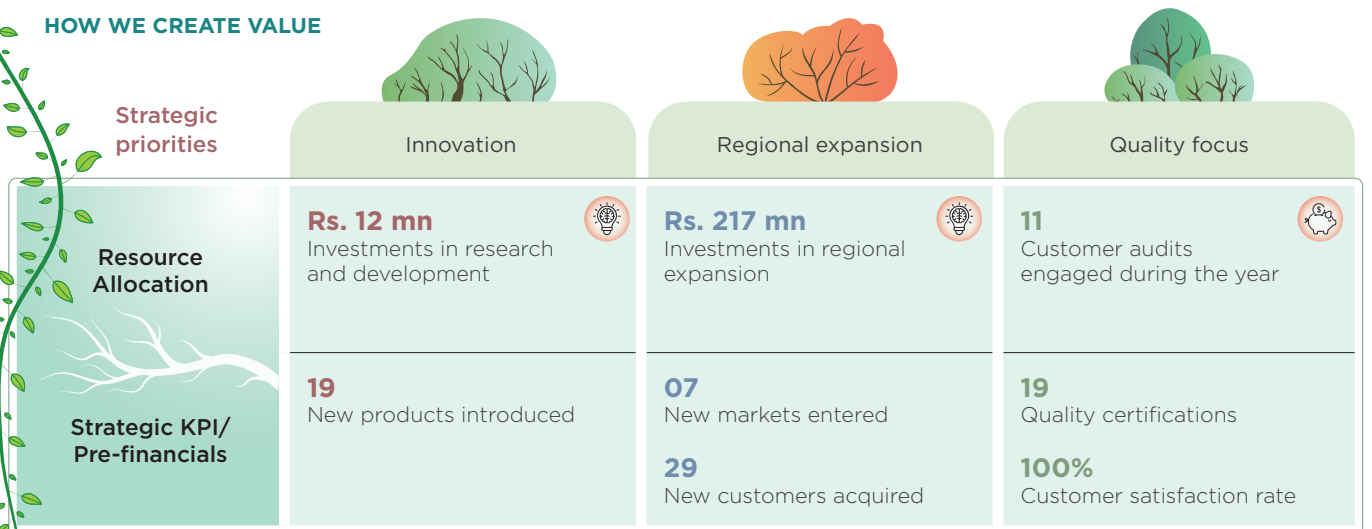


TEA EXPORTS

HOW WE DEFINE VALUE



HOW WE CREATE VALUE

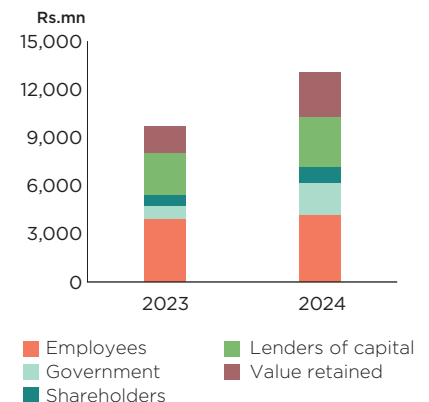


HOW WE DELIVER AND PRESERVE VALUE

- Total economic value generated during the year declined by 22% reflecting the appreciation of the Sri Lankan Rupee
- Payments to employees Increased by 23% during the year
- Value generated to Governments amounted to Rs. 227 mn and 20% of the total value created
- Payments to lenders of capital Decrease by 43%
- Value retained in the business for future investment amounted to Rs 544 mn compared to Rs.518 mn the previous year



VALUE DISTRIBUTION



FINANCIAL PERFORMANCE

Rs.mn	2024	2023	% y-o-y	2022
Revenue	12,199	12,624	(3)	7,806
Earnings Before Interest and Tax	829	1,330	(38)	1,011
Net Finance Income/(Cost)	(173)	44	(491)	(315)
Share of profit of equity accounted investees (net of tax)	167	381	(56)	47
Profit Before Tax	823	1,386	(41)	1,326
Profit After Tax	614	1,999	(49)	1,121
Assets	4,643	4,507	3	4,621
Liabilities	1,868	2,187	(15)	2,711
Operating Cash Flow	871	576	57	437
Performance against targets				
OPERATIONAL HIGHLIGHTS	2024	2023	% y-o-y	2022
Energy Intensity (GJ/Revenue Rs.mn)	0.18	0.3	(29)	0.38
Water Intensity (Litres/Revenue Rs.mn)	362	1,328	(73)	518
Emission Intensity (tCO ₂ e/Revenue Rs.mn)	0.03	0.04	25	0.07
Revenue per Employee (Rs.mn)	39.1	91.48	18	57.82
Remuneration per Employee (Rs.mn)	2.23	2.12	5	2.10

ESG HIGHLIGHTS



Climate Action

In line with the carbon neutrality aspirations of the Martin Bauer Group, the Company commissioned a 1.5 MW solar plant during the year which is expected to fulfill around 30% of the energy requirement of the manufacturing facility. This was funded through a concessionary loan facility granted by Martin Bauer Group which is driving carbon reductions across over 30 locations in its global network.

- Mabroc also established a 245kW solar panel with inverter capacity of 245 kW

	2024	2023	% Y-o-y	Target
Mabroc- Carbon footprint (tCO ₂ e)	384	442	-13	20% reduction
MBH-Carbon footprint (tCO ₂ e)	3,907	N/A	N/A	N/A



PEOPLE DEVELOPMENT

Given increased challenges in employee attraction and retention, the Sector sought to build capabilities and nurture its talent pipelines through increased investments in training and development.

	2024	2023	% y-o-y
Training hours (hours)	1,451	1,341	8.2
Investment in training (Rs.mn)	2.31	0.9	156

COMMUNITY ENGAGEMENT

Multi-faceted CSR projects under the Mabroc Tea Without Tears project including tree planting campaigns, book donations and donations towards healthcare



WASTE MANAGEMENT

Mabroc teas has also initiated a pilot project in vegetable cultivation, utilising tea and food waste generation from its operations as organic fertilizer.



TEA EXPORTS

PROSPECTS AND PLANS

While global demand dynamics for value-added tea and extracts remains favourable, the Sector's short-to-medium term outlook is somewhat clouded by the complexities in the country's plantation sector. The tea sector is at a critical juncture at which transforming remuneration models, investing in replanting and pursuing sustainable agricultural practices is critical for long-term survival. The Sector's short, medium and long-term risks and opportunities are summarised below:

INDUSTRY RISK AND OPPORTUNITY LANDSCAPE

Escalating local cost of production

Sri Lanka's cost of production continues to be higher than competing producers due to low labour productivity and declining yields, which over the medium to long-term is likely to affect the country's competitiveness in the international market

Response

Geographical diversification of raw material sourcing through international expansion

Increasing international competition

The competitiveness of Ceylon Tea in the international market is being threatened by the country's rising cost of production and dwindling volumes amid intensifying competitive pressures from other producing nations such as Kenya

Response

Product innovation to develop value-added premium offerings

Exchange rate dynamics

The Sri Lankan Rupee is expected to appreciate further before stabilising towards the end of Calendar year 2024. This will adversely impact the international competitiveness and profitability margins of Sri Lankan tea exporters

Response

International expansion to limit exposure to a single currency

Rise of the health-conscious consumer

Consumers are increasingly tilting towards products that contribute to their well-being, given increasing focus

on healthy lifestyles. As a healthy beverage, tea is aptly positioned to benefit from these evolving customer requirements

Response

Strengthen promotions and market activations

Sustainability related risks and opportunities (SRRO)

Declining land productivity in tea sector

Limited investments in replanting and infilling have led to long-term decline in productivity of Sri Lanka's tea lands, resulting in relatively lower yields

< 1 year	Limited impact in short-term
1-5 years	Further declines in yields and resultant escalation in cost of production is likely to affect Sri Lanka's international competitiveness in the global market
>5 years	Commercial viability of Sri Lanka's tea industry could be threatened significantly impacting growth and profitability of exporters
Response	Regional expansion and geographical diversification of supply chain

Physical climate-related risks of increasingly erratic weather patterns

Escalating implications of climate change have led to significant volatility in rainfall and precipitation levels as well as considerable fluctuations in temperature levels

< 1 year	Volatility in production levels and variations in quality
1-5 years	More pronounced impacts of volatile weather patterns, which will impact leaf quality, yields and prices
>5 years	If climate adaptation measures are not adopted, Sri Lanka's tea industry could suffer significant challenges
Response	Geographical diversification of supply chains

Evolving requirements of buyers

Global customers are increasingly demanding responsible social and environmental practices along the entire value chain

< 1 year	Limited impact in the short-term
1-5 years	European customers are expected to strengthen due diligence along the value chain, given emerging regulations.
>5 years	global implementation of regulations driving ethical sourcing and traceability across value chains
Response	Ensure full supply chain transparency and traceability through partnership with Hayleys Plantation companies



ESG IN ACTION

The Sector is currently in the process of strengthening its ESG integration with Mabroc aligning to the aspirations of the Hayleys Lifecode while Martin Bauer Hayleys is guided by the sustainability aspirations of the Martin Bauer Group. The former is a Member of the United Nations Global Compact, partnering with KVPL to produce the world's 1st UNGC signatory tea brand and commit to the 10 principles. Meanwhile Martin Bauer Hayleys is aligned to the Martin Bauer Group's aspirations to achieve carbon neutrality by 2030, focusing on reducing its reliance on fossil fuel-based energy sources to achieve emission reductions. During the year Martin Bauer Hayleys also commenced tracking and reporting all material social and environmental performance indicators to the Hayleys CUBE- the Group's sustainability information portal.

In navigating these challenges, the Sector will focus on innovation to sharpen its competitive edge while accessing new markets and securing its supply chains through geographical diversification. Key priorities in the short, medium and long-term are as follows:

FUTURE PLANS	
Short-term	Medium-to-long term
<ul style="list-style-type: none"> • Increase market share in existing markets • Enhance production capacity through investments in manufacturing infrastructure • Development of Sector Sustainability/ESG roadmap • Upskilling human capital with focus on technical, R&D and leadership capabilities 	<ul style="list-style-type: none"> • Drive increased penetration in key markets such as China, Japan and Taiwan • Penetrate new markets and regions • Operating efficiencies through automation • Ongoing innovation and product development to cater to emerging customer requirements • Strengthen position in local market through expanding presence in retail outlets
<p>Short-term goals Gross profit margin>12% ROE>20%</p>	<p>Medium-to-long term goals ROCE> 20% ROE>20%</p>