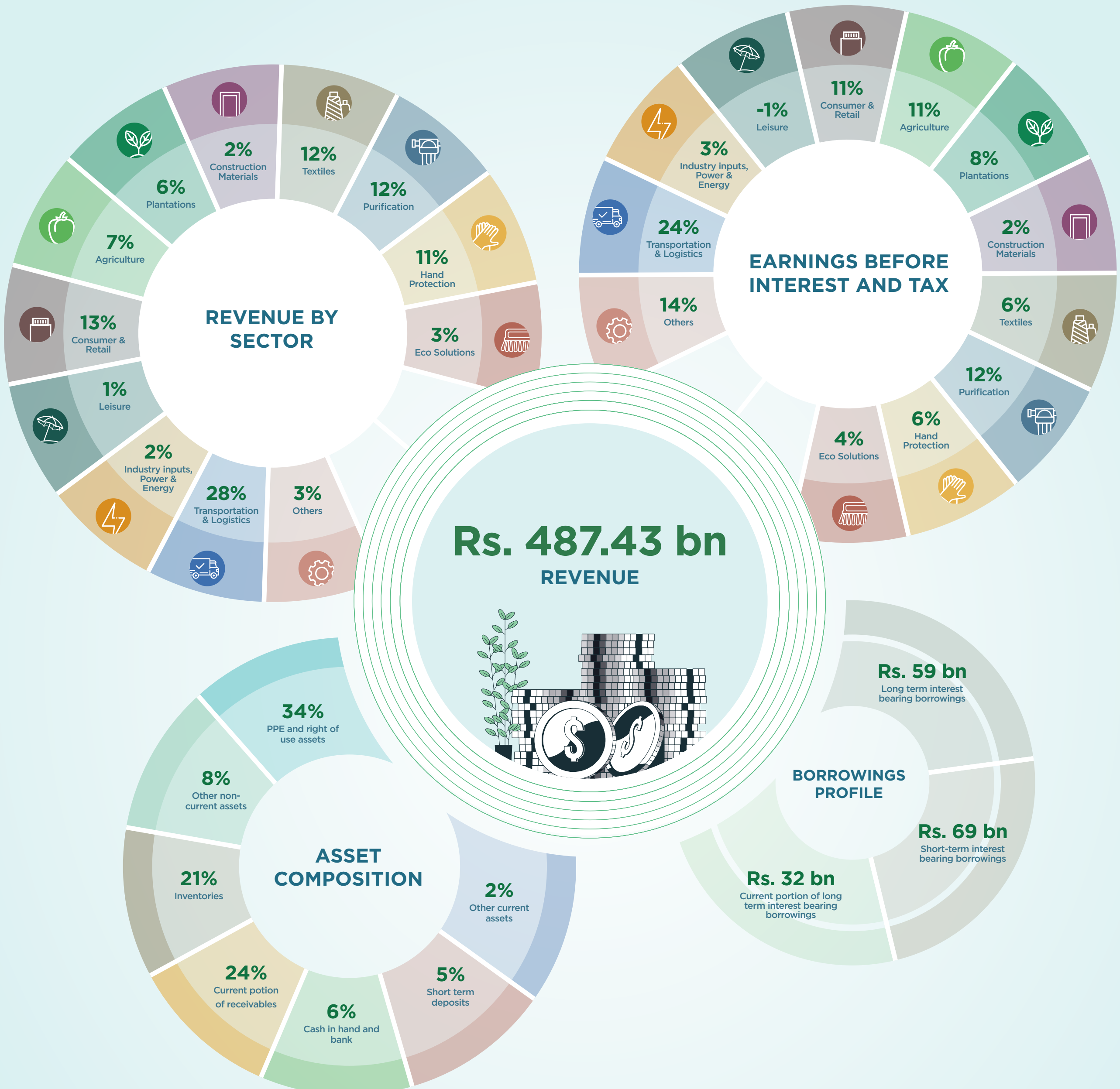
FINANCIAL CAPITAL

The Group's Financial capital is the pool of funds available to drive our strategic aspirations and includes equity funding, debt and retained earnings.



ROLE OF FINANCIAL CAPITAL IN VALUE CREATION

- Funding to pursue growth opportunities and business expansion
- Drive resource optimisation to improve organisational effectiveness
- Preserve liquidity to meet stakeholder and other payment commitments
- Deliver shareholder expectations

HOW WE MEASURE SUCCESS

44%
Revenue growth

13%
EBIT margin

9%
PBT margin

7%
Decline in borrowings

1.30x
Debt to Equity ratio (2021/22: 1.63X)

Rs.5.35
Dividend per share

HIGHLIGHTS 2022/23

- Achieved record Revenue and Profit Before Tax
- Strong core performance driven by export-oriented businesses
- Preservation of profitability margins despite escalating costs
- Improved financial stability with a reduction in the Group's gearing ratio

REVENUE

The Group demonstrated strong strategic foresight and ability to deliver a Revenue growth of 44% to Rs.487.43 bn during the year under review, marking the highest revenue in its illustrious history of 145 years. Top line growth during the year reflects continued expansion of the Group's export-oriented businesses, which countered the subdued performance of the Group's domestic businesses. Key contributors to Revenue growth were Transportation & Logistics (+94%), Textiles (+90%), Purification (+84%), Plantations (+65%) and Hand Protection (+36%). The Group's Revenue composition shifted during the year, reflecting challenging conditions in the domestic market accordingly, the Transportation & Logistics Sector emerged as the largest contributor to Consolidated Revenue with a share of 28%, while the Consumer & Retail Sector which had previously led the Group's Revenue composition accounted for 13% of Revenue. As detailed further in the Portfolio Review on pages 121 to 234 of this report, the Group's strong Revenue growth amidst the extraordinary challenges that prevailed demonstrates the resilience of the Group's diverse earnings profile. Geographical composition of Revenue also tilted during the year, with export income accounting for a larger share of 62% of Consolidated Revenue, compared to 52% the previous year.

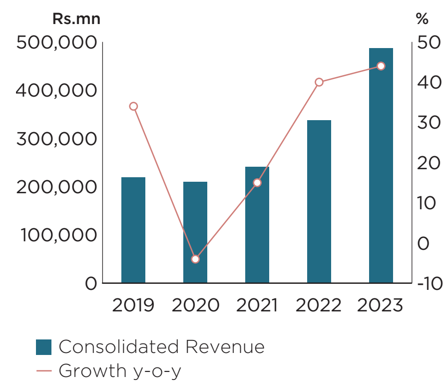
Highlights 2022/23

Highest Revenue
in operating history

11 out of 12
Sectors recorded Revenue growth

USD 651 mn
export revenue generated

REVENUE TRENDS



PRESERVING PROFITABILITY MARGINS

Gross Profit

Consolidated Gross Profit increased by 54% to Rs.119.23 bn during the year, with the Gross Profit margin widening from 23% to 24%. The Group's ability to preserve margins in an environment of soaring inflation, supply chain disruptions and high freight rates represents its strategic focus on increasing contributions from value-added products across several key business lines. Gross profitability was also supported by the depreciation of the Sri Lankan Rupee against the US

Sector	Revenue Growth YoY (%)	Contribution to total Group Revenue(%)
Eco Solutions	+37	3
Hand Protection	+36	11
Purification	+84	12
Textiles	+90	12
Construction Materials	+6	2
Plantations	+65	6
Agriculture	+37	7
Consumer & Retail	-24	13
Leisure	+96	1
Industry inputs, Power & Energy	+24	2
Transportation & Logistics	+94	28
Others	+46	3

FINANCIAL CAPITAL

Dollar during the year, which upheld the profitability of the Group's export-oriented businesses.

Operating Cost Management

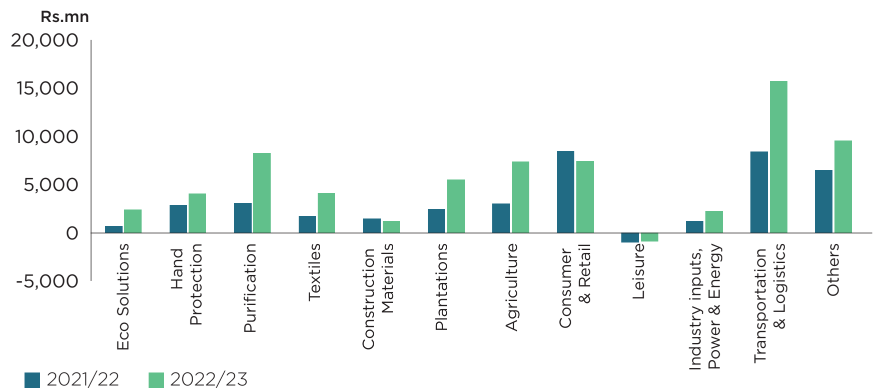
The Group's overhead expenses increased by 35% during the year, reflecting the escalation in inflationary pressures, market adjustments to remuneration to support financial security of our employees and added expenses in ensuring their safety and well-being. Accordingly, Administrative Expenses surged by 45% to Rs.47.50 bn with staff-related costs increasing by 19% during the period. Distribution expenses increased by 10% during the year. Increasing productivity and driving process efficiencies through holistic programmes such as Total Productivity Maintenance, Six Sigma and Lean has been a key priority for several sectors in recent years, which enabled the Group to preserve margins to a certain extent. Meanwhile increased focus on digitalisation across the organisation have also driven cost efficiencies through automating processes.

Operating Profitability

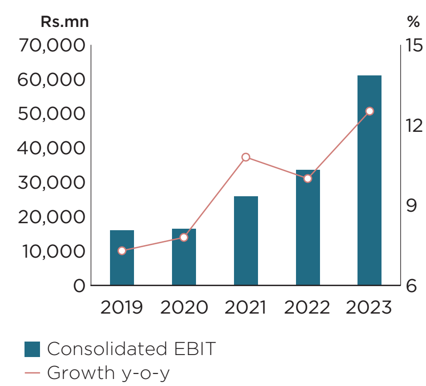
The Group's Operating Profit/Earnings before Interest and Tax (EBIT) surged by 82% to reach a record high of Rs.61.07 bn during the year. In our export-oriented businesses, the inevitable pressure on margins was offset by strong volume growth and strategic focus on high-value adding products, supported by the depreciation of the Sri Lankan Rupee. Resultantly, all export-oriented sectors recorded improvements in core profitability, led by Purification (+169%), Textiles (+135%), Plantations (+125%) and Transportation & Logistics (+87%) and Eco Solutions (+238%). Understandably, the Consumer & Retail and Leisure Sectors recorded declines in EBIT of 12% during the year, reflecting the extremely challenging operating conditions that prevailed. Overall, the Group's Consolidated EBIT margin widened from 10% the previous year to 13% during the year under review.

Sector	EBIT Growth YoY (%)	Contribution to total Group EBIT(%)
Eco Solutions	+238	4
Hand Protection	+41	6
Purification	+169	12
Textiles	+135	6
Construction Materials	-18	2
Plantations	+125	8
Agriculture	+145	11
Consumer & Retail	-12	11
Leisure	-12	(1)
Industry inputs, Power & Energy	+87	3
Transportation & Logistics	+87	23
Others	+47	14

SECTOR-WISE EBIT



TRENDS IN EBIT



Net Finance Cost

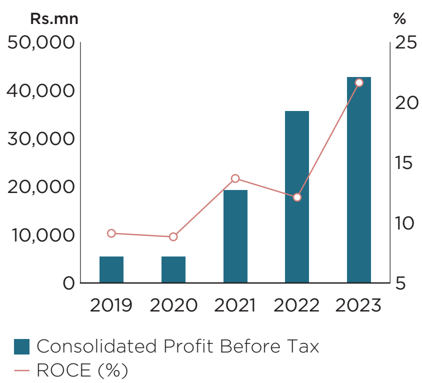
The Group's Net Finance Cost amounted to Rs.18.82 bn during the year, compared to a Net Finance Income of Rs.1.95 bn last year, which was buoyed by foreign exchange gains resulting from the depreciation of the Rupee in March 2022. Finance Income increased by 23% to Rs.20.72 bn during the reviewed period stemming primarily from interest income on investments. Meanwhile, the Group's Finance Cost more than doubled to Rs.39.54 bn against the back of the high interest rate scenario that prevailed during the reviewed period. Despite a 7% decline in total borrowings, the Group's Finance Costs on both Long-term and Short-term Borrowings increased over 3-fold. The increase in the Finance Cost was also driven by foreign exchange losses of Rs.10.91 bn stemming primarily from the appreciation of the Sri Lankan Rupee in the latter part of the financial year.

Profit Before Tax

The sharp increase in Net Finance Cost was countered by the Group's strong core performance, which resulted in Consolidated Profit

Before Tax increasing by 20% to Rs.42.75 bn during the year. The Profit Before Tax for the year, yet again represents the highest in the Group's operating history, bettering the record profitability achieved in the previous year. Transportation & Logistics retained its position as the largest contributor to Group Profit Before Tax with a share of 30%, followed by Purification (share of 17%), Plantations (share of 13%) and Hand Protection (share of 11%). It is noteworthy that 8 out of 12 sectors recorded an improvement at PBT level, despite the multitude of challenges that prevailed during the year.

TRENDS IN PBT



Tax

The Group's Tax expense increased by 98% to Rs.15.08 bn during the year reflecting the sharp increase in tax rates. With the increase in tax rates during the year, Sri Lankan resident companies (excluding those which enjoy a tax holiday or concessionary tax rate) were liable to income tax at the rate of 24% in the first six months of the year, followed by 30% the next year. Resultantly, the Group's effective tax rate increased from 21% to 36% during the year.

Profit After Tax

The sharp increase in the Group's tax expense filtered down to overall profitability, with the Group's Profit After Tax recording a decline of 2% to Rs.27.67 bn during the year. Meanwhile, at Company level Hayleys PLC recorded a Profit After Tax of Rs.1.90 bn compared to Rs.3.64 bn reported last year. Despite healthy dividend upstreaming of Rs.5.90 bn during the year (an increase of 15%), the Company's profits were moderated by the sharp increase in borrowing costs during the year.

Other Comprehensive Income

The Group's Other Comprehensive Income declined to Rs.2.09 bn (from Rs.8.76 bn) the previous year, mainly due to the normalisation of net exchange differences on translation of foreign operations and previous years revaluation surplus of PPE. As a result, the Group's Total Comprehensive Income amounted to Rs.29.76 bn, a decline of 19% compared to the previous year.

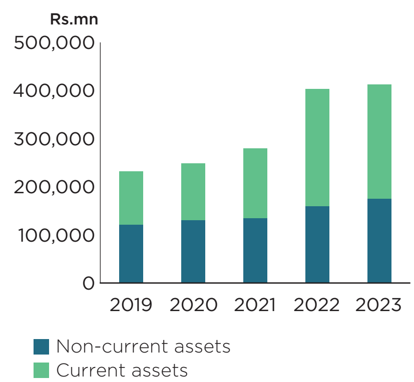
FINANCIAL STABILITY

Total Assets

Despite the challenging operating landscape that prevailed, the Group continued to invest in strengthening its earnings generation capacity, with ongoing capacity expansion across several Sectors. Resultantly, Consolidated Assets grew by 2% to Rs.412.74 bn, with Property, Plant and Equipment growing by 14% during the year. The asset composition shifted more towards non-current assets, which accounted for an increased 42% of Total Assets, compared to 40% the previous year. Inventories increased by 6% during the year, due to increased operational activity and stock building in several key sectors. Meanwhile Trade and Other Receivables declined by 10%, reflecting proactive efforts across Sectors to strengthen collections and shore up liquidity.

Key contributors to asset growth were Plantations (+57%) and Textiles (+9%); the expansion in the Plantations Sector represents the consolidation of the assets of Horana Plantations PLC by which was acquired by Hayleys subsidiary Hayleys Plantation Services (Private) during the year.

ASSET COMPOSITION



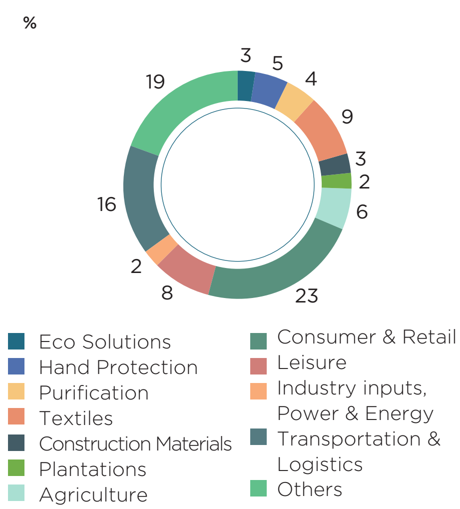
	Asset Growth YoY (%)	Contribution to total Group Assets(%)
Eco Solutions	+7	4
Hand Protection	-1	7
Purification	+1	8
Textiles	+9	9
Construction Materials	-13	2
Plantations	+57	6
Agriculture	+2	6
Consumer & Retail	-11	17
Leisure	+4	4
Industry inputs, Power & Energy	+4	3
Transportation & Logistics	+3	15
Others	+5	19

FINANCIAL CAPITAL

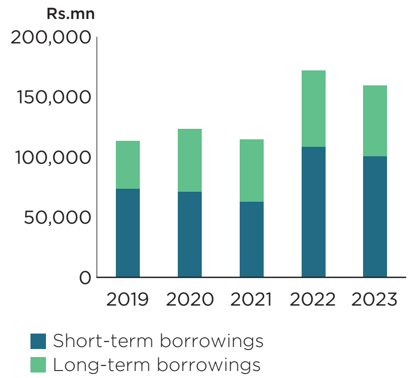
Capital and Funding

Healthy profit retention, coupled with the Group's cautious approach to debt-funded acquisitions in recent years strengthened its capital position and funding profit. Total Equity increased by 17% to Rs.122.71 bn during the year, funding 30% of Total Assets. Meanwhile, the Group's borrowings decreased by 7% to Rs.159.70 bn reflecting proactive efforts to pare down debt in a rising interest rate environment and a cautious approach towards debt-funded investments. Borrowings funded 39% of the Group's Assets during the year, with Consumer & Retail, Others and Transportation & Logistics collectively accounting for 58% of borrowings. Several key sectors including Hand Protection, Purification and Transportation & Logistics proactively sought to reduce exposure to borrowings, resulting in lower debt compared to the previous year. The debt profile remained relatively unchanged compared to the previous year, with Short-term Borrowings accounting for 63% of total debt during the year. Overall, the Group's Debt/Equity ratio improved to 1.30X from 1.63X the previous year.

BORROWINGS BY SECTOR



DEBT PROFILE



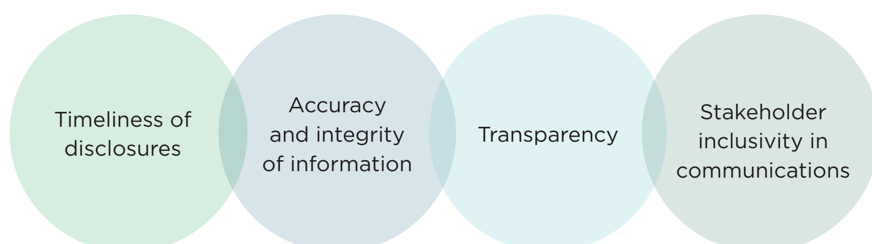
Cashflow and Liquidity

The Group's cashflow position improved during the year, supported by improvements in operational activity. Accordingly, Net Cash Inflow from Operating Activities increased to Rs. 56.79 bn, from Rs. 9.54 bn the previous year while Net Cash Outflow from Investing Activities amounted to Rs.12.06 bn due to capital investments in key sectors. Meanwhile, Net Cash Outflow from Financing Activities amounted to Rs.36.25 bn reflecting to repayment of interest-bearing borrowings and interest payments. Overall, the Group's Cash and Cash Equivalents recorded an inflow of Rs.8.48 bn, compared to an outflow of Rs.16.0 bn the previous year.

INVESTOR RELATIONS

Hayleys PLC is committed to maintaining transparent, constructive and ongoing dialogue with its shareholders, facilitated through multiple engagement platforms including the Annual General Meeting, the publication of the Annual Report, quarterly reporting to the CSE as well as periodic press releases and announcements. Through our engagement we seek to provide meaningful and relevant information to facilitate informed decision making.

Principles of our Investor Relations



Information we share with our shareholders through this Annual Report

- The operating environment during the year (pg. 90)
- Implications of the macro-economic environment (pg. 90)
- Financial performance and Sector-level performance(pg. 121)
- Corporate Governance and risk management practices (pg. 56)
- Our Environmental, Social and Governance (ESG) framework (pg. 117)

Performance of the Colombo Stock Exchange

Share market performance weakened considerably in 2022, with price indices, market capitalisation and daily turnover declining against the backdrop of the country's macro-economic vulnerabilities. Significant volatility was also observed in price indices, with index-based circuit breakers activated on multiple occasions. The All Share Price Index fell sharply by 31% during the year while the S&P SL 20 also fell by 38% during the year. Market capitalisation also fell by 30%, to end 2022 at Rs.3,847.2 bn. Market sentiments however recovered slightly in ensuing months, with the ASPI improving by 10% during the last quarter of 2022/23 financial year.

Securities in Issue:

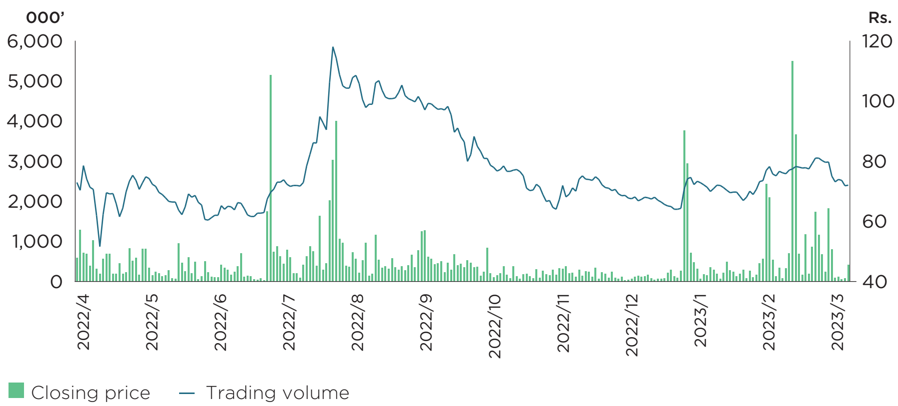
- Ordinary Shares
- Debentures
  - Listed, rated, senior, unsecured, redeemable debentures redeemable in July 2023

This section of the Report provides information on Hayleys PLC's ordinary shares; please refer to page X for information on the debentures.

Performance of the Hayleys Share

The Hayleys share mirrored the performance of the broader market, recording significant volatility during the year under review. The share price traded between a low of Rs.50.00 and a high of Rs.125.00, closing the year at Rs.72.00 a decline of 6% compared to the beginning of the year. The average share volume traded amounted to 510,422 shares while the Daily Average Turnover stood at Rs. 41.57 mn during the financial year.

HAYLEYS SHARE PERFORMANCE



SHAREHOLDER RETURNS

The Group continued to deliver on its shareholder commitments, supported by robust performance and healthy dividend payout. Shareholder returns as measured by Earnings per share declined from Rs.24.34 to Rs.21.80 during the year, as the increase in tax impacted profitability. Meanwhile, Net Asset Value per share increased by 17% to Rs.105.24, depicting the growing value of the Group's non-monetised capital including innovation capabilities, deep rooted relationships with suppliers and communities, strong brand equity as well as our ability to attract the country's top talent.

Shareholders ratios

		2023	2022	2021
Earnings per share (basic)	Rs.	**21.80**	24.34	10.18
Return on equity (ROE)	%	**20.72**	27.09	16.04
Net assets per share	Rs.	**105.24**	89.85	63.49
Market capitalisation	Rs. mn	**54,000**	57,675	45,600
Market value per share	Rs.	**72.00**	76.90	60.80