

# CHAIRMAN'S & MANAGING DIRECTOR'S JOINT MESSAGE

GRI 2-22

Dear Stakeholder,

Haycarb PLC delivered a resilient performance with pre-tax earnings of Rs.6.1 Bn and post-tax earnings of Rs.4.3 Bn, navigating a year of volatility and uncertainty across markets and operating environments. Haycarb maintained its position as a global leader in coconut-shell based activated carbon, with an estimated market share of 16%.

Sustainability is ingrained in our business DNA. The launch of our ESG Roadmap "Activate" resonated positively with our stakeholders, who partner with us in our quest for collective growth thriving together for a better tomorrow. We envision tomorrow's purification and energy storage needs, and empower our employees to provide solutions that enrich our stakeholders while upholding our values of customer centricity, technical excellence, and innovation within a sustainable mindset.

## SUSTAINABLE INNOVATION

Innovation has been fundamental to Haycarb's success. Our expertise and resources enable us to innovate, scale-up, and commercialize a future-ready product portfolio from water and air purification to energy storage applications. Our strong innovation pipeline increases value-added products, enhancing our relevance and profile in strategic alliances for developing future carbon technologies. We also strive to improve our manufacturing and supply chain processes, adopting greener technologies across the organisation.

Our R&D teams are deeply committed to embedding principles of sustainability to our innovation and have made significant strides in enhancing the performance and applications of our activated carbon products. We have developed new formulations that improve the efficiency of water and air purification systems, addressing the increasing demand for cleaner and safer environments. Moreover, our energy storage solutions, including high-performance carbon materials for super-capacitors and advanced batteries, position us at the forefront of the world's transition to a low-carbon economy.



Mohan Pandithage  
Chairman



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Video version of  
Chairman's and Managing  
Director's Joint Message



### Relevance of our products to sustainability issues

Haycarb's portfolio of diverse array of activated carbons and purification solutions addresses a number of sustainability related risks included in the SASB standard.

#### Environment

- Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management

#### Social

- Product Quality & Safety

#### Human Capital

- Employee Health & Safety

#### Business Model & Innovation

- Product design & Life-cycle Management

In addition to product innovation, we are embracing automation and digital transformation to enhance process efficiencies, reduce waste, and access accurate, real-time data which is essential for insightful decision making. By leveraging Industry 4.0 principles, we are creating smarter and agile manufacturing facilities that can adapt to changing market demands and regulatory requirements.

#### STRENGTHENING SUPPLY CHAINS

Our value chain begins with micro-entrepreneurs who collect coconut shells for manufacturing coconut shell charcoal. Over the years, Haycarb has promoted environmentally friendly charcoaling systems in Sri Lanka and overseas. Our "Green Charcoaling" (Haritha Angara) initiative provides proprietary technology, soft loans, and training to micro-entrepreneurs to convert



Rajitha Kariyawan  
Managing Director



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## VALUE DELIVERED 2023/24

### New Products

- Premium water purification carbon for Perfluorooctanoic Acid (PFOA) removal.
- Improved EDLC carbon with higher volumetric capacitance
- Hard Carbon Series for Sodium Ion Batteries
- New products for water filters and carbon blocks
- High active specialized carbons development for respirator and car cabin filter applications

### New Markets

- Middle East
- West Africa
- South America

### Value to Stakeholders

- Value delivered to employees Rs.5.4 Bn
- Value delivered to shell and charcoal suppliers Rs.12.8 Bn
- Value to Governments  
Sri Lanka Rs 1.2 Bn  
Others Rs. 1.6 Bn
- Value to investors  
ROE 16.8%  
Dividends per share – Rs.6  
Share price increase 35.9%

to low-emission charcoaling systems, whilst maximizing production yield. This programme aims to go beyond creating livelihoods to enriching lives and driving socio-economic empowerment. It is with immense satisfaction that we observe the socioeconomic progress of those who have partnered with Haycarb in this initiative.

Our centralized charcoaling plant Recogen uses patented technology to produce charcoal while generating electricity

in a carbon-neutral cycle. In Thailand, we introduced environmentally friendly vertical charcoaling suited to the operating conditions in the region. We leveraged our domain expertise in green charcoaling to promote the Haritha Angara technology in Indonesia, thereby propagating good environmental and social practices. These initiatives launched over the last decade and beyond ensure that sustainable sourcing is embedded to the raw material procurement system of Haycarb.

Plans to expand our footprint to the Philippines will further strengthen our raw material supply chain and manufacturing capabilities. Our value chain extends through our customers to various purification and energy storage applications and products, some of which find their way back to our homes and offices.

To further bolster our supply chain resilience, we are actively exploring partnerships with local communities and organizations to secure a steady supply of raw materials. These collaborations not only ensure the sustainability of our operations but also contribute to the economic development of the regions where we operate. By fostering long-term relationships with our suppliers, we aim to create a stable and reliable supply chain that can withstand market fluctuations and geopolitical challenges.

### ACTIVATE

Haycarb formalised its commitment to sustainable business, with the launch of its comprehensive ESG Roadmap "Activate" during the year, setting out 13 priorities classified into five strategies: Restore, Inspire, Excite, Uplift, and Innovate. These strategies are anchored to our "Conscious Core," emphasizing mindful governance, which forms the bedrock of our sustainability journey.

Sustainability related opportunities are part of the Innovate pillar, underscoring our unique business model. Our innovation efforts will be aligned with our strategic objectives, sustainability goals, and market trends, shaping our top line. The other four pillars seek to ensure that our own

processes are sustainable and minimize negative impacts.

As a participant in the United Nations Global Compact, Haycarb PLC is committed to its Ten Principles. Progress against the Group's environmental, social, and governance targets are detailed on pages 90 to 95 of this report.

### GOLDEN JUBILEE

Haycarb celebrated its 50th Anniversary during the year, marking a historic milestone in our legacy. The celebration focused on giving back to the communities in which we operate, appreciating our employees and valued partners, and celebrating our cultural heritage.

We take immense pride in our contributions to society, particularly in Sri Lanka, where Haycarb's pioneering efforts began in 1973 and where our headquarters and largest operations remain. In a period when the country was recovering from an economic downturn, our CSR activities concentrated on impactful programs of providing over 800 mid-day meals daily to school children of families below the poverty line, upgrading medical units and providing other support to selected government hospitals, donating much-needed laptops to state university students in need, continuing our flagship drinking water projects and school books donations (Sath Diyawara and Going Beyond), coconut tree planting program in the Northern and Eastern provinces, and the Turtle Hatchery program at the Kumana National Park.

Over 300 members of Haycarb's global executive team came together for a memorable night, to celebrate the golden jubilee, which will be cherished for a lifetime. Celebrations to mark this milestone were also held at all our manufacturing locations.

We are incredibly proud of this critical milestone for Haycarb, and we feel fortunate to celebrate it during our tenure. We recognize and appreciate the contributions of all past and present stakeholders who have made Haycarb what it is today.

## UNCERTAINTY

The activated carbon industry is expected to grow with estimates varying between 4% to 9% CAGR to 2030. However, slower economic growth in the USA and Europe negatively impacted us, while economic expansion in emerging markets remained strong at 4.3% in 2023. The unique adsorption capability of coconut shell activated carbon coupled with a much greener carbon footprint to its alternatives, continues to drive demand across industries and countries.

Raw material prices remained favourable but increased towards the year's end in Indonesia and Sri Lanka. Freight rates normalized and supply chain disruptions reduced gradually. We closely monitor geopolitical risks to ensure supply assurance to our customers and with our seven manufacturing locations in three coconut growing countries in Sri Lanka, Indonesia and Thailand and our raw material procurement structure further extending to India and Philippines, Haycarb has diversified its risks to the optimum levels.

Competition intensified from manufacturers in India and the Philippines, exerting pressure on carbon prices. With the efficient procurement and strategic inventory builds in all our operating locations, we were able to pass on price reductions to our loyal customers to safeguard our competitiveness in the markets we operate.

Interest rates in Sri Lanka continued its declining trend in 2023/24, while US interest rates remains high due to the contractionary monetary policy stance of the Fed. This combined with reduction in working capital requirements and improved liquidity in the banking system in Sri Lanka, eased pressure on finance cost. The Sri Lankan rupee appreciated by 8.0% against the US Dollar which negatively affected Sri Lanka operations engaged in the export of a local value-added product, as cost of inputs did not adjust in tandem with this currency movement. To navigate these uncertainties, we have implemented a robust risk management framework that enables us to

anticipate and mitigate potential challenges. This includes continuous monitoring of macroeconomic indicators, geopolitical developments, and industry trends. Our proactive approach to risk management ensures that we remain agile and responsive to changing market conditions, safeguarding our long-term sustainability and profitability.

## DELIVERING VALUE TO INVESTORS

Haycarb Group recorded revenue of Rs. 43.2 Bn, a decrease of 29% over the previous year mainly due to normalization of freight rates and the appreciation of the Sri Lankan rupee. Despite lower growth in the USA and Europe and intense competition, sales volumes were maintained through strategic business development initiatives. Gross profit declined by 11% to Rs. 13.2 Bn, although margins improved due to stable raw material prices, well managed cost base, lean initiatives, decreased freight rates for imports and reduction of low margin non-core business segments.

The fixed nature of general overhead expenses which increased 2%, and the decrease in gross profit resulted in an operating profit of Rs. 6.5 Bn, a decrease of 21% over the previous year. Net exchange impact was a negative 124% year on year, while interest costs declined significantly due to lower working capital needs, prudent loan portfolio management and the decline interest rates. Consequently, net finance costs increased while net interest cost decreased by 88%. The Group recorded a Profit Before Tax of Rs. 6.1 Bn, a decrease of 26% over 2022/23.

The effective tax rate increased from 21% to 30%. Consequently, profit after tax was Rs. 4.3 Bn, a decrease of 34% compared to 2022/23.

Taking into consideration the performance for the year and future prospects, the Company paid dividends of Rs. 6.00 per share during the year.

Our financial performance reflects our ability to adapt to challenging conditions while maintaining operational efficiency. We have focused on optimizing our cost

structure, enhancing productivity, and diversifying our revenue streams. These efforts have enabled us to deliver value to our investors, even in a difficult economic environment.

## POISED FOR GROWTH

Haycarb focused on managing cashflows and improving financial ratios, with net assets per share increasing from Rs. 74.52 to Rs. 77.07. Cash and cash equivalents were positive at Rs. 2.8 Bn, reflecting prudent financial management and headroom for growth. Investments of Rs. 2.1 Bn in manufactured capital strengthened our infrastructure.

The strength of Haycarb's balance sheet gives the Company the resilience and the strength to launch futuristic investments to expand our manufacturing capacity and enhance value-adding capabilities within our ESG Roadmap "Activate." A significant part of future growth will be driven by energy storage carbons, including EDLC carbon products and other energy storage carbons for battery applications. We are developing a hard carbon series for sodium-ion batteries and a superior water purification carbon series for PFOA removal whilst continually improving on our flagship Chloramine removal carbon range. At the same time, we continue to progress into advancement in technology and processes in air treatment carbons.

The Company also carefully manages the superior quality, consistency and supply chain reliability of its hallmark products that are used in water and air purification applications. Demand for sustainable business practices and increasingly stringent rules on health and safety in developing and emerging markets provide new opportunities and markets for these standard applications. Gold recovery continues to be a major business segment for Haycarb, where we tirelessly ensure our systems are aligned to manufacture and deliver the best-in-class gold recovery carbons.

# CHAIRMAN'S & MANAGING DIRECTOR'S JOINT MESSAGE



**Our strategic initiatives, strong financial position, and commitment to innovation and sustainability position us well to capitalize on emerging opportunities and navigate potential challenges**

Focus was intensified to ensure that we penetrate new markets such as the UAE, West Africa and South America, whilst increasing our reach in markets such as South Korea, China, Taiwan and other South Asian countries, and maintaining our traditional markets in USA, Europe, Japan, South Africa and Australasia.

Our environmental engineering arm Puritas (Pvt) Ltd. has returned to profitability in the current year, after navigating an extremely challenging external market environment in Sri Lanka during the economic crisis in 2022. The company has successfully re-launched its solutions in the region with focus on Maldives and B2B projects and World Bank funded Water Supply and Sanitation Improvement Projects for rural communities in Sri Lanka.

Looking ahead, we are committed to capitalizing on emerging opportunities in the global activated carbon market. The demand for high-quality, sustainable carbon solutions is expected to rise, driven

by stricter environmental regulations and increasing awareness of the need for clean water and air. Our expansion plans in strategic locations will enable us to meet this growing demand and solidify our position as a global leader.

## **BUILDING TALENT PIPELINES**

Haycarb's value proposition engages employees across locations, driving innovation and growth. We augmented our marketing and business development teams, established a Corporate Sustainability and ESG division, and strengthened our position in energy storage carbon development with new recruits for our R&D team. Our commitment to building strong talent pipelines is crucial for sustaining our competitive edge. We focus on collaboration and team dynamics to drive sustainable growth. Training and development budgets were increased, and training hours per employee rose by 39% during the period under review.

We have implemented comprehensive talent development programs that provide employees with the skills and knowledge needed to excel in their roles. These programs include leadership development, technical training, and continuous learning opportunities. One on one performance assessments and training needs analysis conducted for executives was extended to Production Assistants and Laboratory Assistants to provide much needed feedback in improving, motivating and up-skilling these important job levels of the Company.

We firmly believe in continual investment in our people to ensure having a capable and motivated workforce that can drive our innovation agenda and support our growth objectives in a sustainable business framework.

## **THE CONSCIOUS CORE**

### **Sustainability Governance**

In 2023/24, sustainability reporting saw significant developments with regulators stepping in to mandate it across countries,

presenting both risks and opportunities. The Company is complying with the requirements of SLFRS S1 and S2, with the transitional relief that has been granted. The Sustainability Steering Committee is chaired by the Managing Director. The Deputy Managing Director oversees the Corporate Sustainability and ESG division which maintains contact with sustainability champions at all our locations ensuring progress toward stated goals in our ESG Roadmap, "Activate".

Our governance framework is designed to ensure accountability, transparency, and ethical conduct across all levels of the organization. We have established robust policies and procedures to guide our sustainability efforts, including regular audits and assessments to monitor compliance and performance.

## **COMPLIANCE WITH REGULATORY REQUIREMENTS AND VOLUNTARY STANDARDS**

Our Board noted the issue of Listing Rule Section 9 on Corporate Governance by the CSE in August 2023 and has prepared an action plan to comply by due dates. As at the date of this report, Haycarb PLC is compliant with the provisions of Rule Section 9 requirements except for those provisions deferred beyond 1st April 2024 as set out in the Compliance Statement on pages 214 to 219. Haycarb also adopted the Hayleys Group's Bribery and Anti-Corruption Policy. We maintain zero tolerance for corruption and are committed to integrity and transparency.

The Board also noted the changes to the Code of Best Practice on Corporate Governance revised in 2023 and compliance with the revised Code is given in the Corporate Governance Report on pages 195 to 211.

We are also aligned with various voluntary standards and initiatives that promote sustainability and ethical business practices presented in page 246 to 247. By adhering to these frameworks, we demonstrate our



commitment to continuous improvement and accountability in all aspects of our operations.

## SOCIAL RESPONSIBILITY

Our CSR initiatives are designed to create lasting positive impacts. We prioritize projects that address critical needs such as healthcare, education, nutrition, and environmental conservation. By engaging with local communities and stakeholders, we ensure that our CSR efforts are aligned with their priorities and contribute to their well-being and development.

## STRONG PROSPECTS

Global economic growth is forecast to hold at a steady 3.2% for 2023, 2024 and 2025. World trade is expected to increase from 0.3% in 2023 to 3.0% in 2024. As in previous year, much of the growth will come from emerging markets with India and China having the most significant impacts. In Sri Lanka, interest rate and foreign exchange volatility are expected to stabilize, with economic recovery forecast at 3%. Downside risks remain to the local and global forecasts where geopolitics remains a critical factor. From a Sri Lanka context the success of foreign debt restructuring, political stability and gradual improvement of the macro-economic indicators will be crucial to sustaining export entities such as Haycarb.

The activated carbon industry is poised for growth, driven by environmental standards and innovations in battery technology. The establishment of our new manufacturing capacity in the Philippines will enhance capability to expand our market share and supply flexibility. Haycarb will drive efficiencies through lean platforms and digitalization projects, improving our operational performance and decision-making.

We are optimistic about the future and confident in our ability to achieve sustainable growth. Our strategic initiatives, strong financial position, and commitment to innovation and sustainability position us

well to capitalize on emerging opportunities and navigate potential challenges. We will continue to focus on delivering value to our stakeholders, driving operational excellence, and contributing to a cleaner, greener world.

## ACKNOWLEDGEMENTS

The recently published Section 9 of the Listing Rules of the Colombo Stock Exchange stipulates that a director ceases to be considered independent upon completion of 9 years from the date of first appointment. Consequently, Mr. Sujeewa Rajapakse and Dr. Sarath Abayawardana resigned from the Board during the year having served as Independent Non-Executive directors since 2013 and 2011 respectively. Mr. Rajapakse also served as the Chairman of the Audit Committee bringing his experience and financial acumen to bear on the deliberations therein. We take this opportunity to thank them for their contribution over the years and wish them success in all future endeavours.

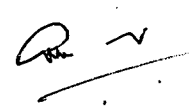
We welcome Mrs. Anomi Wanigasekera, Mr. Nanda Fernando, and Mr. Yohan Perera as Independent Non-Executive directors.

We immensely appreciate and thank the Haycarb team for their commitment to sustainable growth, our loyal customers for the continued patronage of our products and services, and our other stakeholders for their continued support. We also appreciate the Board's diligence as we transform to compete more effectively, consolidating our position as a global leader in coconut shell based activated carbon.

Together, we will continue our journey towards realizing our corporate Purpose of Driving Value and Changing Lives by building a corporate culture that embraces

our core 3E principles: Envisioning, Empowering, and Enriching. These principles will guide us in creating a sustainable and prosperous future for Haycarb and its stakeholders. Thank you for being part of our journey, celebrating the proud legacy of 50 golden years, and its continuation to the centennial and beyond.

Yours sincerely,



**MOHAN PANDITHAGE**  
Chairman



**RAJITHA KARIYAWASAN**  
Managing Director

16th May 2024