

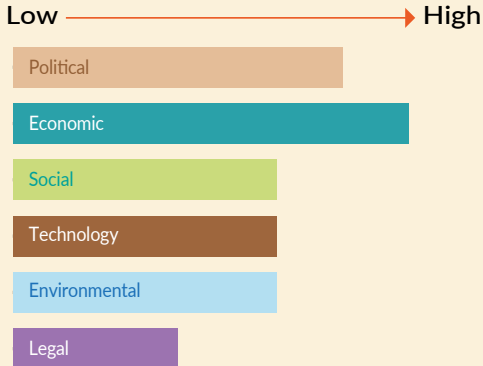
OPERATING ENVIRONMENT



Targeted implementation of a range of policy measures by the Government of Sri Lanka (GoSL) and the Central Bank of Sri Lanka, underpinned by the IMF’s Extended Fund Facility (EFF) arrangement has stabilised the Sri Lankan economy and positioned it on a path of recovery. The Sri Lankan economy recorded an expansion in the second half of 2023, following six consecutive quarters of contraction. Other key macro-economic indicators also stabilised and demonstrated signs of improvement. While debt restructuring negotiations with external debt holders remain ongoing, significant progress has been made under the IMF-EFF as the country successfully reached a staff level agreement following the second review in March 2024.

Meanwhile, the global economy remained resilient with growth expected to improve to 3.2% in 2023 (2022: 2.3%) despite tight monetary policy across most regions aimed at restoring price stability. However, the IMF projects a stable but lower than pre-pandemic global growth trajectory for the coming years given short term factors including high borrowing costs and the gradual withdrawal of government support alongside longer term challenges stemming from rising geopolitical tensions and increasing geo-economic fragmentation.

The most significant external factors that impacted Haycarb’s performance during the year under review are discussed through a PESTEL analysis to provide context to performance.



POLITICAL

TRENDS AND DEVELOPMENTS

- Geopolitical dynamics
- Domestic political uncertainty
- Domestic policy reforms
- Bureaucracy and lack of transparency

Given our extensive global presence across markets and manufacturing locations, geopolitical developments have a significant impact on our risk landscape, growth potential and operations.

Furthermore, domestic developments as the GoSL continues to implement policies to recover from the debt crisis also hold implications for our business.

OUR RESPONSE

- Geographic diversification of our manufacturing operations and revenue streams.
- Value creation for developing economies through foreign exchange generation, providing employment, and supporting livelihoods of micro-entrepreneurs
- Ongoing focus on establishing a new manufacturing plant in the Philippines for further geographic diversification of manufacturing operations.
- Strengthened local supply chains within each country of operations.
- Monitored and assessed the implications of new and proposed regulations and proposed regulations on business activities and adapted operations accordingly.
- Timely payment of all taxes in the countries we operate in.

[Link to material topics - M5, M20](#)

[Link to risks/opportunities - R2, R4, R9](#)

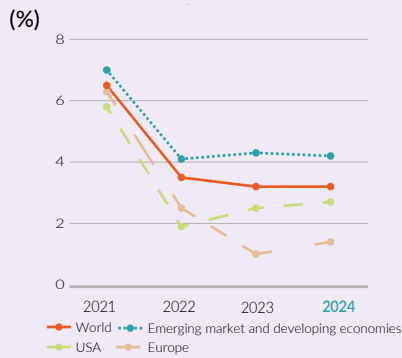
[Link to strategy](#)

ECONOMIC

TRENDS AND DEVELOPMENTS

Global economic growth trends

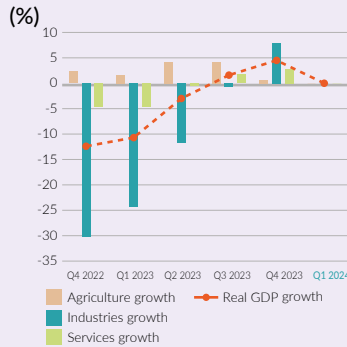
The IMF estimated global economic growth to have improved to 3.2% in 2023 (2022: 2.3%). Growth in the USA recovered to 2.5% in 2023 (2022: 1.9%) while the Euro area experienced a slowdown to 1% in 2023 (2022: 2.5%). Economic expansion in emerging market and developing economies remained strong at 4.3% in 2023.



Sri Lankan economic growth trends

The Sri Lankan economy recorded positive real GDP growth in 3Q and 4Q 2023. Consequently, GDP contraction moderated to 2.3% in 2023 (2022: 7.3%). The growth momentum continued into 1Q 2024.

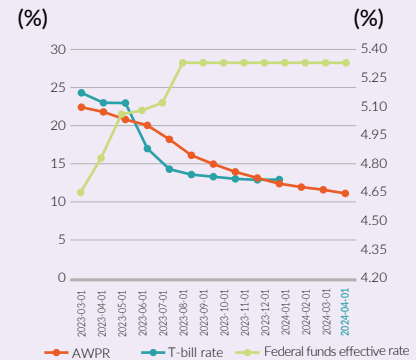
GDP and sector wise growth (constant prices)



Interest rate movement

The stabilisation of the exchange rate and declining inflation enabled monetary policy easing and the gradual decline in interest rates, lowering borrowing costs in Sri Lanka.

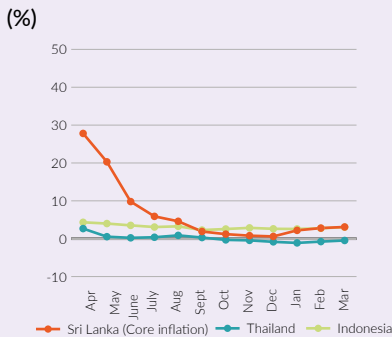
The Federal funds effective rate increased during the first half of the year but thereafter remained stable.



Inflation

Sri Lanka inflation followed a disinflationary path from peak levels in September 2022 and stabilised within CBSL's medium term inflation expectations of 5%.

There were no significant trends identified in other manufacturing locations; Thailand and Indonesia.



Freight rates

As supply-chain disruptions eased freight rates gradually normalised facilitating lower shipping costs.

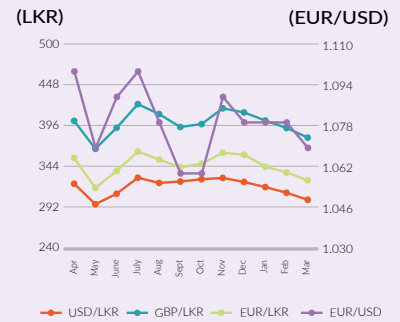
However, the red sea shipping crisis has resulted in freight cost increases to Europe and Eastern Coast USA, albeit to a lower point compared to pandemic era.

Intensifying competition

Easing supply chain disruptions, normalization of freight rates, and gradual improvement in business conditions, led to increased market access for activated carbon manufacturers from India and Philippines intensifying competition.

Exchange rate movement

The Sri Lankan Rupee appreciated 12% against the US Dollar in 2023 while appreciating a further 7.6% during 1Q 2024, which impacted our topline.



OUR RESPONSE

- Strategic emphasis on expanding market share in growth regions while retaining market position in existing markets.
- Strengthened customer relationships through deeper engagement and a strong customer value proposition.
- Leveraged digital platforms to engage closely with customers and enhance our reach.
- Continued focus on strengthening and diversifying Group's supply chain networks
- Rigorous control and monitoring of macro-economic variables to manage operational costs through lean initiatives.
- Control of interest costs by effective management of the borrowing's portfolio.
- Managed exchange risk through selective forward bookings

[Link to material topics - M5](#)

[Link to risks/opportunities - R2, R3, R4](#)

[Link to strategy](#)



OPERATING ENVIRONMENT

SOCIAL

TRENDS AND DEVELOPMENTS

- Increased emphasis on environmentally and socially responsible value chains.
- Talent migration
- Rising concerns on health and well-being.
- Increased prevalence of technology.
- Growing female participation in the workforce.
- An aging population
- Rising income inequalities

Rising talent mobility and shifting workforce demographics has compelled employers to refine their employee value proposition to retain high performing talent. Growing emphasis on corporate social responsibility further necessitates extending ethical and sustainable practices across the value chain. Widening income disparities and implications of the economic crisis in Sri Lanka has placed emphasis on organizations' ethical obligations to respond to critical community needs.

IMPACT ON THE GROUP

- Increased customer emphasis on the social implications of our value chain.
- More stringent assessment of our products and processes for adverse implications on human health.
- Increasing challenges to employee retention and potential adverse implications on organisational tacit knowledge.
- Rising expectations for positively contributing to the communities we operate in.

OUR RESPONSE

- A comprehensive employee value proposition that encompasses, equitable remuneration on par with industry norms, opportunities for training and career progression, and strong emphasis on employee well-being and engagement.
- Numerous certifications to provide assurance to customers on the quality of our processes.
- Health and safety assessments for products where applicable
- Supported livelihoods and empowered communities through our Haritha Angara programme in Sri Lanka.
- Carried out supplier assessments considering social considerations to propagate ethical social practices along the supply chain.
- Long term focused, Impactful CSR initiatives including, Puritas Sath Diyawara, going beyond the school mid-day meal programme and laptop donations to university students

[Link to material topics - M2, M8, M16, M17, M19](#)

[Link to risks/opportunities - R7, R12, O2](#)

[Link to strategy](#) 

TECHNOLOGY

TRENDS AND DEVELOPMENTS

- Technological advancements and emerging activated carbon applications
- New technology to assess the properties of carbon.
- Developments in digital technology including Big Data and predictive data analytics.
- Technological platforms that enable system integration.
- Increased propensity towards digital marketing.
- Cyber security risks

Developments in the areas of energy storage and water & air purification applications have propelled new opportunities and markets for activated carbon products while a deeper understanding of the properties of activated carbon enables the development of specialised carbons that meet specific requirements. Concurrently, advancements in digital technology have transformed customer engagement and reach while enabling a data driven approach to driving operational efficiency and sustainability. However, increased digitisation has also given rise to cyber threats and heightened the risk of data losses.

IMPACT ON THE GROUP


- Emerging opportunities for value added activated carbon products and access to new markets.
- Opportunities to enhance customer engagement and convenience through system integration.
- Potential for operational efficiency and reduction of waste and cost optimisation.
- Cyber security related risks

OUR RESPONSE

- Future focused our product portfolio through strategic research and development initiatives.
- Invested in a high-tech electrochemical laboratory to propel the development of products for energy storage carbons.
- Increased emphasis on digital marketing channels to analyse digital behaviour and enable personalised outreach for enhanced lead generation
- Investments in technological solutions including automation and integration to improve process efficiency, access to data and analytics to facilitate insightful decision making and deepen customer relationships
- A comprehensive IT security policy, investments in latest tools such as firewall and virus guard software, employee training on cyber threats and regular audits of IT systems.
- Ongoing emphasis on creating a learning organisation that prioritises learning, adapting and innovation in alignment with external developments.

[Link to material topics - M6, M13, M15, M16](#)

[Link to risks/opportunities - R10, O1](#)

[Link to strategy](#) 

ENVIRONMENT

TRENDS AND DEVELOPMENTS

Increasing prevalence of physical risks

- Rise in adverse weather events across the globe and its implications on business operations, supply chains and distribution

Divergent global approach to the transition to a low carbon economy

- Increasing implications of chronic risks and carbon intensive industries

Compliance

- Increased stakeholder concerns on environmental & climate impacts and environmental regulations and enhanced corporate reporting requirements.

Our reliance on coconut shells, an agricultural input, exposes us to the potential risks of climate change. However, the transition to a low-carbon economy has led to emerging opportunities. The shift towards renewable energy sources has given rise to innovation in energy storage carbons, while sustainable resource consumption has led to the utilization of activated carbon products across many industries. Increased emphasis on addressing climate change has led to a rise in environmental regulations and corporate reporting requirements has led to the utilization of activated carbon products across many industries.

IMPACT ON THE GROUP

- Emerging opportunities for activated carbon products that facilitate the low carbon transition.
- Supply-side vulnerabilities to chronic risks of climate change given our reliance on agricultural inputs.
- Opportunities to enhance energy and climate resilience of our operations.
- Increased stakeholder concerns on value chain environmental impact assessment and management.
- Increased compliance costs to meet more stringent environmental regulations and reporting requirements.
- The increased awareness of environmental impacts and the rise of emerging economies drive demand for water and air purification solutions.

OUR RESPONSE

- Developed a diverse product offering and invested in renewable energy generation (Solar PV panels) that supports sustainable resource consumption and the shift to renewable energy sources.
- Diversified our operations across three geographical locations where coconut is a major agricultural crop to mitigate supply side risks.
- Committed to achieving strategic ESG goals through the launch of Activate, our 2030 ESG Roadmap 2030 .
- Ongoing emphasis on enhancing the sustainability of our operations and supply chain practices.

[Link to material topics - M1, M3, M7, M9, M10, M11, M14, M18](#)

[Link to risks/opportunities - R17, R22, O3, O4, O5](#)

[Link to strategy](#) 

LEGAL

TRENDS AND DEVELOPMENTS

- Evolving legal landscapes in the jurisdictions we operate in.
- Stringent regulations on safety, quality and environmental protection
- Laws promulgated to safeguard economies including anti-dumping regulations

Reputation risk



Compliance costs



Our global presence necessitates navigating the regulatory landscape of multiple jurisdictions giving rise to high levels of complexity. Proactive monitoring for new laws and regulations across all countries of operations is vital to ensure timely compliance and mitigate reputation risk. Moreover, compliance may entail changes to business models, processes and new investments increasing costs.

IMPACT ON THE GROUP

- High levels of complexity in monitoring legal and regulatory developments across multiple countries.
- Reputation risk arising from inadvertent non-compliance.
- Increased costs to modify processes to ensure compliance and potential penalties due to non-compliance.

OUR RESPONSE

- Proactive monitoring across all jurisdictions for new developments in the legal landscape to assess implications and ensure compliance.
- Complied with all legal and regulatory requirements during the year under review.
- Obtaining certifications relating to safety, quality, and environment management

[Link to material topics - M3](#)

[Link to risks/opportunities - R6, R15, R21](#)

[Link to strategy](#) 