

today's

PURPOSE

tomorrow's

IMPACT

CEYLON TOBACCO COMPANY PLC





today's PURPOSE

STATUTORY INFORMATION 2021



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Purposeful Aspirations

As CTC concludes yet another successful financial year, this section gives an overview of how efficient leadership and remarkable resilience is reflected through the Company's exceptional performance. Every purposeful proposition provided strategic insight, which led the Company on a trajectory of growth and success, inspiring the CTC team to leverage their performance during the year.

CTC's achievements in 2021:

Rs. 33,615 Mn

Revenue

Rs. 111.25 Bn

Taxes paid to the State

1st end-market within the BAT Group to achieve carbon neutrality

in Scope 1 & 2 GHG emissions across our Depots, Green Leaf Threshing Plant (GLTP), Colombo Factory and Commercial

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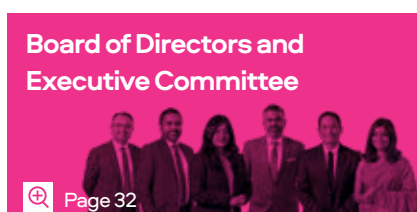
About this Report

This year's Annual Report outlines how sustainability is at the front and centre of our business, marking an important milestone in CTC's corporate reporting journey.

This year marks an important milestone in Ceylon Tobacco Company PLC's ("CTC" or "the Company") corporate reporting journey, as we align our reporting with our sustainability agenda which is at the centre of our evolved corporate strategy. Accordingly, this year, our Annual Report is a combination of this statutory information, as well as a dedicated Environmental, Social and Governance (ESG) Report, which outlines how sustainability is at the front and centre of our business. The Company's statutory information (from page 2 to 111 of this document) has been prepared in compliance with the requirements of the Sri Lanka Financial Reporting Standards, Listing Rules of the Colombo Stock Exchange (CSE), and the Companies Act No. 7 of 2007. It comprises a Strategic Report, Corporate Governance Report, Financial Statements, Notes to the Financial Statements, and other relevant information. The ESG Report (from page 113 to 171 of this document) provides detailed information relating to our Policies, Management Approach, Targets and Performance for all our Environment, Social, and Governance priorities. The Report has been prepared in accordance with the Global Reporting Initiative Standards: Core option. The Annual Report covers CTC's performance for the calendar year 2021.

As a subsidiary of British American Tobacco PLC ("BAT" or "BAT Group"), the Company adopts global best practices in corporate governance, talent management and sustainability. We nurture a world-class talent pool, propagating best-in-class practices in the Sri Lankan corporate sector. Across our Report, reference has been made to CTC successfully achieving carbon neutrality in Scope 1 & 2 GHG emissions across our Depots, Green Leaf Threshing Plant (GLTP), Colombo Factory and Commercial. The locations we refer to as Depots are facilities to purchase and store tobacco in transit, that also serve as collection points for farmers' crop inputs such as fertiliser, while reference to Commercial includes our distribution network and logistics.

Quick Links



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ESG Report 2021

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Combined Assurance

We adopt a combined assurance model to ensure the integrity of the information provided in this Annual Report. Management identifies the material issues faced by CTC and implements suitable internal controls to address these risks, in line with the Board-approved policies and procedures. The Internal Audit team monitors and assesses this process, while the external audit team evaluates the integrity of financial reporting and internal controls. Assurance on the Company's financial statements have been provided by Messrs. KPMG.

Frameworks and Assurance

This Report complies with the following statutory requirements/voluntary frameworks:

- Sri Lanka Financial Reporting Standards
- Companies Act No. 7 of 2007
- Listing Requirements of the Colombo Stock Exchange (CSE)
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017)

CTC at a Glance

CTC is Sri Lanka's only licensed manufacturer of cigarettes and one of the country's most valuable corporate entities. Given its position as the largest individual tax contributor to Government tax revenue and significant value injector to the rural economy, the Company's socio-economic impacts are indisputable, and over the last century, CTC has played an important role in supporting the country's economic progress.



Rs. 33.62 Bn
Revenue



Rs. 111.25 Bn
Tax contribution

6% of the country's total tax revenue



Rs. 164.47 Bn
Market capitalisation



Rs. 26.65 Bn
Pre-tax profit

(2020: Rs. 25.43 Bn)



Rs. 86.20
Earnings per share
(2020: Rs. 83.16)



Rs. 47.98
Net assets per share
(2020: Rs. 24.57)



57,000+
Livelihoods supported
through our Corporate Social
Investment (CSI) projects



269
Permanent employees



Rs. 1,519 Mn
Value to employees



1st end-market within the BAT
Group to achieve

carbon neutrality

in Scope 1 & 2 GHG emissions
across our Depots, GLTP, Colombo
Factory and Commercial



67%
Reduction in Scope 1 &
2 CO₂e (Market-based)
emissions



**No reported
instances**
of non-compliance with
applicable laws and regulations

Performance Highlights

EARNINGS AND PROFITABILITY

| Results for the Year | | 2021 | 2020 |
|----------------------|-------------|---------|---------|
| Turnover | Rs. Million | 134,369 | 132,149 |
| Government levies | Rs. Million | 100,753 | 100,076 |
| Revenue | Rs. Million | 33,615 | 32,073 |
| Profit before tax | Rs. Million | 26,646 | 25,434 |
| Profit after tax | Rs. Million | 16,146 | 15,578 |
| Net assets | Rs. Million | 8,987 | 4,602 |

INVESTOR RELATED

| Results for the Year | | 2021 | 2020 |
|--|-------------|---------|---------|
| Earnings per share | Rs. | 86.20 | 83.16 |
| Interim dividends | Rs. Million | 9,928 | 13,394 |
| Proposed final dividend | Rs. Million | - | 2,126 |
| Dividend per share (interim and proposed final dividend) | Rs. | 53.00 | 82.85 |
| Dividend payout | % | 61.49 | 99.63 |
| Market value per share (closing) | Rs. | 878.0 | 1,028.9 |
| Market capitalisation | Rs. Million | 164,470 | 192,737 |
| Net assets per share | Rs. | 47.98 | 24.57 |

OTHER

| Results for the Year | | 2021 | 2020 |
|--------------------------|-------------|---------|---------|
| Total value added | Rs. Million | 129,252 | 127,215 |
| Number of employees | No. | 269 | 262 |
| Value added per employee | Rs. Million | 480 | 485 |
| Capital investment | Rs. Million | 844 | 952 |

Investment Case

Track record of shareholder returns

CTC has a proven performance track record and has consistently delivered strong shareholder returns. Despite unprecedented complexities during the year, the Company's Return on Invested Capital (ROIC) recorded an impressive 112% with an average dividend payout ratio of 92.2% since 2017. With a debt-free balance sheet and healthy liquidity levels, the Company's financial position is strong, providing a buffer against potential stresses that could arise from the operating landscape.



92.2%

Dividend payout
(2017 - 2021)



15

Stock Keeping Units
(SKUs) across 5 brands

12

Distributors &
60,063 retailers + traders

Strong business fundamentals

Our highly-skilled employees, multi-category portfolio, extensive distribution networks, and longstanding relationships with contracted tobacco farmers are the reasons for the Company's resilience. These strong business fundamentals have driven the delivery of the Company's strategic aspirations, despite considerable uncertainty and volatility in the current operating environment.



Global capabilities

CTC leverages on the expertise and capabilities of its parent entity. BAT's presence in over 180 countries, with over 150 Million adult consumer interactions a day has enabled it to build a deeper understanding of market behaviour and insights. These global capabilities have strengthened CTC's resilience to external headwinds and will enable us to deliver on our growth ambitions over the long-term.



>180

Markets



>11 Mn

Retail points of sale



Carbon neutral

In 2021, CTC became the 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial

Zero Scope 2 CO₂e

(Market-based) emissions achieved by purchasing 100% renewable energy via i-RECs

Commitment to sustainable value creation

The Company's holistic sustainability strategy sets out action plans for reducing the environmental impact of the business, thereby delivering results that create value. CTC is committed to achieving excellence in environmental management and supporting livelihoods and developing communities, while embracing best-in-class corporate governance practices. Meanwhile, as a corporate, we ensure that our ethical standards are never compromised on in generating profits.

Response to COVID-19

Learnings gained during the 1st and 2nd waves of the pandemic in 2020 enabled CTC to adapt faster to the unique challenges of 2021. We ensured continuity of all operations during the lockdowns, while supporting all our stakeholders including employees, business partners, and suppliers.



Ensuring business continuity

The Company navigated the pandemic-led disruptions and challenges of 2021 by deploying effective contingency plans and risk management processes. The required regulatory approvals were obtained to continue uninterrupted manufacturing and distribution activities during the lockdowns. We ensured that our products were available across our distribution network and supported the commercial viability of our distribution partners. Resultantly, CTC maintained focus on its 'win-win-win' strategy during the year, remaining financially resilient despite external challenges.



Safeguarding our employees

We implemented a host of stringent safety measures in line with the recommendations of local health authorities, the World Health Organisation (WHO) and BAT guidelines to ensure the well-being of our employees. Measures introduced included roster-based work schedules, bio bubbles, dedicated interim care facilities for infected employees and family members, regular PCR testing, and medical consultations. We also facilitated vaccination programmes in partnership with the relevant health authorities and 100% of our factory staff who were willing to be vaccinated are now fully vaccinated. We also offered counselling services and access to a psychologist for employees who required mental health support.



Supporting suppliers and business partners

Our COVID-19 response plans were developed keeping in mind the needs of our wider stakeholder groups, such as tobacco farmers and distribution partners. We ensured continued value injection across our tobacco supply chain through uninterrupted procurement from our contracted tobacco farmers. Measures were also taken to safeguard tobacco farmers and distributor partners through the provision of required Personal Protective Equipment (PPE), awareness sessions and digital channels.

Chairman's Review

"The passion and tenacity of CTC's team has been truly impressive, and despite the numerous challenges that prevailed, they continued to deliver the Company's triple bottom line commitments and drove value creation to stakeholders."



Suresh Shah
Chairman



Dear Shareholder,

As the global pandemic entered its 2nd year, Governments, organisations, and communities around the world have had to learn to co-exist with the virus. In 2021, it was no different for CTC, which had to adapt to operating in conditions of limited mobility and social distancing. The passion and tenacity of CTC's team has been truly impressive, and despite the numerous challenges that prevailed, they continued to deliver the Company's triple bottom line commitments and drove value creation to stakeholders. Against this backdrop, and on behalf of the Board and Management, it is my pleasure to present to you the Company's Annual Report and Audited Financial Statements for 2021.

Operating environment

Sri Lanka's economy recorded a strong rebound in the first quarter of 2021, before the 3rd and 4th waves of the pandemic brought fresh challenges thereafter. As a result, GDP growth for the full year was below expectation. Disruptions to global supply chains, increases in commodity prices and significantly higher freight rates led to rising inflation, particularly during the 2nd half of the year. Meanwhile, the sharp drop in tourism earnings and worker remittances, coupled with significant

international debt payments, led to pressure on the country's forex reserves and consequently, on the Sri Lankan Rupee.

For CTC, implications from the operating environment stemmed primarily from increased prices, challenges in importing packaging material, disruptions to distribution, and pressure on disposable income in the hands of consumers. The Company successfully addressed these concerns through a proactive strategy and timely interventions, as described in further detail in the Managing Director & CEO's Review on page 12 of this Report.

As shareholders are aware, we have consistently stressed the need to curb Sri Lanka's sizeable illicit cigarette market. This is imperative if State revenues and the rights of the legal industry are to be protected and sustained. Further, a burgeoning illicit market defeats the Government's public health objectives. Indeed, this applies not just to our industry but wherever an illicit market prevails in the country. In this context, we are encouraged to note that in 2021, the Government ramped up efforts to curb the illicit cigarette market, strengthening detections and enforcements. This led to the detection of the single largest consignment of illicit cigarettes in Sri Lanka during the



Rs. 111.25 Bn

Contributed to the Government as taxes



6%

of the country's total tax revenue



Rs. 86.20

Earnings per share



92.2%

Dividend payout ratio
(2017 - 2020)



Rs. 164.47 Bn

Market capitalisation as
at 31 December 2021

57,000+

Livelihoods supported through CSI projects

No reported instances

of non-compliances with applicable laws and regulations



As a corporate citizen, CTC has been at the forefront of driving national socioeconomic progress since its inception, 116 years ago

The team's innovative thinking and deep commitment led to CTC being the 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across its Depots, Green Leaf Threshing Plant (GLTP), Colombo factory and Commercial operations, well ahead of its initial ambition of 2030.

year under review. As in the past, we will continue to support the Government in its efforts to curtail the illicit market to ensure the sustainability of its policies and its revenue, and the viability of the legal industry.

Strategy and shareholder value

Strategic actions during the year were guided by the Company's 'win-win-win' strategy. This centres on multi-stakeholder value creation; contributing to Government revenue, developing the Sri Lankan workforce, and empowering communities across CTC's value chains.

The strength of the operating model and the resilience of the team enabled the Company to once again deliver superior shareholder value. Profit after tax increased to Rs. 16,146 Million, whilst earnings per share reached Rs. 86.20. Meanwhile, Return on Invested Capital (ROIC) was an impressive 112%. The total dividend declared in 2021 was Rs. 53 per share, which at 6%, was an attractive yield for the year. With a 5-year average pay-out ratio of 92.2%, CTC is amongst the highest dividend payers listed on the CSE. The Company's share price closed the year at Rs. 878. CTC remains one of the most valuable listed companies in Sri Lanka and at the year-end, accounted for 3% of the CSE's total market capitalisation.

A sustainable business

Globally, there are increasing expectations on businesses to play a more active role in addressing the economic, social and environmental issues facing the world today. As a subsidiary of a global sustainability champion, creating stakeholder value has been ingrained in CTC's DNA. With the launch of the Company's revamped sustainability framework in 2020, CTC reaffirmed its commitment to sustainability. I am extremely proud to report that the team's innovative thinking and deep commitment led to CTC being the 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across its Depots, Green Leaf Threshing Plant (GLTP), Colombo factory and Commercial operations. Further, CTC recorded improvements in use of energy, water efficiency, and in waste disposal, in line with the targets set out in its ESG Strategy. CTC continued to drive investments towards livelihood development and community initiatives through various impactful Corporate Social Investment (CSI) projects. In 2021, CTC invested over Rs. 73 Million on such projects, and these contributed towards empowering over 57,000 beneficiaries in rural communities across the nation. To align reporting with its renewed focus on sustainability, the Company has included

Chairman's Review

During the year, there were no departures from internal BAT policies, including the Company's Standards of Business Conduct (SoBC) policy.



Throughout the year, CTC prioritised the safeguarding of the physical and mental well-being of its people, whilst ensuring that the business continued to operate effectively and efficiently.

CTC collaborated with the CSE in delivering 2 programmes to listed corporates under the 'Beyond Basics' initiative.

a dedicated section on ESG as part of its Annual Report. The ESG Report spells out how CTC puts sustainability at the front and centre of its business.

Economic value creation

As a corporate citizen, CTC has been at the forefront of driving national socio-economic progress since its inception 116 years ago. CTC's revenue contribution to the Government (in taxes) amounted to Rs. 111.25 Billion during the year. This amounted to 6% of the country's total tax revenue in 2021. For many years, the Company has been the single largest individual tax contributor to the Government. During this year, the Company generated over 70,800 jobs across its value chain, empowered over 1,600 tobacco farmers, and injected over Rs. 11.77 Billion to the country's economy, including the rural sector through tobacco leaf purchases. Further, CTC is one of Sri Lanka's most preferred employers and the Company has developed global business leaders through a strong employee proposition - which includes international opportunities - thereby enriching the country's human capital.

Governance and leadership

CTC benefits from the world-class corporate governance standards of its parent entity. Sharing these best practices with Sri Lankan corporates to support organisational growth, resilience and sustainability is a key aspiration

of the Governance pillar of our ESG strategy. Accordingly, CTC collaborated with the CSE in delivering 2 programmes to listed corporates under the 'Beyond Basics' initiative. These forums saw contributions from members of CTC's Board, who were engaged as speakers and panellists in sharing their insights and experiences. Other key governance related developments during the year included widening the scope of the CSI Steering-Committee of the Board to include ESG considerations and strengthening of the Anti-Corruption and Anti-Bribery procedures with the launch of the Third-Party Anti-Financial Crimes Procedure. The automation and digitisation of compliance procedures have reduced complexity, thereby driving better compliance understanding across the organisation. During the year, there were no departures from internal BAT policies, including the Company's Standards of Business Conduct (SoBC) policy.

Information on the Company's compliance and governance mechanisms can be found in the Leadership and Governance section of this Report.

Outlook

In the short term, the country's economic growth prospects will be hampered by the many macro-economic challenges faced by it. However, the Government's efforts to strengthen the export sector, promote Foreign

Direct Investments (FDI) and tourism, re-balance imports, restructure external debt, and seek the assistance of the International Monetary Fund (IMF) will hopefully yield an improvement in the medium-term.

The Company's strong operational and financial performance during 2021 has strengthened the team's resolve and belief in its ability to deliver results in extremely difficult conditions. Throughout the year, CTC prioritised the safeguarding of the physical and mental well-being of its people, whilst ensuring that the business continued to operate effectively and efficiently. I am confident the team will rise to the challenges posed by the macro-economic headwinds, and will continue to deliver on their commitments to stakeholders, including contributing to the country's socio-economic progress and sustainable development. Despite the short-term challenges, CTC is confident in Sri Lanka's resilience as a nation and looks forward to economic conditions improving in the medium term.

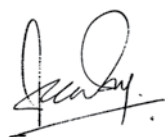
Acknowledgements

It is with deep sadness that I report the passing of Mr. Anil Tittawella in February 2022. Anil served as an Independent Non-Executive Director of CTC and his contribution to the Company and Board was invaluable. We will miss his wise counsel. On behalf of my colleagues on the Board and myself, I express our profound condolences to his family.

I am very pleased to welcome Ms. Monisha Abraham, Mr. Syed Muhammad Ali Abrar and Mr. Kushan D'Alwis who were newly appointed as Managing Director & CEO, Finance Director and Independent Non-Executive Director respectively. They all bring many years of experience to CTC and the Company will benefit from their skills and capacity in the years ahead. Monisha replaced Mr. Nedal Salem who stepped down from CTC to take up a new appointment within BAT. Nedal led CTC during 2 challenging years and on behalf of the Board and myself, I extend our appreciation for his invaluable contribution in driving the Company forward, whilst preserving its legacy. Our thanks also to former Finance Director

Mr. Umair Luqman, who like Nedal, resigned from CTC's Board during the year to take up a new assignment within BAT.

On behalf of the Board and myself, I must record our appreciation to Team CTC; they have delivered commendable results during a very challenging year. They were agile, embraced the new realities of the operating environment and delivered on stakeholder expectations. Finally, I extend my appreciation to all our valuable shareholders for their continued support and confidence in the Company over the years.



Suresh Shah
Chairman

Managing Director & CEO's Review



"Sustainability has always been ingrained in our DNA; in 2020, we reaffirmed the commitment in alignment with BAT goals, launching a holistic and bold ESG Strategy."

Monisha Abraham
Managing Director & CEO



Rs. 16.15 Bn

Profit after tax



2.8 MW

Solar panel project



60,063

Retailers & traders



Rs. 73 Mn

Injected to the rural economy through CSI initiatives



71.2%

Overall Equipment Efficiency

Dear Shareholder,

The unique challenges we faced in 2021 and the passion and determination with which we navigated these complexities have made CTC a faster, more agile and stronger organisation. The success for the year was underpinned by the enterprising spirit and collective strength of our passionate and united team and business partners, who rallied behind the Company's 'win-win-win' strategy which continued to deliver exceptional results despite the challenging operating landscape. Against this backdrop, I am pleased to report that in 2021, we made significant progress in delivering our triple bottom line commitments, reaffirming our position as one of the country's most economically impactful organisations.

Delivering on our strategy

In my view, the defining characteristic of 2021 was the team's ability to swiftly adapt to new ways of working and learning to thrive amidst the turbulence and uncertainty presented by COVID-19. As Sri Lanka faced its 3rd and 4th waves of infection, the Company leveraged on the learnings from 2020 to drive continuity of operations, while placing strategic emphasis on the safety of not just our team, but that of our distributors, contracted tobacco farmers and other business partners. Our strategic direction for the year was consistent with the business approach taken in the preceding

years, and centred on contributing to growth in Government revenue, while developing and empowering our people and driving sustainable shareholder value. This aspiration is upheld through continuously enhancing our Employee Value Proposition, strengthening relationships across our supply chain and distribution network, and delivering consistent financial performance to fulfil the revenue objectives of both the Government and our shareholders.

As recurrent lockdowns led to disruptions to the Company's distribution channels, we continued to work closely with our distributors and retail partners in ensuring the availability of products across the island. The development and deployment of a 'Contingency Distribution Model' enabled CTC to overcome distribution disruptions posed by lockdowns and maintain distribution across the country, while adhering to stringent health & safety measures and all relevant regulatory, statutory, and legal requirements. We also strengthened our presence across major e-commerce platforms by adopting to the shift towards digital channels and increasing accessibility to outstation markets. This, together with timely planning and business continuity management efforts, enabled the Company to retain 80% of its volume during lockdown periods.

I commend the agility and innovative thinking of our employees, who



1,613

Contracted tobacco farmer livelihoods supported



70,800+

Jobs across our value chain



Rs. 11.77 Bn

Infused into the country's GDP

Our efforts to drive higher productivity, improve yields, and achieve better quality output paid rich dividends during the year with the Maha season crop delivering the highest yield in a decade in 2021.

The defining characteristic of 2021 was the team's ability to swiftly adopt to new ways of working and learning to thrive amidst turbulence and uncertainty.

continued to meet the Company's business targets despite the many challenges that prevailed.

The Company has consistently supported the financial empowerment and skill development of its distribution and trade partners. During the year, all distributor staff were retained at full remuneration, and we launched the 'Distribution Excellence' programme. Meanwhile, we continued to invest in 'Abhisheka'- our trade loyalty programme in developing skills and supporting livelihoods across our network.

Among CTC's key achievements for the year was the successful completion of Phase 1 of the 'Integrated Work Systems' (IWS) journey, enabling the Company to join ranks with just 11 factories (out of 52) in the BAT Group to obtain this certification. Through this journey, we continued to make inroads of improvements in efficiency, with the 'Overall Equipment Efficiency' (OEE) ratio improving from 2% to 71.2% and 'Mean Time Between Failure' (MTBF) improving by 69% to 15.8 minutes. Meanwhile, product quality indicators also demonstrated improvement, while the environmental footprint of our operations was optimised through reductions in energy use, water consumption and waste generation. The programme has also supported the development of strong internal capabilities through ongoing training and skill development.

We have nurtured deep-rooted relationships across Sri Lanka's tobacco supply chain, supporting over 57,000 beneficiaries, including contracted tobacco farmers involved in tobacco leaf growing, while driving socio-economic empowerment and propagating of sustainable agriculture practices. Health & safety risks continued to be a significant threat in 2021, and we continued to invest in safeguarding the well-being of both our field staff and our contracted tobacco farmers. Our efforts to drive higher productivity, improve yields, and achieve better quality output paid rich dividends during the year with the Maha season crop delivering the highest yield in a decade in 2021. Leaf quality continued to improve as reflected by the increase in leaf flavour grades from 7% to 13% during the year. We continued to source 100% of our leaf requirements locally, injecting over Rs. 1.62 Billion to the rural economy during the year.

Our ESG commitment

Sustainability has always been ingrained in our DNA; in 2020, we reaffirmed our commitment in alignment with BAT goals, launching a holistic and bold ESG strategy, which, among other goals, set a target for achieving carbon neutrality across its operations by 2030. In 2021, we accelerated this ambition within the year by fast-tracking projects that would significantly reduce our emissions further. I am extremely proud to report

Managing Director & CEO's Review

The Company's decision-making, strategic actions and operations are underpinned by its commitment to deliver with integrity, which ensures that the highest standards of transparency, integrity and accountability are maintained



We continued to invest in our long-term projects of maintaining a 123-acre biodiversity site in Matale and supporting reforestation efforts of a 12-acre land in Sigiriya

I am happy to note that in 2021, we offered the highest number of promotions, lateral moves and Above Market opportunities in the past 5 years

that as a result of the collective efforts of the entire organisation and cross-functional innovative thinking, the Company was able to become the 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 across our Depots, GLTP, Colombo Factory and Commercial operations. In 2021, we implemented a 2.8 MW solar project that utilised 100% of viable roof space at our Colombo and Kandy premises. This conversion is expected to result in annual carbon savings of approximately 1,217 tCO₂e. We are also committed to reducing the carbon footprint of our leaf operations and commissioned 20 Loose Leaf Barns (LLB)-comprising 19 paddy-husk fuelled barns. While the proposed fertiliser ban posed some challenges for our contracted tobacco farmers during the year, we were well aware that reducing the usage of chemical fertiliser is a priority for the Government. CTC is committed to supporting this agenda through continued investment in propagating sustainable agriculture methods and exploring avenues for organic farming.

Meanwhile, the Company continued to optimise the use of natural resources in its operations, with Scope 1 & 2 tCO₂e (Market-based) emissions reducing by 67% during the year. We also strengthened our reforestation efforts, donating 2,500 saplings to the Kanneliya Forest Reserve. We continued to invest in our long-term projects of maintaining a 123-acre biodiversity site in Matale in partnership with the University of Peradeniya, and supporting reforestation

efforts of a 12-acre land in Sigiriya in partnership with the Department of Forestry.

CTC has a long and proud history of supporting livelihoods across both our value chain and through CSI. Despite numerous challenges posed by the pandemic, we strengthened our community efforts, implementing several strategic and impactful community projects which benefitted over 57,000 individuals across the country. Under the 'Suvajeewana' pillar for water filtration purposes, we deployed 10 Reverse Osmosis (RO) plants, providing clean drinking water to over 30,000 beneficiaries in areas affected by Chronic Kidney Disease (CKD); 5 more plants are currently under construction. Further initiatives included organic home gardening to over 2,400 beneficiaries and families under the 'Sustainable Agriculture Development Programme' (SADP) and supporting over 4,100 farmer families in growing alternate crops under 'SADP Ultra'.

The Company's decision-making, strategic actions and operations are underpinned by its commitment to deliver with integrity, which ensures that the highest standards of transparency, integrity and accountability are maintained. This includes full compliance to the SoBC policy, International Marketing Principles (IMP) and Youth Access Prevention (YAP) guidelines. As described in further detail in the Chairman's Review on page 8, CTC also collaborated with the CSE to launch 'Beyond Basics' during the year - a

unique knowledge sharing programme aimed at driving excellence in corporate governance among Sri Lanka's listed entities.

A passionate and enterprising team

I continue to be inspired by the talent, commitment and collective spirit of the CTC team. As employees adapted to new ways of working where physical and face-to-face interactions were limited and curtailed, we placed strategic focus on keeping employees energised, engaged and motivated through unique and innovative engagement platforms. Digital engagement was enhanced through the launch of the 'One Team One Goal' campaign initiated by the 'Sports, Aesthetics and Engagement Alliance' (SAGA) platform, which included a year-round activity plan. The Executive Committee also strengthened engagement across the organisation, thereby maintaining morale and camaraderie. We also accelerated e-learning solutions, enabling employees to learn at their own pace and convenience.

Opportunities for career progression is a key feature of our Employee Value Proposition and I am happy to note that in 2021, we offered the highest number of promotions, lateral moves and Above Market opportunities in the past 5 years. Physical and mental well-being remained paramount, as we maintained extremely stringent health & safety measures across the organisation, provided access to counsellors and raised awareness on issues such as stress management and work-life balance. The Company once again achieved zero serious injuries and loss time incidents, attesting to the effectiveness of its health & safety frameworks and practices. In line with the BAT Group's 'Diversity & Inclusion (D&I) Agenda', we increased the representation of women in Management grades to 30%, against a long-term target of 40% by 2023. During the year, strategic focus was placed on simplifying, streamlining and digitising processes. This in turn enabled us to further empower our team, while strengthening organisational effectiveness in line with BAT's simpler, faster and stronger agenda. Attesting to the success of these efforts, I am happy to report that we achieved scores of 80 and above for all three

indexes - 'Sustainable Engagement', 'High Performance' and 'Ethos' in the Company's 'Your Voice' employee satisfaction survey conducted this year. We also received the 'Top Employer Certification' for the second consecutive year, awarded by the Top Employer Institute, which is the global authority on recognising excellence in people practices. We continued to maintain attrition levels at around 6%, relatively lower than the average of the FMCG industry.

Financial performance

The Company recorded 4.8% growth in Gross Revenue during the year, reflecting a timely portfolio strategy and proactive efforts to ensure uninterrupted distribution. Ongoing focus on productivity improvements, operating efficiencies and digitisation of processes enabled the Company to achieve a widening of profitability margins. We placed continued emphasis on assessing, reviewing and optimising our cost base, to ensure the delivery of profit targets and absorb potential stresses arising from pandemic-related disruptions and adverse macro-economic conditions. Resultantly, CTC recorded a 3.65% growth in profit after tax to Rs. 16,146 Million, continuing to deliver on its stakeholder commitments despite the challenging operating environment. The Company's financial position remained strong, characterised by a healthy balance sheet, strong liquidity levels, and marginal exposure to borrowings. In line with our strong financial performance, the contribution to Government revenue was Rs. 111.25 Billion; accordingly, the Company contributed 6% of the Government's tax revenue in 2021, maintaining its position as the single largest contributor to tax revenue during the year.

Confidence in our future

Macro-economic headwinds including rising inflation levels are likely to present some challenges in the near term. Despite these pressures, I am confident that the interventions we have done in 2021 have positioned the Company for resilience and continued growth.

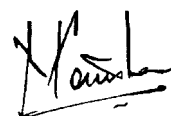
Meanwhile, we remain optimistic about the country's long-term growth prospects, given the gradual recovery of the tourism sector, policy stimulus

and materialisation of pent-up demand. Meanwhile, as described in the Chairman's Review on page 8, we commend the Government's proactive efforts to curtail the growth of the illicit cigarettes market in the country, which over the succeeding years will undoubtedly lead to an increase in Government revenue. As one of Sri Lanka's most valuable listed companies, we remain committed to emulating global best practices in governance, sustainability and corporate citizenship.

Appreciation

It is with profound sadness that I join the Board in expressing my deep regret over the demise of Mr. Anil Tittawella, who served as an Independent Non-Executive Director of CTC; my thoughts and prayers are with his family and friends.

As I look forward to my first full year as Managing Director & CEO, I would like to extend my deep appreciation to Mr. Nedal Salem, the former Managing Director/CEO, for his invaluable leadership over the past few years which has positioned CTC as an agile, dynamic and resilient organisation. On behalf of the CTC team, I wish him well in his future endeavours. I also place on record my appreciation to former Finance Director Mr. Umair Luqman, who resigned from the Board during the year. I take this opportunity to also thank the Chairman and Board of Directors for the confidence placed in me and I look forward to their valuable counsel. I thank each and every employee of the CTC team for their effort and commitment during this difficult period, and I am excited to work beside you in the coming year. Finally, I would like to thank our shareholders, business partners, suppliers, and other stakeholders for their continued support to the Company over the years.



Monisha Abraham
Managing Director & CEO

Operating Environment

Market dynamics

Over the years, frequent excise-led price increases of legal cigarettes have resulted in the accelerated growth of the illicit market. While this has directly impacted our market share, it has also led to significant losses in the Government's tax revenue, and defeated public health objectives. Having acknowledged this problem, in 2021, the Government ramped up efforts to curtail the illicit market, strengthening detection mechanisms

and raising awareness among relevant law enforcement agencies. Resultantly, the illicit market contracted by 14% compared to 2020. Meanwhile, the under-regulated and under-taxed beedi industry continues to expand, accounting for an estimated 4% of the combustible market. Its contribution to the Government's tobacco tax revenue, however, remains insignificant, reflecting the unfair tax burden on factory manufactured legal cigarettes.



70,800+

Jobs created

6%

of the country's total tax revenue

Regulatory environment

Tobacco is amongst the most heavily regulated and taxed industries in the country, with the National Authority on Tobacco and Alcohol Act No. 27 of 2006 (NATA) setting out regulations on product labelling, including pictorial health warnings, product marketing,

advertising & sponsorships, and sale. Our operations during the year have been affected by key regulatory developments, which include fertiliser bans and the impact on forex.



2.4 Bn

Factory manufactured cigarettes taxed

Macro-economic conditions

Following a strong rebound in the first quarter of 2021, reflecting policy stimuli and business adaptation to post-pandemic conditions, Sri Lanka's economic activity was yet again affected by the 3rd and 4th waves of COVID-19. GDP contractions in the second half of the year resulted in the country's full-year GDP growth slowing to 3.7% in 2021. Major developments include:

- Decline in workers' remittances and tourism earnings, together with outflows from the capital market, have hampered the country's economic growth prospects, and
- Market interest rates recorded a gradual uptick in the 2nd half of 2021, following tightening of the Monetary Policy



3.7%

GDP growth in 2021

14%

Increase in National Consumer Price Index (NCPI)



Implications of climate change

Implications of climate change including rising temperatures and erratic weather patterns have a direct impact on agricultural crops, which need suitable water, heat, sunlight, and soil conditions to grow. These could impact the quality and productivity of tobacco, while delaying harvesting durations and thereby affecting the security of our raw material supplies over the long-term.

Purposeful Initiatives

Here at CTC, our business module is driven by a strong vision and strategy to optimise manufacturing and operational efficiencies. As we strive to formulate a sustainable value creation model year-on-year, each of our brands and products have immensely contributed towards the Company's purposeful performance.

CTC's achievements in 2021:

60,063

traders & retailers

1,613

contracted tobacco
farmers

Rs. 24.5 Mn

training investments

Strategic Report

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Business Model

Capital inputs:



Financial Capital

Shareholders' funds: **Rs. 8,987 Million**
Capital expenditure: **Rs. 844 Million**



Manufactured Capital

Manufacturing facilities: **2**
Property, Plant and Equipment: **Rs. 5,348 Million**



Human Capital

Permanent employees: **269**



Social and Relationship Capital

1,613 Contracted tobacco farmers
12 Distributors and **60,063** Retailers & Traders
Community relationships



Technology/Intellectual Capital

Brands
Insights into adult consumers and market behaviour
Access to world-class R&D capabilities



Natural Capital

1,602,164 Kg of tobacco leaf consumed for production
34,608 GJ direct energy use
37,461 Cu.M total water withdrawn

Value creating activities:

Key activities



1. Sourcing

Tobacco leaves from contracted tobacco farmers
Packaging material



2. Manufacturing

15 SKUs across 5 brands



3. Sales & Distribution

An island-wide network of distributors & retailers

Value drivers



Strategic Planning



Corporate Governance & Risk Management



Talent Management & Development



Technology & Digitalisation



Budgeting & Financial Management



Environmental Management

A Better Tomorrow™ for:

As measured by:



- Rs. 111.25 Billion tax payments
- Rs. 73 Million CSI investments
- 2.8 MW solar panel project initiated
- 22.74% waste recycled



- 4.81% increase in revenue
- 3.65% increase in profit after tax
- 3.65% growth in earnings per share



- Ensured product availability through distributor and retail outlets
- Explored product innovation
- 99.6% conformance to quality specifications



- Rs. 1.52 Billion value added to employees
- Zero accidents and lost time hours
- 30% of women in Management roles
- Rs. 24.5 Million investments in training & development
- 80% administrative employees facilitated to work from home



- Rs. 1.62 Billion payments to contracted tobacco farmers
- 100% procurement of tobacco leaf done locally
- Rs. 36 Million in ensuring health & safety of distributor staff
- Launch of 'Distributor Excellence' programme

Strategy for Accelerated Growth

Our evolved corporate strategy aims to drive transformation of the business and achieve the BAT Group's purpose of delivering A Better Tomorrow™ for all our stakeholders. Our BAT Group's strategy is centred around generating an increasingly greater proportion of revenue from products other than cigarettes, by responsibly offering innovative and less harmful products that stimulate the senses of adult consumers. For our employees, we are committed to creating a diverse, dynamic and purposeful work environment while shareholder value is created through delivering sustainable superior returns.



Our Mission

Stimulating the senses of new adult generations:

Today, we see opportunities to capture adult consumer moments, which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving adult consumer needs and preferences. Our mission is to anticipate and satisfy this ever-evolving adult consumer: provide pleasure, reduce risk, increase choice, and stimulate the senses of adult consumers worldwide.

Must Wins

High growth segments:

Driven by our unique and data-driven adult consumer insight platform (PRISM), we will focus on product categories and adult consumer segments across our global business that have the best potential for long-term sustainable growth.

Priority markets:

By relying on a rigorous Market Prioritisation System (MaPS), we will focus the strengths of our unparalleled retail and marketing reach, as well as our regulatory and scientific expertise on those markets and marketplaces with the greatest opportunities for growth.

How to Win

Inspirational foresights:

As one of the most long-standing and established adult consumer goods businesses in the world, we have a

unique view of the adult consumer across four product categories, which is increasingly driven by powerful data and analytics. These insights ensure that the development and responsible marketing of our products is fit to satisfy adult consumer needs.

Remarkable innovation:

As adult consumer preferences and technology evolve rapidly, we rely on our growing global network of digital hubs, innovation super centres, world-class R&D laboratories, external partnerships, and an upcoming corporate venturing initiative to stay ahead of the curve.

Powerful brands:

For over a century, we have built trusted and powerful brands that satisfy our adult consumers and serve as a promise for quality and enjoyment. We will focus on fewer, stronger, and global brands across all our product categories, delivered through our deep understanding and segmenting of our adult consumers.



Connected:

Few companies can claim over 150 Million daily adult consumers, over 11 Million retail points of sale, as well as a network of expert and skilled employees around the world. Staying connected to all of them, especially through digital means (including e-commerce), ensures better consumer connections, access to markets and innovations that offer sensorial enjoyment and satisfies adult consumer needs.

People & partnerships:

Our highly motivated people are being empowered through a new ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement. But we cannot succeed on our own, and our partnerships with farmers, suppliers and adult consumers are also key for ensuring sustainable future growth.

U.S. focus:

The United States comprises nearly half of our global business. It is also the single largest economy in the world, the largest single centre for technology and the key driver of global consumer trends, and is where we have deep adult consumer understanding and financial strength to support the delivery of our mission to stimulate adult consumer senses around the rest of the world.

Key Stakeholder Outcomes

We will create

A Better Tomorrow™ for:

Adult consumers

By responsibly offering enjoyable and stimulating choices for every mood and every moment, today and tomorrow.

Society

By reducing the health impact of our business by offering a range of alternative products, as well as by reducing our environmental and social impacts.

Employees

By creating a dynamic, inspiring and purposeful place to work; and

Shareholders

By delivering sustainable and superior returns.

Delivering our Strategy

Manufacturing Excellence

- Obtained IWS Phase 1 Certification
- Recorded zero lost time injuries and zero serious injuries
- Reduced the environmental footprint of manufacturing operations
- Commenced installation of solar panels to cover 100% viable roof space in Colombo and Kandy premises (2.8MW renewable electricity generation)



71.22%

OEE (2020: 69.13%)



15.8 minutes

Mean Time Between Failure (MTBF)
(2020: 9.34 minutes)



6.6%

Reduction in consumer complaints



99.5%

Specification levels
(2020: 99.6%)

CTC has continued to make inroads in driving efficiency improvements and reducing wastage in our manufacturing operations. During the year, the Company achieved a major milestone by obtaining the Phase 1 certification of IWS, joining the ranks of 11 out of 52 factories across the BAT Group to obtain this certification.

Through its IWS journey, the Company has recorded broad-based improvements in Overall Equipment Efficiency (OEE) and product quality, while reducing the environmental footprint of its manufacturing operations. The programme also involved significant investments in enhancing upskilling employees, which in turn has supported the development of internal capabilities.

Capital expenditure

Investments in Property, Plant and Equipment amounted to Rs. 844 Million during the year. This consisted primarily of investments in solar power generation and factory footprint interventions. Recent investments made in upgrading manufacturing technology accrued benefits during the year, facilitating capacity improvements through increased productivity.

Employee safety

CTC achieved another year of zero lost time and zero serious injuries. We also strengthened reporting mechanisms for minor injuries and took measures to further enhance the Company's safety culture through knowledge sharing. Risk assessments were conducted to identify and address potential safety hazards within our manufacturing facilities.

Comprehensive and stringent measures were also introduced to minimise the risk of COVID-19 cross-infections. This included regular screening,

daily declaration forms, new work arrangements, and providing access to a dedicated interim care centre for all infected employees and their families.

Stringent health & safety standards were also rolled out to third-party contractors operating within our sites. This included awareness sessions, screening and guidelines on the use of PPE and safety equipment.

Environmental footprint of manufacturing operations

In line with our long-term environmental aspirations, we continued to reduce the environmental footprint of our manufacturing operations. Supported by the enhancements accrued through IWS, the Company achieved improvements in energy and water recycled efficiencies, while water consumption increased by 12% during the year on account to capture consumption at Depot level. (refer to page 137 of the ESG Report for further information).

Way forward

With the anticipated completion of the solar panel installation project by 2022, we expect a significant reduction in the use of fossil fuel-based energy sources, thereby driving down our carbon footprint. We also hope to commence work on obtaining the Phase 2 certification of IWS, in line with our commitment towards achieving manufacturing excellence.

Leveraging our Brands

- Volume growth of 4.3%
- Adapted to restrictions of limited mobility and ensured continued distribution of products
- Maintained market share in key brands
- Strengthened proposition in both value for money and premium segments



4.3%

Volume growth to
2,384 Million sticks



15 SKUs across 5 Brands

Product portfolio

Building on the learnings of 2020, CTC swiftly adapted to the conditions of restricted mobility in 2021. We deployed contingency plans to ensure continued distribution of products and engaged in strategic portfolio initiatives to maintain volumes. Resultantly, the Company recorded a volume growth of 4.3% in 2021, despite the challenging operating conditions that prevailed.

Portfolio strategy

Our strategy for the year centred on reinforcing the propositions launched in 2020 and leveraging our multi-brand portfolio to cater to diverse adult consumer needs across segments. We maintained brand equity of John Player, while developing the premium portfolio through our Dunhill brand, allowing the Company to enhance the range offered in its premium segment.

The value for money segment was understandably impacted by the slowdown in economic activity and drop in disposable incomes. We strengthened our proposition in this segment by deploying tactical strategies, which enabled us to retain market share.

Product standards

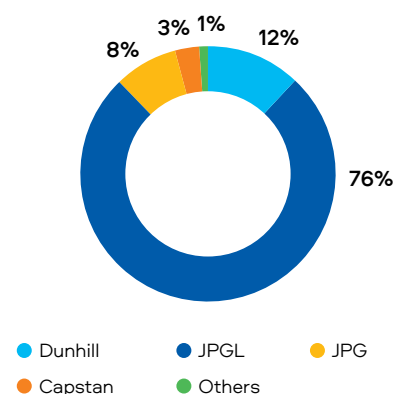
CTC benefits from world-class technology, best practice research, and stringent product standards of its parent entity. All products are formulated following extremely stringent

criteria including multi-disciplinary risk assessments, scrutiny of ingredients and extensive testing. Manufacturing also follows industry leading practices, with continued emphasis on quality, traceability and product integrity maintained throughout the process.

Way forward

Despite macro-economic headwinds, we anticipate demand to return to normalcy in 2022, supported by the gradual recovery of the tourism sector and improving economic activity. Following recent additions to our portfolio, the Company is well-placed to drive penetration within the market, catering to the needs of adult consumers.

Revenue composition by brand



Delivering our Strategy

Our Portfolio of Brands



Dunhill Double
Capsule Green



Dunhill Double
Capsule Yellow



Dunhill Switch



Dunhill Blue



Dunhill
International



Dunhill Grey



Benson & Hedges
(B&H)



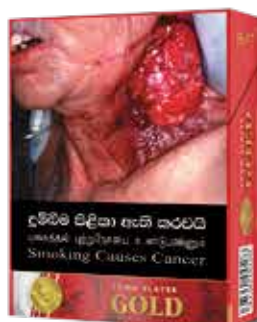
John Player
Gold Leaf (20)



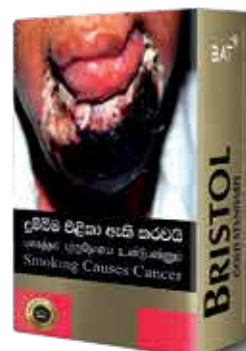
John Player
Gold Leaf (12)



John Player
Navy Cut



John Player Gold



Bristol Gold



Bristol Classic



Capstan Maxxa



Capstan

Delivering our Strategy

Distribution Capabilities

- Ensured accessibility of products across the country
- Multi-faceted value creation for trade partners
- Launch of 'Distributor Excellence' programme



Rs. 36 Mn

Investment in distributor health & safety



Rs. 15 Mn

Investment in medical and hospitalisation cover under the 'Abhisheka' programme

The Company continued to work closely with its distributors and retailers, ensuring the availability of products despite the lockdowns in 2021. We also strengthened our presence across major e-commerce platforms, increasing accessibility to outstation markets. The resilience we demonstrated in 2021 attests to the adaptability and agility demonstrated by the team and our distribution partners.

Value creation for trade partners

We safeguarded the financial security of distributors by ensuring the full and timely payment of services. In view of the market challenges, we also extended credit periods, which in turn enabled our trade partners to manage liquidity more effectively. We continued to conduct weekly sessions on health, safety and hygiene to distributor staff through digital channels. We supported the families of 110+ distributor staff who were infected by COVID-19 by distributing packs of essential items. We also continued to invest in the development of our distributor staff and trade partners with training delivered primarily through digital platforms during the year.

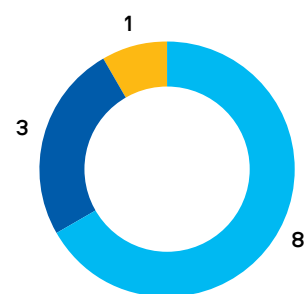
'Distributor Excellence' programme

We launched a 'Distributor Excellence' programme during the year with the aim of reviewing, optimising and refining the current distribution strategy. This programme involves detailed assessment of the costs, efficiency, effectiveness and profitability of our route-to-market strategies. The learnings from this initiative will be used to strengthen internal processes and support capacity building of our distributor representatives, which in turn will enhance the overall effectiveness of our distribution strategy.

Trade loyalty programme

We continued to support the development and well-being of our

Length of distributor relationships



● 50 years or more ● 25 to 50 years
● Less than 25 years

trade partners through 'Abhisheka', our trade loyalty programme. We widened access of our health insurance scheme to 2,271 trade partners. This programme comprises of a medical insurance and hospitalisation cover of up to Rs. 1.5 Million, the annual premium of which is borne by CTC. We also strengthened the value proposition to our trade partners with the aim of ensuring commercial sustainability.

Way forward

In 2022, we will focus on accessibility, particularly through e-commerce platforms, while adhering to all legal, regulatory, statutory, and BAT guidelines. We will also leverage learnings obtained from the 'Distributor Excellence' programme to optimise the Company's distribution strategy.

Tackling Illicit Trade

- Increased detection of smuggled cigarettes by the authorities
- Continued growth of the beedi market and increased prevalence of smuggled tendu leaf imports



200+ Mn Sticks

Detection of illicit cigarettes



Rs. 9 Bn

Value saved to the State

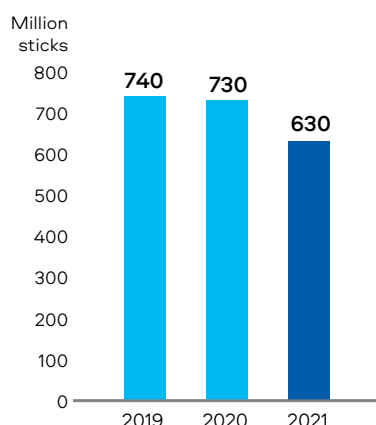
Illicit trade

Having acknowledged the implications of the illicit industry, the Government ramped up efforts to curb its growth during the year. Relevant law enforcement agencies were empowered to strengthen detection mechanisms, resulting in the detection of 200+ Million sticks smuggled in 21 containers, the largest ever consignment of illicit cigarettes detected. This is expected to result to a near 14% decline in illegal tobacco industry volumes. CTC has continued to support the Government in its efforts to fight cigarette smuggling

by raising public awareness and sharing world-class practices and procedures driven by BAT globally. Meanwhile, the 'Know-Your-Customer' (KYC) and 'Know-Your-Supplier' (KYS) procedures in the Supply Chain Compliance Procedure ensures that tobacco products are not diverted to illicit channels.

Expansion of the country's illicit cigarette market creates numerous socio-economic problems. In addition to loss of Government revenue, the trade has been linked to transnational criminal activities including funding of narcotics, weapons and terrorism. Unlike legal cigarettes, traders of illegal cigarettes do not comply with the laws and regulations in place including under the NATA Act, which set out stringent guidelines on inclusion of health warnings, product packaging and labelling.

Illicit cigarettes



Beedi industry

Sri Lanka's beedi market has continued to expand, accounting for 67% of total tobacco consumption in 2021. Beedi continues to be relatively under taxed, accounting for just 4% of the Government's tobacco tax revenue. Typically, in periods of economic stress, demand shifts towards beedi, given its relative affordability when compared with factory manufactured cigarettes. Meanwhile, the increase in smuggled tendu leaves continues to be a concern, as it deprives the Government of legitimate tax revenue.

Way forward

We commend the proactive efforts taken by the Government to curtail the rapid growth of the illicit market. We will continue to support the relevant authorities in tackling illicit trade and preventing sub-standard products from entering the market. Given the expertise and experience of our parent entity in over 180 markets, we have much to offer Governments and regulators when it comes to developing policies around tobacco and are keen to contribute towards shaping an industry, which ensures the creation of shared stakeholder value.

Risk Management

The risk landscape presented new complexities during the year, reflecting the continued economic, human and social implications of COVID-19. CTC proactively monitored emerging risks that could affect its financial performance, stability, business continuity, and supply chain over the long-term.



Risk Governance

The Company's approach to managing risks and the principal risks of 2021 are set out below:

Risk governance

The Board of Directors holds ultimate responsibility for ensuring that the Company's risks are identified and mitigated effectively. The Board is supported by the Audit Committee and a dedicated Risk Management Committee (RMC) at executive level in discharging its risk management responsibilities. The Audit Committee reviews the effectiveness of the Company's risk management and internal control systems bi-annually. The RMC, headed by the Company's Finance Director and consisting of Senior Managers representing key functions, report to the Executive Committee on the risk performance of each function on a regular basis. The Company's risk profile is also monitored through the internal reporting mechanisms of the BAT Group.

Management approach

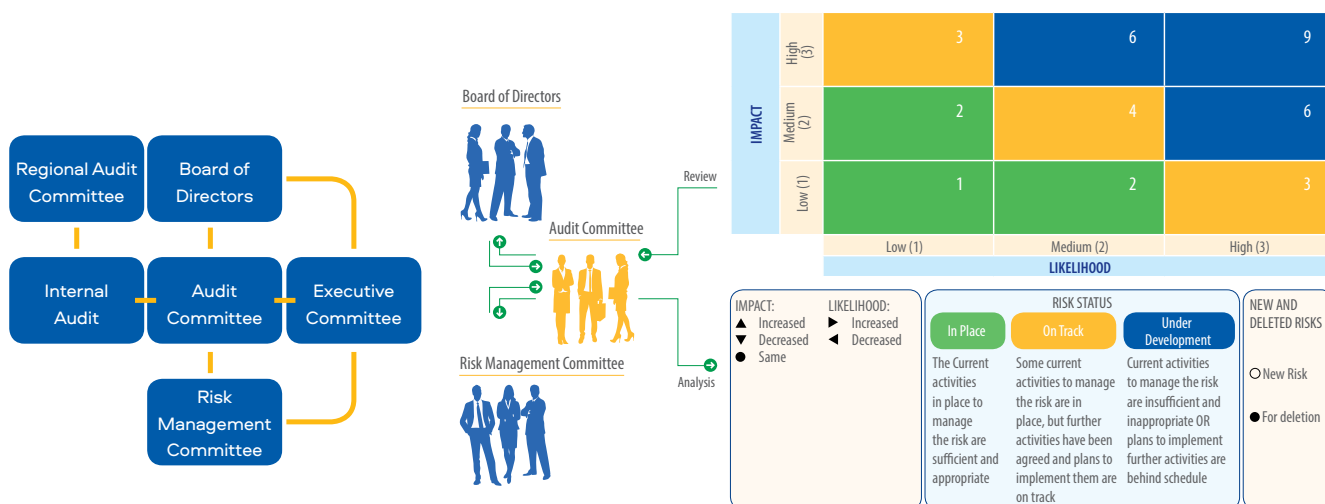


The Company's risk management framework is characterised by defined mandates, comprehensive policy frameworks, and clear governance structures. As a subsidiary of the BAT Group, CTC also benefits from the

international harmonisation of global best practices in risk management and has been successful in nurturing a risk culture, which aptly balances risk and growth considerations.

Risk identification - Every year, a risk assessment is carried out to identify the principal uncertainties facing CTC, including those that would threaten its business model, future performance, solvency and liquidity. Financial and non-financial risks are identified at a functional level with inputs from relevant employees. This is done through team discussions and brainstorming sessions which facilitate value addition. The identified risks are reviewed for completeness by the RMC on a regular basis and reported to the Audit Committee.

Assessment and evaluation - Risk registers, which are standardised across the BAT Group, are used to assess and evaluate risks. All identified risks are



assessed at 3 levels (high/medium/low) with reference to the likelihood of occurrence and the potential impact. Tolerance levels and trigger points are also defined for each identified risk. The risk registers are validated by the RMC and reviewed regularly by the Executive Committee and bi-annually by the Board and the Audit Committee.

Risk management - Based on the risk scores derived from the risk register, the respective functions formulate

strategies to curtail and mitigate these risk exposures. Responsibility for managing each identified risk is allocated to the Head of each function (risk owners), who report regularly to the RMC on the performance of the defined risk parameters. Additionally, the potential impact of global trends and risks are also captured through input by the Regional Audit Committee, which also recommends improvements in internal controls in line with global best practices.

Monitoring - Risks are monitored at multiple levels in the organisation, including at a functional level, by the RMC, Executive Committee, Audit Committee, and at Board level. Identified risks, the risk registers, mitigation plans and performance of each identified risk are evaluated at these levels throughout the year.

Principal risks of 2021

The table below summarises the Company's key risk exposures for 2021. The risks detailed below are the ones that had and could potentially have the most significant impact on the Company's ability to create value. Some of these major risks are outside the control of CTC and other factors besides those listed below which may affect the Company's performance. Some risks may be unknown at present; others which are currently immaterial, could emerge as material risks in the future.

| Principal risks | Risk assessment compared to last year | | Timeline of risk | Risk management mechanisms in place |
|--|---------------------------------------|-----------------|----------------------|-------------------------------------|
| | Impact | Likelihood | | |
| Business disruptions stemming from COVID-19 | ● | ● | Medium term | ■ |
| Macro-economic volatility in transactional foreign exchange rate | New risk factor | New risk factor | Short to medium term | ■ |
| Competition from illicit trade | ● | ● | Long term | ■ |
| Competition from beedi | ● | ● | Medium term | ■ |
| Unfavourable and unplanned excise and taxes | ● | ● | Medium to long term | ■ |
| Impact of price increases on consumer affordability | ▲ | ▲ | Short to medium term | ■ |
| Difficulties in recruiting/retaining talent | ● | ● | Long term | ■ |

Business disruptions stemming from COVID-19

The emergence of new variants of the COVID-19 virus could result in lockdowns and restrictions in mobility in 2022. This could result in potential disruptions to distribution channels and supply chains and a slowdown in consumer demand. However, these risks could be mitigated given the Company's adaptation to new realities of working and its demonstrated ability to conduct business in conditions of limited mobility. While health & safety of employees remains a key risk, given the possible resurgence of infections, these risks are mitigated by the Company's stringent and comprehensive safety guidelines.

Macro-economic volatility in transactional foreign exchange rate

Sri Lanka's economic prospects are dampened by the current foreign exchange crisis and significant external debt repayments due in 2022. Efforts to preserve foreign currency reserves through restricting imports have affected local manufacturers who rely on imported raw materials. Other downside risks include rising inflation levels, food shortages, and disruptions to power supply given the shortage in fuel within the country. While our reliance on imported raw material is limited, these dynamics could impact CTC through implications on consumer affordability, which would ultimately lead to lower volumes.

Competition from illicit trade

The illicit market comprises of smuggled products (counterfeit cigarettes and duty-not-paid genuine products) and locally manufactured products on which applicable taxes are evaded. The increasing price disparity between legal and illicit cigarettes in recent years have fuelled the growth of the illicit market, which now accounts for 7% of the country's total cigarette consumption. Having acknowledged the implications on Government revenue and public health objectives, the Government has ramped up efforts to curtail growth of the illicit market, by strengthening detection mechanisms and empowering relevant law enforcement agencies.

Risk Management

Competition from beedi

Beedi has continued to gain market share, accounting for 67% in 2021 compared to just 20% in 2007. The beedi market continues to be under-regulated and under-taxed, with only imported tendu leaves being taxed. In recent years, there has also been a spike in smuggled tendu leaf imports, which further deprives the Government of legitimate taxes.

Unfavourable and unplanned excise and taxes

Excise duties and taxes on tobacco products are a key source of Government revenue, leading successive governments to view the industry as a potential source of additional revenue during periods of fiscal difficulties. From 2016 to 2021, the price of a legal cigarette increased by 112% driven by excise and taxes.

Impact of price increases on consumer affordability

The Company's ability to adjust retail prices to reflect rising manufacturing costs is limited, particularly given the excise-driven steep escalation in prices and the adverse impacts on consumer affordability. The moderating economic conditions and impact on consumer disposable incomes in recent years have further compounded this challenge, which has directly impacted our volumes.

Difficulties in attracting/retaining talent

The Company could be exposed to difficulties in attracting and retaining the right people who have the ability and personal leadership skills to drive its strategic objectives, particularly given social perceptions and stigma surrounding the tobacco industry.



Purposeful Transparency

At CTC, we are a responsible corporate entity with a transparent approach integrated into each process. Exceptional governance, long-term industry expertise, and efficient internal controls have enabled the Company to assess capabilities and formulate realistic responses to current challenges, as CTC pursues commercial objectives even amid changing industrial expectations.

CTC's achievements in 2021:

1st ever

female Managing
Director & CEO

**Formal
procedures**

in place for managing
conflicts of interest

'Speak-up'

hotline managed
independently and available
24 hours



Corporate Governance

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Board of Directors



Suresh Shah

Chairman since February 2021 and Independent Non-Executive Director

Current appointments

Chairman of Providore.Shop and a Board Member of Ceylon Beverage Holdings PLC and Lion Brewery (Ceylon) PLC. Director of Carson Cumberbatch PLC, Bukit Darah PLC, and several companies within the Carson Cumberbatch Group.

Past appointments

Mr. Suresh Shah served as the CFO of Lankem Ceylon PLC and United Motors PLC. He has also served as the Chairman of the Ceylon Chamber of Commerce and the Employers Federation of Ceylon, and as a Commissioner of the Securities and Exchange Commission (SEC) of Sri Lanka and member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka.

Skills and experience

Mr. Shah is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and brings a wealth of business acumen, serving as Director on the Board of reputed blue chip Carson Cumberbatch & Co. PLC since 2002, and Director/CEO of Ceylon Beverage Holdings PLC since 1991 and Lion Brewery Ceylon PLC since its inception in 1996.



Anil Tittawella

**Independent Non-Executive Director
(Demised on 26 February 2022)**

Chairman of Board Compensation and Remuneration Committee, Corporate Social Investment Steering Committee, and member of Related Party Transactions Review Committee, Audit Committee and Nominations Committee

Appointments

He held Directorships in Orient Finance Lanka PLC, Hyundai Lanka Limited and Shipping & Cargo Logistics Limited (Aitken Spence Group).

Mr. Anil Tittawella was a member of the Committee on Company Law Reform of the Bar Association of Sri Lanka (1995-1996), a Member of the Sri Lanka - Swedish joint legal team to formulate the new Arbitration Act of Sri Lanka (1994-1997), and also a Legal Consultant to the Airport and Civil Aviation Authority of Sri Lanka (1994-1997). Further, Mr. Tittawella was the Founding Member of the Institute of Commercial Law and Practice in Sri Lanka (1995). He was a Member of the Ceylon Chamber of Commerce Committee on Company Reforms (1993), a Commission Member of the Securities and Exchange Commission of Sri Lanka (2000-2002), and a Member of the Insurance Board of Sri Lanka (2001-2002).

Skills and experience

A renowned lawyer in Sri Lanka and a President's Counsel, Mr. Tittawella held a Masters' in Law (Hons) from the University of Waikato, New Zealand. He had extensive experience in litigation and alternate dispute resolution focusing on civil and commercial law with a diverse clientele from Sri Lanka, Pakistan, South Korea, Hong Kong, Sweden, UAE, Thailand, Singapore, England, USA, India, Mauritius, New Zealand, and Switzerland.



Yudhishtan Kanagasabai

Independent Non-Executive Director

Chairman of the Audit Committee, Related Party Transactions Review Committee and member of the Board Remuneration and Compensation Committee, Corporate Social Investment Steering Committee, and Nominations Committee

Current appointments

Independent Non-Executive Director and Chairman of the Board Audit Committee of Ambeon Capital PLC and Eswaran Brothers Exports (Private) Limited. Non-Executive Director and a member of the Board Audit Committee of Cargills Food Company Limited and Cargills Ceylon PLC. Non-Executive Independent Director and Chairperson of the Audit Committee of Millennium IT (Pvt) Limited and Colombo City Holdings PLC, Non-Executive Independent Director and member of the Board Audit Committee of Hunter and Company PLC, Non-Executive Director and member of the Board Audit Committee of Lanka Canned Products Limited, Non-Executive Director of Cargills Bank Limited, and Chairman of Dankotuwa Porcelain PLC.

Past appointments

Mr. Yudhishtan Kanagasabai was a Senior Partner/Chief Executive Officer of PricewaterhouseCoopers in 2006. He was also a Non-Executive Director and Chairman of the Board Audit Committee of Union Bank PLC (a Texas Pacific Group subsidiary) and the Commissioner of the Insurance Regulatory Commission of Sri Lanka.

Skills and experience

Mr. Kanagasabai served PricewaterhouseCoopers since its inception in 1981 and has held progressively responsible positions before being appointed as Senior Partner/Chief Executive Officer in 2006, a position he retired from in 2017. He elevated the profile of both the Sri Lankan and the Maldives practices of the firm to consistently provide quality solutions to clients within appropriate standards and applicable best practices. Mr. Kanagasabai has extensive knowledge of current economic, social and regulatory issues. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka.



Monisha Abraham

Managing Director & Chief Executive Officer since December 2021

Member of the Nominations Committee and Corporate Social Investment Steering Committee

Current appointments

Managing Director & Chief Executive Officer of Ceylon Tobacco Company PLC

Past appointments

Ms. Monisha Abraham has a wealth of experience during her career with Heineken, spanning over 16 years and across 5 countries. She has held various senior management positions and spearheaded operations across several markets.

In 2019, Ms. Abraham moved to Brussels, Belgium where she took over as Managing Director of Ibecor, a 100% Heineken-owned company specialising in inbound logistics and contract management for Africa and Middle East. At Ibecor, she was responsible for transforming the organisation by expanding its business reach to Asia Pacific and the Caribbean.

Skills and experience

Possessing more than 25 years of experience in Marketing and General Management roles across the FMCG sector, Ms. Abraham has built a reputation as a leader who drives robust business strategies while developing people and fostering high performing teams. She has continuously worked towards building networks to facilitate collaboration across organisations as well as externally to drive business priorities, delivering sustainable growth in volumes and profits. Ms. Abraham holds a Bachelor's Degree in Commerce and an MBA from India.

Board of Directors



Syed Muhammad Ali Abrar

Executive Director since September 2021

Member of the Corporate Social Investment Steering Committee

Current appointments

Finance Director of Ceylon Tobacco Company PLC

Past appointments

Mr. Syed Muhammad Ali Abrar joined BAT in 2005. During his stint at BAT, he has performed in various capacities within the finance function across several geographies, in a multicultural environment. Having a rich and diverse experience profile, he has a proven track record of driving sustainable value growth for the Group's businesses in Pakistan, South Asia, South Pacific, Middle East, and BAT's global business services hub in Malaysia. Throughout his career, Mr. Abrar has been instrumental to business performance and on target delivery of many strategic initiatives. Over the years, he has established himself as a finance professional who leverages his functional expertise and commercial acumen to drive the strategic agenda, both in terms of business growth as well as talent development.

Skills and experience

Mr. Abrar holds a Bachelor's degree from the National University of Science and Technology, Pakistan and an MBA from the Institute of Business Administration, Pakistan.



Usman Zahur

Non-Executive Director

Member of Audit Committee, Related Party Transactions Review Committee and Board Compensation and Remuneration Committee

Current appointments

Area Director BAT Asia Pacific & Global Travel Retail in March 2021. Company Chairman of CTBAT, a JV company of BAT with CNTC

Past appointments

Mr. Usman Zahur has served as the Managing Director & CEO of Pakistan Tobacco Company Limited since January 2020. In 2012, Mr. Zahur was appointed as the Head of Marketing in BAT Bangladesh Company Limited. In 2015, he moved to BAT Head Quarters (HQ) and was instrumental in developing the 'KENT' brand. Mr. Zahur was later appointed as the Area Marketing Director for South Asia Cluster and Deputy Managing Director of Pakistan Tobacco Company Limited in 2017.

Skills and experience

Mr. Zahur joined Pakistan Tobacco Company Limited 21 years ago and since then, has held various senior marketing positions in the areas of brands, trade, and strategic planning and insights across different markets. He played a key role in building and deploying the KENT Next Generation Product Agenda in Romania and Japan. In the most recent role, he is leading the New Category growth agenda for New Zealand, Indonesia, Taiwan, Vietnam, including China, as the Company Chairman of CTBAT.



Rumana Rahman
Non-Executive Director since February 2021

Current appointments

Regional Head of Talent, Culture & Inclusion, APME - BAT

Past appointments

Ms. Rumana Rahman previously served as the Head of HR - BAT Bangladesh Company Limited

Skills and experience

Ms. Rahman has extensive experience in Human Resource Management, leading HR in 35 countries of APME. Her capabilities include talent development, employer brands, organisational development, HR transformation, and change management. She was the first South Asian female and first Bangladeshi to be appointed to the BAT APME Regional leadership team and is the first South Asian female leader of the top 120 leaders of the BAT Group. She was recognised as the 'Most Inspiring Woman Leader' by Brand Forum in 2016.



Stuart Kidd
Non-Executive Director since February 2021

Current appointments

Regional Head of Finance, APME - BAT

Past appointments

Mr. Stuart Kidd has held several senior finance roles across markets including New Zealand, Vietnam, United Kingdom, Hong Kong, Switzerland, and Japan

Skills and experience

Mr. Kidd has over 20 years of experience across diverse BAT markets, including several successful stints as Finance Director, most recently in Japan, where he successfully contributed to BAT's New Category growth and business transformation agenda. He has also been involved in mergers and acquisitions across the Region. Mr. Kidd holds a Bachelor of Commerce from the University of Auckland and is a Certified Chartered Accountant.

Executive Committee



Sudesh Peter
Head of Legal & External Affairs
and Company Secretary

Aruni Abeysekera
Head of Human Resources

Alexander Ugarte
Head of Operations



Syed Muhammad Ali Abrar
Finance Director

Monisha Abraham
Managing Director & CEO

Kavinda Nanayakkara
Head of Marketing

Corporate Governance

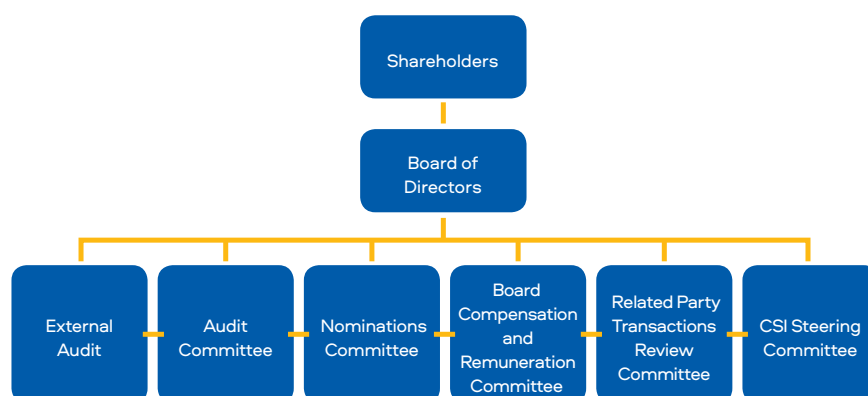
The Company's robust governance framework and its deeply-entrenched BAT Ethos provide a strong foundation in navigating the unprecedented complexities presented by the pandemic. The effective operation of our governance practices during the year enabled the Company to deliver on its stakeholder commitments despite the difficult operating conditions, while retaining focus on our corporate purpose of building A Better Tomorrow™.

CTC's governance structures, policies and framework are aligned to the best-in-class practices of BAT. The framework also complies with local regulatory requirements including the Companies Act No. 7 of 2007, Listing Rules of the CSE, Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka, and other relevant laws and regulations.

responsibility over specific areas. In addition to the mandatory sub-committees, CTC has also appointed a Corporate Social Investment Steering Committee to drive its community engagement aspirations.

Governance structure

The Company's governance structure (graphically illustrated) promotes empowerment and accountability. Several Board sub-committees have been appointed with oversight



| Sub-Committee | Composition* | Mandate |
|---|--|---|
| Audit Committee | 2 Independent NEDs, 1 NED Chaired by an Independent NED who is a member of a professional accounting body with the necessary experience | Support the Board and the BAT Group's relevant Audit Committees in ensuring the integrity of financial statements, management of business risks, internal control and compliance, and conduct of business in accordance with our SoBC policy. |
| Board Compensation and Remuneration Committee | 2 Independent NED, 1 NED Chaired by an Independent NED | Responsible for determining the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors, the Executive Committee, and the Management staff of the Company. |
| Nominations Committee | 2 Independent NEDs, 1 ED Chaired by an Independent NED | Provide recommendations to the Board on suitable candidates for appointment to the Board, ensuring that the Board has a diverse and appropriate balance of skills and experience. |
| Related Party Transactions Review Committee | 2 Independent NEDs, 1 NED Chaired by an Independent NED | Review and provide recommendations on Related Party Transactions in line with the Listing Rules and Code of Best Practice on Related Party Transactions. |
| CSI Steering Committee | 2 Independent NEDs, 2 EDs Chaired by an Independent NED | Ensure the identification and management of all environmental, social and governance priorities and ensure that business is conducted in a socially responsible manner. ** |

*NED - Non-Executive Director, ED - Executive Director

**The scope of the Company's CSI Steering Committee was expanded to encompass management of ESG issues during the year, given CTC's strategic thrust towards ESG strategy and management. Accordingly, the Committees' Terms of References were revised to include driving the Board's social and environmental vision and aspirations, oversight on management of social and environmental issues, and ensuring compliance to relevant ESG policies.

Board of Directors

The Board serves as the custodian of the Company's Corporate Governance pillar and is collectively responsible to the shareholders for its long-term success. Through oversight on strategic direction, values and purpose, the Board provides leadership for the Company to meet its business and sustainability objectives. The Board's role includes the following:

- Formulating the Company's business strategy and ensuring that the necessary financial and human resources are in place to meet its objectives,
- Establishing an effective Management team and in particular, the appointment, and where necessary, removal of the Chairman, Chief Executive Officer (CEO), other Executive Directors, and Company Secretary,
- Establishing appropriate systems of corporate governance in the Company,
- Reviewing the effectiveness of the Company's risk management and internal control systems, and
- Establishing the Company's performance objectives and monitoring the performance of the Management team in achieving them.

Board composition

The Board comprises of 8 Directors (including the Chairman) of whom 2 are Executive and 6 are Non-Executive Directors; of the Non-Executive Directors, 3 are Independent*. The BAT Group is represented by 3 Directors who hold no executive functions in CTC. The composition of the Board, the balance between Executive and Non-Executive representation, and the calibre of Non-Executive Directors ensure that power is appropriately balanced within the Board.

The Board diversity and skill profile was further enhanced during the year. The appointment of Mr. Suresh Shah, a dynamic Sri Lankan business leader who has served as Chairman of both the Chamber of Commerce and Employers Federation of Ceylon, among others, has enabled the Board to broaden

understanding of the local business context and strengthen engagement with relevant stakeholders. Meanwhile, with the appointment of 2 female Directors during the year (including the MD & CEO), gender diversity has also been enhanced. Financial and people management skills have also been strengthened with the appointment of BAT Regional Heads to the Board during the year (refer to page 32 for detailed profiles of Directors).



February 2021

Appointment of Non-Executive Directors - Ms. Rumana Rahman and Mr. Stuart Kidd

Appointment of Mr. Suresh Shah as an Independent Non-Executive Director and Chairman, following the resignation of Mr. William Pegel

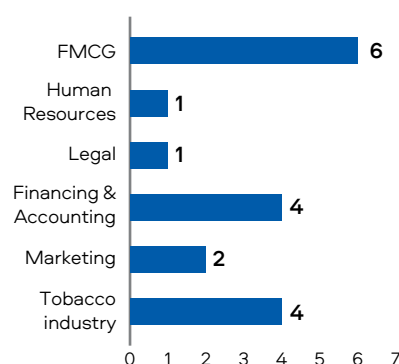
September 2021

Resignation of Finance Director, Umair Luqman and appointment of Syed Muhammad Ali Abrar as his replacement

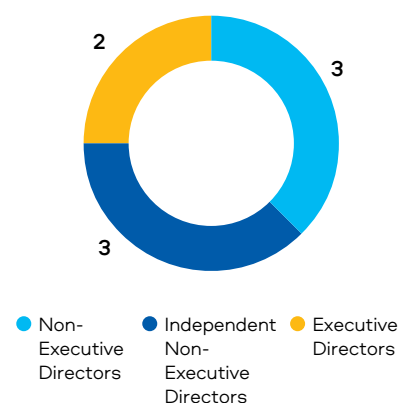
December 2021

Resignation of Managing Director & CEO, Nedal Salem and appointment of Monisha Abraham as his replacement

Board skill profile



Board composition



Conflicts of interest

Annual declarations of independence or non-independence are obtained from all Directors in accordance with the stipulations of the Listing Rules of the CSE and the guidelines of the Code of Best Practice. The Board also has formal procedures for managing conflicts of interest and Directors are required to provide advance notice of the same to the Company Secretary. From the present Board, 3 Directors are deemed independent of Management and free of any business or other relationship that could materially affect the exercise of their independent judgement.

*Mr. Anil Tittawella (Independent Non-Executive Director) demised on 26 February 2022.

Corporate Governance

Supply of information

The Board and its sub-committees have access to high-quality, relevant and timely information required to discharge its responsibilities effectively. The Company Secretary is responsible for ensuring access to this information and is also responsible for the efficient flow of information within the Board and its sub-committees and between the Non-Executive Directors and Senior Management.

Induction and training

Upon joining the Board, all Directors receive an induction covering their duties and responsibilities as Directors and are provided with information encompassing matters pertaining to the Company and the industry. An induction pack, consisting of the Company's Articles of Association, the NATA Act, Board Charters and Annual Reports, among others, is provided to all newly-appointed Directors.

Non-Executive Directors undergo a 3-day induction programme, with comprehensive coverage on all operational aspects. These sessions consist of:

- One-to-one session with the Chairman,
- Sessions with department heads including presentations covering all functions which include Marketing, Operations, Leaf, Finance, Human Resources, and Legal & External Affairs,
- Market visits covering multiple channels including general trade, modern trade and hotels/restaurants, and
- Site visit to factory and an area of tobacco cultivation, providing Directors with an opportunity to meet with contracted tobacco farmers and barn owners.

Directors also receive regular briefings to update their knowledge on emerging developments in both the internal and external operating environments. Given volatilities in the macro-economic environment in 2021, Directors were also given a special briefing on developments in the external landscape and potential risks that could impact the Company's financial performance.

Culture and values



We are
Bold



We are
Fast



We are
Empowered



We are
Responsible



We are
Diverse

The BAT Ethos was launched in 2020, and sets the foundation for the Group's organisational culture and behaviour, enabling an organisation that is responsive to change and embodies a culture of continuous learning. Through its focus on diversity, inclusion, empowerment and responsible behaviour, the Ethos fosters a dynamic, vibrant and equitable workplace in which employees can thrive. CTC's adaptability and resilience to the unprecedented challenges posed by COVID-19, is a testament to the strength of its organisational culture and collective thinking. During the year, the Company revised the Statement of Delegated Authority (SoDA) which aims to empower people at the right level of the organisation and promote accountability and leadership.

The Board is committed to ensuring that we deliver with integrity in every aspect of our operations. The high standards we expect from our employees is articulated through our SoBC policy, which sets out clear guidelines on preventing bribery and corruption, money laundering, and political contributions, among others. In creating an open culture, the 'Speak-up' channels encourage employees and our business partners to raise any concerns or grievances confidentially and anonymously. This includes the 'Speak-up' hotline, which is managed independently and available 24 hours, the 'Speak-up' portal, which enables digital interaction, as well as the SoBC portal 'Conversant.' These platforms ensure that anonymity and confidence is preserved at all times.

Board contribution to value creation

Given the conditions that prevailed during the year, the Board places continued emphasis on ensuring continued operations while safeguarding the health and well-being of our team and business partners. Key areas of Board focus during the year are summarised below:

| | |
|---|--|
|  <h3>Driving strategy</h3> <ul style="list-style-type: none"> – Ensuring relevance and implementation of the Company's 'win-win-win' strategy. – Monitoring strategic performance against short-term and long-term strategic priorities. |  <h3>ESG focus</h3> <ul style="list-style-type: none"> – Formulating the Company's ESG vision and aspirations and providing leadership in driving the ESG strategy. – Monitoring progress of the Company's community engagement initiatives. – Active participation as panelists and contributors to the 'Beyond Basics' initiative. |
|  <h3>Assess implications of global and local economic headwinds</h3> <ul style="list-style-type: none"> – Evaluating potential impacts of the current foreign exchange crisis and related regulatory developments. – Monitoring emerging macro-economic developments, including rising inflationary pressures and implications on affordability and moderating growth. – Assessing implications of global headwinds - including supply chain disruptions and rising commodity prices. |  <h3>People management</h3> <ul style="list-style-type: none"> – Guidance on implementing comprehensive measures to ensure the safety of all employees. – Ongoing focus on talent development, diversity and industrial relations. – Implementing measures to maintain employee motivation and morale in adapting to the new normal. |

Board meetings

The Board meets on a quarterly basis with special meetings convened if and when the need arises. During the year under review, in addition to the 4 scheduled Board meetings, a special meeting was arranged to apprise the Board of the developments in the legal and regulatory landscape in which we

operate. The Board agenda is set by the Chairman in consultation with the Managing Director & CEO and the Company Secretary. Other members of the Executive Board and Senior Management are invited to meetings from time to time, in particular when the Company's business strategy and

annual budgets are under discussion. Board papers are circulated electronically at least 5 working days prior to the meetings, providing adequate time for preparation, thereby ensuring informed decision-making.

Corporate Governance

| Director | Board | Audit Committee | Board Compensation and Remuneration Committee | Nominations Committee | CSI Steering Committee | Related Party Transactions Review Committee |
|---|-------|-----------------|---|-----------------------|------------------------|---|
| Mr. Suresh Shah | 4/4 | | | | | |
| Mr. Nedal Salem (Resigned W.E.F. 1 December 2021) | 3/3 | 3/3* | | 1/1 | 2/2 | |
| Ms. Monisha Abraham (Appointment W.E.F. 1 December 2021) | 1/1 | 1/1* | | | | |
| Mr. Usman Zahur | 4/4 | 4/4 | 0/1 | | | 4/4 |
| Mr. Yudhishtan Kanagasabai | 4/4 | 4/4 | 1/1 | 1/1 | 2/2 | 4/4 |
| Mr. Anil Tittawella | 4/4 | 4/4 | 1/1 | 1/1 | 2/2 | 4/4 |
| Mr. Stuart Kidd | 4/4 | | | | | |
| Ms. Rumana Rahman | 3/4 | | | | | |
| Mr. Umair Luqman (Resigned W.E.F. 1 September 2021) | 2/2 | 2/2* | | | 2/2 | 2/2* |
| Mr. Syed Muhammad Ali Abrar Appointment W.E.F. 1 September 2021) | 2/2 | 2/2* | | | | 2/2* |

*Invitee

Board remuneration

The Board Compensation and Remuneration Committee is responsible for determining the framework and policy on terms of engagement (including remuneration) of the Chairman, Executive Directors and Senior Management. The Terms of Reference of the Committee comply with the guidelines prescribed by the Code of Best Practice, and CSE Listing Rules and Guidelines. The Company's Remuneration Policy is designed to provide a structured and balanced remuneration package, with the objective of attracting and retaining top talent. The Remuneration Policy covers performance-based variable rewards (cash and share incentives, annual bonus plans and long-term incentive plans), the core fixed elements (base salary and benefits), pension, terms of service contracts and compensation payments.

Further details on the activities of the Board Compensation and Remuneration Committee are provided on page 55 of this Report. The aggregate remuneration paid to Executive Directors and Non-Executive Directors is disclosed in the Notes to the Financial Statements on page 80 of this Report.

Shareholder relations

The Company maintains a high level of engagement with its shareholders, to understand their views and inform on strategy formulation, risk management and decision-making. The Annual General Meeting (AGM) is the main forum for engagement and is generally well attended. Notice of the AGM and relevant documents are sent to shareholders at least 15 working days prior to the AGM. A summary of procedures governing voting at the AGM is provided in the proxy form and circulated to shareholders prior to the meeting.

The Company's 90th AGM was successfully held virtually for the 2nd consecutive year. Communication with shareholders is also facilitated through the Company's website and announcements to the CSE. Quarterly performance updates are released to the CSE and published on the Company website. This year, the Company has also published a dedicated ESG Report, which is a part of this Annual Report, to communicate performance against ESG aspirations to its shareholders and other stakeholders. The Assistant Company Secretary acts as the point of contact for clarifications, suggestions or complaints raised by shareholders. CTC has continued to maintain a strong track record of shareholder value creation with high dividend pay-out, despite the challenging operating conditions that prevailed.

The Company's engagement with other stakeholder groups is listed on pages 124 to 128 of the ESG Report.

Accountability and audit

The Audit Committee has oversight responsibility in ensuring the integrity of the Company's Financial Statements as well as internal controls and compliance. The Committee is chaired by an Independent Non-Executive Director, who is a member of a recognised professional accounting body with extensive experience in relevant areas. The Chairperson works closely with the Company's Finance Director in discharging his/her responsibilities (refer to the Audit Committee Report on page 52). The Terms of Reference of the Audit Committee complies with the recommendations of the Code of Best Practice on Board Audit Committees issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and guidelines stipulated by the CSE.

The Audit Committee is responsible for reviewing and monitoring,

- The integrity of the Company's Financial Statements and any formal announcement relating to the Company's performance, considering any significant issues and judgements reflected in them, before their submission to the Board,
- The consistency of the Company's accounting policies,
- The effectiveness of the Company's accounting, risk, and internal control systems,
- The effectiveness of the Company's Internal Audit function, and
- The performance, independence, and objectivity of the Company's external auditors, making recommendations as to their re-appointment, while approving their terms of engagement and the level of audit fees.

CTC's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the ICASL. The Report also contains a declaration of the Board of Directors on the Affairs of the Company (refer page 48), the Statement of Directors' Responsibility (refer page 51) and Directors' Statement on Internal Controls (refer page 47).

Sustainability and ESG focus

The Company made significant progress towards achieving the environmental, social and governance-related goals and aspirations set out in its comprehensive ESG strategy, which was launched in 2020. The mandate of the CSI Steering Committee was widened from a focus on community initiatives to encompass broader ESG factors through revisions to the Committee Terms of Reference.

Key achievements in CTC's ESG journey are summarised below.
Please refer to the ESG Report for further details.



1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 across our Depots, GLTP, Colombo factory and Commercial



Rs. 24.5 Million invested in training and development, and 10 employees offered Above Market opportunities



Zero accidents and zero lost time reported within the year



57,000+ beneficiaries supported through our supply chain and CSI operations



35,000 trees planted under 'Udharitha'



Conducted 2 programmes under 'Beyond Basics'- our unique platform to share corporate governance best practices with the Sri Lankan corporate sector

Corporate Governance

| Listing Rule No. | Board | Applicable Requirement | Compliance Status | Applicable Section in the Annual Report |
|------------------|--|--|-------------------|---|
| 710.1(a) | Non-Executive Directors | At least 1/3 of the total number of Directors should be Non-Executive Directors | Compliant | Corporate Governance on page 39. |
| 710.2(a) | Independent Directors | Two or 1/3 of Non-Executive Directors, whichever is higher, should be independent | Compliant | Corporate Governance on page 39. |
| 710.2(b) | Independent Directors | Each Non-Executive Director should submit a declaration of independence/non-independence | Compliant | Corporate Governance on page 39. |
| 710.3(a) | Disclosures relating to Directors | a. The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director | Compliant | Report of the Board of Directors on page 48. |
| | | b. Names of Independent Directors should be disclosed in the Annual Report | Compliant | Board of Directors on pages 32 to 35. |
| 710.3(c) | Disclosures relating to Directors | A brief resume of each Director should be included in the Annual Report including the areas of expertise | Compliant | Report of the Board of Directors on pages 32 to 35. |
| 710.3(d) | Disclosures relating to Directors | Upon appointment of a new Director to the Board, a brief resume of each Director should be provided to the CSE | Compliant | Report of the Board of Directors on page 48. |
| 710.4 | Criteria for defining independence | As per defined criteria of the CSE Listing Rules | Compliant | Report of the Board of Directors on page 48. |
| 710.5 | Remuneration Committee | A Listed Company shall have a Remuneration Committee | Compliant | Report of the Board Compensation and Remuneration Committee on page 55. |
| 710.5(a) | Composition of the Remuneration Committee | The Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent | Compliant | Report of the Board Compensation and Remuneration Committee on page 55. |
| 710.5(b) | Report of the Remuneration Committee | The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors | Compliant | Report of the Board Compensation and Remuneration Committee on page 55. |
| 710.5(c) | Disclosure in the Annual Report relating to Remuneration Committee | The Annual Report should set out: | Compliant | Report of the Board Compensation and Remuneration Committee on page 55. |
| | | a. Names of Directors comprising the Remuneration Committee | | |
| | | b. Statement of remuneration policy | Compliant | Report of the Board Compensation and Remuneration Committee on page 55. |
| | | c. Aggregate remuneration paid to Executive & Non-Executive Directors | Compliant | Note 5 to Financial Statements on page 81 |
| 710.6 | Audit Committee | The Company shall have an Audit Committee | Compliant | Report of the Audit Committee on pages 52 to 53. |
| 710.6(a) | The composition of the Audit Committee | a. The Committee shall comprise Non-Executive Directors, a majority of whom shall be independent | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | b. The Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | c. The Chairman of the Audit Committee or one member should be a member of a professional accounting body | Compliant | Report of the Audit Committee on pages 52 to 53. |

| Listing Rule No. | Board | Applicable Requirement | Compliance Status | Applicable Section in the Annual Report |
|------------------|---|--|-------------------|--|
| 7.10.6(b) | Audit Committee functions | Overseeing of the, | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | (i) Preparation, presentation and adequacy of disclosures in the Financial Statements, in accordance with the Sri Lanka Accounting Standards. | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | (ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | (iii) Processes to ensure that the internal controls and risk management are adequate to meet the requirements of the Sri Lanka Auditing Standards. | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | (iv) Assessment of the independence and performance of the External Auditors. | Compliant | Report of the Audit Committee on pages 52 to 53. |
| 7.10.6(c) | Disclosure in the Annual Report relating to the Audit Committee | (v) Make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors. | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | a. Names of Directors comprising the Audit Committee | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination | Compliant | Report of the Audit Committee on pages 52 to 53. |
| 9.2.1 | Related Party Transactions Review Committee | c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance of the functions | Compliant | Report of the Audit Committee on pages 52 to 53. |
| | | | | |
| 9.2.1 | Related Party Transactions Review Committee | The Company shall have a Related Party Transactions Review Committee (RPTRC) | Compliant | Report of the Related Party Transaction Review Committee on page 54. |
| 9.2.2 | The composition of the RPTRC | The Committee should comprise of a combination of Non-Executive Directors and Independent Non-Executive Directors | Compliant | Report of the Related Party Transaction Review Committee on page 54. |
| | | One Independent Non-Executive Director should be appointed as Chairman of the Committee | | |
| 9.3.2.(c) | Disclosure in the Annual Report relating to RPTRC | Names of the Directors comprising the Committee | Compliant | Report of the Related Party Transaction Review Committee on page 54. |
| | | A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/ observations to the Board of Directors | Compliant | Report of the Related Party Transaction Review Committee on page 54. |
| | | The policies and procedures adopted by the Committee for reviewing the Related Party Transactions | Compliant | Report of the Related Party Transaction Review Committee on page 54. |
| | | The number of times the Committee has met during the Financial Year | Compliant | Report of the Related Party Transaction Review Committee on page 54. |
| 9.3.2.(d) | Declaration by Board of Directors | A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions | Compliant | Report of the Board of Directors on page 48. |

Assessment of Going Concern

The financial statements of CTC for the year ended 31 December 2021, have been prepared on the basis that the Company is a going concern.

In assessing the going concern assumption, the Company has taken into account all available information for the foreseeable future, which should be at least, but not limited to 12 months from the date of 31 December 2021.

Further, the following indicators have been considered to conclude that the going concern assumption is valid.

Financial indicators

- Healthy net assets and net current assets position.
- History of profitable operations and ready access to financial resources.
- Strong cash position and available borrowing facilities.

Operating indicators

- Low turnover of key management and availability of key succession plans.
- Good track record on Environment, Health & Safety standards.

Other indicators

- Management pro-activeness and compliance with legal and statutory requirements.
- Low likelihood that legal cases filed against the Company will have a significant adverse effect on its operations.
- Robust risk management process and migratory action plans.
- Robust actions to continue business operations during COVID-19 pandemic strictly in conformity with Government guidelines and directives issued from time to time.

Based on the above, the Directors of the Company are confident that CTC is a going concern and is able to pay debts as they fall due.

Statement of Internal Controls

The Board of Directors has overall responsibility for the Company's system of internal controls and for reviewing its effectiveness. The Board has established that achieving a sound internal control environment is a key priority, with understanding at all levels and appropriate allocation of resources made to maintain the right standard.

CTC has created a strong control environment through application of the business principles, responsible product stewardship and good corporate governance, which defines the way the business operates. These are further supported by our Ethos; Bold, Fast, Empowered, Responsible and Diverse, which collectively shape the culture and framework in maintaining the right control environment that currently exists within the Company.

To be effective, internal controls must:

- be embedded within the organisation;
- enable responsiveness to change; and
- be able to identify major weaknesses, if any.

Control activities include a comprehensive list of policies and procedures which ensures that the Management directives are carried out and the necessary controls are in place to minimise the risk of not meeting objectives. The policies and procedures are established throughout the organisation and periodically reviewed for adequacy and improvement. The policies and procedures are designed to provide reasonable assurance of:

- effectiveness and efficiency of operations;
- protection of Company assets against unauthorised use or disposition;
- reliability of financial and other management information;
- prevention of fraud; and
- compliance with relevant national laws and other applicable regulations.

Within this framework, each Head of Function has the responsibility for establishing and operating detailed control procedures within their functions. A detailed checklist of controls, called the

'Control Navigator' is available for each function. Management does a thorough self-assessment against the standard controls set out in the Control Navigator and prepares action plans to bridge the gaps, if any. This is thereafter presented to the Audit Committee and followed up by the Executive Committee.

The internal controls system is monitored by the Executive Committee through the Leadership Team Governance Forum, Above Market business control teams and BAT Internal Audit. The Leadership Team Governance Forum is in place with the objective of maintaining a sound control environment. Each function is represented in the forum and the scope of the forum encompasses:

- review and validation of the Control Navigator self-assessment by functions;
- review of functional controls to identify any issues or weaknesses;
- review and recommend required changes to policies and procedures;
- enhance organisation-wide control awareness and education;
- follow up on audit and Control Navigator action points.

The other key elements of the Company's system of internal controls are as follows:

- regular review of key risks facing the business and corresponding action plans by the Risk Management Committee as well as the Executive Committee and Audit Committee;
- a business plan for the year with a detailed budget by function. In the business plan, targets are set for key performance indicators that are critical to achieve the plan. The performance is monitored against the targets on a regular basis;
- monthly Sales and Operations Planning process (SOP) to integrate and optimise key operations such as leaf, procurement of direct materials, manufacturing and marketing on a rolling basis over a 02 year horizon;
- a detailed and up to date Statement of Delegated Authority that enables the Board to exercise appropriate control over the business through the Executive Committee.

The Board has delegated the process of reviewing the effectiveness of the internal controls to the Audit Committee. The scope of the Audit Committee is described in the Corporate Governance Statement and in the Report of the Audit Committee. To ensure complete independence, both External and Internal Auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The External Auditors also attend the Audit Committee meetings on invitation.

Findings of internal audits and compliance reviews are presented at Audit Committee meetings.

The Company Secretary ensures that the Company is in compliance with the relevant Rules and requirements of the SEC and CSE, and relevant updates are tabled at the Audit Committee for review.

These best practices were complied with during the year 2021.



Monisha Abraham
Managing Director & CEO



Syed Muhammad Ali Abrar
Finance Director

21 April 2022

Report of the Board of Directors

General

The Board of Directors take pleasure in presenting the Annual Report of the Company that includes and covers the Audited Financial Statements, Chairman's Review, Corporate Governance Commentary, and all other relevant information for the year ended 31 December 2021.

The information table on the level of compliance to the Listing Rules provided by the CSE appearing in page 44 to 45 and Share Information section on pages 99 to 102 form part of this Report of the Board of Directors.

Structure and principle business activities

A brief description of the ultimate parent and nature of the principal business activities of the Company is given in Note 1 to the Financial Statements on page 68.

Review of performance

A review of performance and future outlook of the Company is available in the Chairman's Review (pages 8 to 11), Managing Director & CEO's Review (pages 12 to 15), Finance Director's Review (pages 58 to 60) and in the section of Value Creation appearing from pages 18 to 19 and 116 to 117.

Disclosures

The Annual Report of the Company fulfils the disclosure requirements of the Sri Lanka Accounting Standards (SLFRs/LKASs), Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange.

The Board of Directors

The Board of Directors of the Company consisted of 8 members as at 31 December 2021. Post balance sheet date, certain changes were effected to the Board of Directors of the Company with the number of Directors remaining the same. Profiles of the Directors are disclosed in pages 32 to 35 of the Annual Report.

Following changes took place in the Board composition since the last Annual Report.

| Name | Change | Date |
|--|-----------|------------------|
| Mr. Umair Luqman (Finance Director) | Resigned | 1 September 2021 |
| Mr. Syed Muhammad Ali Abrar (Finance Director) | Appointed | 1 September 2021 |
| Mr. Nedal Salem (Managing Director) | Resigned | 1 December 2021 |
| Ms. Monisha Abraham (Managing Director) | Appointed | 1 December 2021 |
| Mr. Anil Tittawella (Independent Non-Executive Director) | Demised | 26 February 2022 |
| Mr. Kushan D'Alwis (Independent Non-Executive Director) | Appointed | 20 April 2022 |

Upon appointment of a new Director to the Board, a brief resume of each Director has been provided to the CSE as per Listing Rule 710.3(d).

Independence of Non-Executive Directors

In accordance with the Listing Rule No. 710.4 of the CSE, the Directors determined Mr. Suresh Shah, Mr. Yudhishtan Kanagasabai, Mr. Anil Tittawella (Demised) and Mr. Kushan D'Alwis as Independent Directors based on declarations made by them according to Appendix 7A of the Listing Rules of the CSE.

Re-election of Directors

In accordance with the Articles of Association of the Company, it was resolved that Ms. Rumana Rahman and Mr. Stuart Kidd retire from the Board of Directors by rotation at the next Annual General Meeting and being eligible, be proposed for re-election.

Ms. Monisha Abraham, Mr. Syed Muhammad Ali Abrar and Mr. Kushan D'Alwis, who were appointed since the last Annual General Meeting, will come up for re-election at the next Annual General Meeting under the Company's Articles of Association.

Directors' interest in contracts and Related Party Transactions

Directors' interests in contracts have been declared at the meetings of the Directors and have no direct or indirect interests in any other contract or proposed contract with the Company.

The Company identifies related parties as defined by LKAS 24. The members of the Board of Directors and the Executive Committee have been identified as Key Management Personnel (KMP) and the Company retrieves data on Related Party Transactions based on declarations obtained from each KMP. The Company's transactions with Related Parties, given in Note 25 to the Financial Statements, have complied with Listing Rule 9.3.2 of the CSE and the Code of Best Practices on Corporate Governance.

The Board of Directors affirms that the related party transactions have occurred at an arm's length basis.

Director's shareholding

No Director disclosed above has any shareholding in the Company.

Results for the year 2021 and appropriation

| | Units | 2021 | 2020 | Growth |
|------------------------|-------------|-------------|-------------|--------|
| Turnover | Rs. Million | 134,369 | 132,149 | 2% |
| Profit for the year | Rs. Million | 16,146 | 15,578 | 4% |
| No. of shares | Number | 187,323,751 | 187,323,751 | - |
| Earnings per share | Rs. | 86.20 | 83.16 | 4% |
| Net assets per share | Rs. | 47.98 | 24.57 | 95% |
| Market price per share | Rs. | 878.00 | 1,028.90 | -15% |
| Price earnings ratio | Times | 10.19 | 12.37 | -18% |
| Dividends per share | Rs. | 64.35 | 83.63 | -23% |

Future developments

Future Company developments are covered in the reviews of the Chairman, the Managing Director & CEO and the Finance Director.

Share information

Information relating to shareholding, market value of shares, public shareholding, and top 20 shareholders are available on pages 99 to 102 under 'Share Information'.

Stated capital

The stated capital of the Company as at 31 December 2021 amounted to Rs. 1,873 Million (2020 - Rs. 1,873 Million), details of which are available in Note 17 to the Financial Statements. There were no shares issued during the financial year.

Reserves

Total reserves as at 31 December 2021 comprise of revenue reserves amounting to Rs. 7,114 Million. Movements are shown in the Statement of Changes in Equity in the Financial Statements.

Dividends

Interim dividends of Rs. 9,928 Million has been paid from the current year's profit of Rs. 16,146 Million, yielding a dividend per share of Rs. 53.00, with a pay-out ratio of 61.49% for the year ended 31 December 2021.

Movement of Retained Earnings

| | Rs.000's |
|---|--------------|
| Retained profit as at 1 January 2021 | 2,729,151 |
| Current year's profit after charging all expenses and providing for all known liabilities | 16,146,485 |
| Dividends of Rs. 64.35 per share on the Issued Share Capital of 187,323,751 shares | (12,054,283) |
| 2020 Final dividend - Rs. 11.35 per share paid on 17/06/2021 | |
| First Interim dividend - Rs. 19.00 per share paid on 10/06/2021 | |
| Second Interim dividend - Rs. 19.00 per share paid on 10/09/2021 | |
| Third Interim dividend - Rs. 15.00 per share paid on 10/12/2021 | |
| Write back of unclaimed dividend | 55,721 |
| Re-measurement of defined benefit obligations | 236,808 |
| Balance carried forward to 2021 | 7,113,882 |

Property, Plant and Equipment

The movements in Property, Plant and Equipment (PPE) for the year are shown in Note 11 to the Financial Statements. The Company capitalised a sum of Rs. 844 Million in PPE including for its modernisation programme. Specific information on extent, locations, valuations and number of buildings on the Company's land holdings are given in Note 11.3.

Donations

Total donations made by the Company during the year ended 31 December 2021 amounted to Rs. 102 Million as shown in Note 7 to the Financial Statements.

Contingent Liabilities and Commitments

Contingent Liabilities and Commitments as at the year-end are disclosed in Notes 22 and 23 to the Financial Statements.

Report of the Board of Directors

Employee share ownership plans

The Company has no employee share ownership plan as at 31 December 2021. However, the Group through an International Executive Incentive Scheme (IEIS) offers value of phantom shares in BAT, in cash, to selected members of the Executive Committee of CTC, subject to the achievement of performance targets over the previous financial year. The cash equivalent of the share award is paid after a period of 3 years from the date of grant based on the share price preceding the date of payment.

Statutory payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to employees and the Government have been made to date.

Going concern

The Financial Statements are prepared on the basis of going concern.

Employment

Pages 154 to 159 covers in detail the Company's practices and policies relating to employee engagement, training & development, performance management and recognition.

There were no material issues pertaining to employees or industrial relations during the year.

Compliance with laws and regulations

To the best of the knowledge and belief of the Directors, the Company has not engaged in any activity which contravenes laws and regulations of the country.

Environmental protection

Policies and endeavours made on environmental preservation by the Company are covered on pages 107 to 109.

Events occurring after the reporting period

There were no material events that occurred after the reporting date that require adjustment to or disclosure in the Financial Statements, other than those disclosed in Note 26 to the Financial Statements on page 97.

Independent Auditors

The Financial Statements for the year have been audited by Messrs. KPMG, Chartered Accountants, who offer themselves for re-appointment. A resolution proposing their re-appointment and giving authority to the Directors to determine their remuneration will be submitted at the forthcoming Annual General Meeting (AGM).

Annual General Meeting

In order to comply with the previous measures imposed by the Sri Lankan Government on account of the ongoing COVID-19 pandemic and to ensure the health & safety of our shareholders, employees and Management, the Directors have decided that the Company's AGM for 2022 will be convened as a virtual meeting using a digital platform in line with the directions given by the CSE.



Monisha Abraham

Managing Director & CEO



Syed Muhammad Ali Abrar

Finance Director

21 April 2022

Statement of Directors' Responsibilities for Financial Statements

This Statement sets out the responsibilities of the Board of Directors in relation to the Financial Statements of the Company. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditor's Report on pages 62 to 63.

The Companies Act No. 7 of 2007 requires the Directors to prepare and present Financial Statements for each financial year, giving a true and fair view of the state of affairs of the Company as at the end of the financial year, and the profit or loss of the Company for the financial year and place them before a general meeting of shareholders. The Financial Statements comprise of the Statement of Financial Position as at 31 December 2021, the Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year ended and Accounting Policies and Notes thereto.

Accordingly, the Board of Directors confirms that the Financial Statements of the Company give a true and fair view of the:

- financial position of the Company as at 31 December 2021; and
- financial performance of the Company for the financial year ended 31 December 2021.

The Directors are required to ensure that, in preparing these Financial Statements:

- i. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
- ii. Financial Statements are presented in accordance with Sri Lanka Accounting Standards (SLFRSs/ LKASs) and all applicable standards as relevant, have been followed;
- iii. Judgments and estimates have been made which are reasonable and prudent;

- iv. Provides the information required by and otherwise comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company and to that Financial Statements presented comply with the requirements of the Companies Act.


The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

The Directors are required to prepare the Financial Statements and to provide the Auditors with every opportunity to take whatever steps and undertake whatever inspections they may consider to be appropriate, to enable them to form their audit opinion in accordance with Sri Lanka Auditing Standards (SLAUS).

The Financial Statements were audited by KPMG Chartered Accountants, the Independent External Auditors. To ensure complete independence, the Independent External Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented.

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the balance sheet date have been paid or, where relevant provided for, except as specified in Note 22 to the Financial Statements covering contingent liability.



Suresh Shah
Chairman



Monisha Abraham
Managing Director & CEO

21 April 2022

Report of the Audit Committee

I join the Committee in expressing my deep regret over the demise of Mr. Anil Tittawella who served the Committee as an Independent Non-Executive Director since 2018. I would like to place on record my appreciation for his invaluable contributions over the years.

I take this opportunity to present to you the 2021 Report of the Audit Committee (the Committee) outlining the Committee's roles and responsibilities. The Committee continued to review and report to the Board on the Company's financial reporting, internal control and risk management processes, and the performance, independence and effectiveness of the external auditors. Establishing a finer internal control environment amidst the COVID pandemic has been challenging and is an area where there was extreme focus as the entity's reaction to the pandemic continued to evolve.

Composition

There were no changes to the composition of the Committee during the year. The Committee consisted of two Independent Non-Executive Directors and a Director of an overseas BAT subsidiary, who is independent of executive functions of CTC.

The members of the Audit Committee are:

Mr. Yudhishtan Kanagasabai – Chairman

Mr. Anil Tittawella (demised)

Mr. Usman Zahur

The Chairman of the Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a former Territory Senior Partner of PricewaterhouseCoopers, Sri Lanka and the Maldives. The Board is satisfied that the Committee has an adequate blend of accounting, auditing, legal and commercial experience to carry out their duties. Brief profiles of the Committee members are given in pages 32 to 35 of this Report.

The Company Secretary acts as the Secretary to the Committee.

Meetings

The Committee met 4 times during the year under review, where all 4 of the meetings were held as virtual meetings due to the prevailing COVID-19 pandemic. The Managing Director & Chief Executive Officer, the Finance Director, the other members of the Executive Committee and external auditors too attend the meetings by invitation.

The attendance of the members at these meetings are given in page 42 of this Report.

Terms of Reference

The Charter of the Committee, which is approved and adopted by the Board of Directors, clearly defines the terms of reference governing the Audit Committee. The 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance', issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission, further regulate the composition, roles and functions of the Committee.

It also assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audits.

The role of the Audit Committee

The role of the Audit Committee, which has specific terms of reference, is described in the CTC Corporate Governance Report from pages 38 to 45.

The Committee's role is to review on behalf of the Board, the Company's internal financial controls. It is also responsible for oversight and advice to the Board on financial reporting related matters and internal controls over financial reporting, and has exercised oversight of the work undertaken by the BAT Group's Internal Audit and External Auditors.

Key responsibilities of the Audit Committee

Financial reporting:

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Company's financial statements and formal announcements, if any, relating to the Company financial performance. The Committee reviewed and discussed the Company's quarterly and annual financial statements prior to publication. The Committee also reviewed the matters communicated to the Committee by the External Auditor in their reports to the Audit Committee on the audit for the year.

The scope of the review included ascertaining compliance with relevant disclosures with the Sri Lanka Accounting Standards including new Accounting Standards which came into effect during the year, the appropriateness of accounting policies, material judgement matters, alternative accounting treatments, material audit adjustments, going concern assumption, financial reporting controls, and compliance with applicable laws and regulations that could impact the integrity of the Company's financial statements, its Annual Report, and its quarterly financial statements prepared for publication.

Internal control:

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Committee reviewed the Control Navigator, which is a self-assessment of the Control Environment by management for submission to the BAT Global Office.

The remediation actions arising from a review of the Control Navigator findings were monitored by the Committee for implementation. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations.

Internal audit:

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The BAT Group Internal Audit function provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes across the Group, focusing on a risk-based approach.

The Committee noted the findings from the Internal Audit of the Colombo factory, their root causes and management responses, and the status of implementing remediation actions. The Executive Management is responsible for ensuring that recommendations made by the Group Internal Audit function are implemented within an appropriate and agreed timetable. The Committee noted the Internal Audit Plan which is based on risk assessments by the BAT Internal Audit Function.

External audit:

The External Auditor's Letter of Engagement, including the scope of the audit, was reviewed and discussed by the Committee with the External Auditors and Management prior to commencement of the audit. The Auditors were also provided with the opportunities to discuss and express their opinions on any matter and for the Committee to have the assurance that the Management has fully provided all information and explanations requested by the Auditors. The Committee reviewed opportunities for improvement which were observed during the audit and the letter of representation issued to the External Auditor to ensure that the representations made were consistent with the understanding of the Committee, as to the Company's operations and plans.

The Committee is satisfied that the independence of the External Auditors has not been impaired by any event or service that gives rise to a conflict of interest. The Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered

Accountants, be reappointed for the financial year ending 31 December 2022 subject to the approval of shareholders at the next Annual General Meeting.

Potential financial implication arising from COVID-19 pandemic

The Committee regularly monitored the Company's known and emerging exposures in relation to the changes in the external regulatory and political environment, including the possible impact on the Company's risk management activities and the global spread of COVID-19. The Committee reviewed the risk management actions and going concern assessment carried out by the Management after considering the existing and potential financial impact of COVID-19 and is satisfied that the Company is able to continue as a going concern and adequate disclosures have been made in these Financial Statements.

Conclusion

The Committee is satisfied that the Company's internal controls, risk management processes, and accounting policies provide reasonable assurance that the affairs of the Company are managed in accordance with Company policies and that Company assets are properly accounted for and adequately safeguarded. The Committee believes that the Company's accounting policies are appropriate and have been applied consistently.



Yudhishtan Kanagasabai

Chairman

The Audit Committee

21 April 2022

Report of the Related Party Transactions Review Committee

I join the Committee in expressing my deep regret over the demise of Mr. Anil Tittawella who served the Committee as an Independent Non-Executive Director since 2018. I would like to place on record my appreciation for his invaluable contributions over the years.

The Related Party Transactions Review Committee (the Committee) of Ceylon Tobacco Company PLC was established in compliance with the Code of Best Practice on Corporate Governance by Securities and Exchange Commission of Sri Lanka (SEC) and Section 09 of the Listing Rules of Colombo Stock Exchange (CSE).

The purpose of the Committee is to conduct an appropriate review of Related Party Transactions (RPTs) and to ensure that interests of shareholders and other stakeholders are considered when engaging in related party dealings, hence preventing Directors, Key Management Personnel or substantial shareholders taking advantage of their positions.

The Committee also ensured on behalf of the Board, that all RPTs of Ceylon Tobacco Company PLC are compliant with the mandates of the Listing Rules and Code of Best Practices.

Composition

The Committee comprised of the following members as at the year end with 3 Non-Executive Directors of whom, 2 are Independent Non-Executive Directors and is Chaired by an Independent Non-Executive Director.

Mr. Yudhishtan Kanagasabai – Chairman

Mr. Anil Tittawella (demised)

Mr. Usman Zahur

Brief profiles of the Committee members are given in pages 32 to 35 of this report.

Meetings

The Committee held 4 meetings in the year 2021, where all of the meetings were held as virtual meetings, due to the prevailing COVID-19 pandemic. The Managing Director & CEO and other members of the Executive Committee

or any other Manager (where relevant) of the Company attend meetings on the request of the Committee.

The Finance Director or his/her nominee subject to approval of the Committee acts as the Secretary of the Committee. The attendance at the meetings held is given in the table on page 42 of this Report.

Terms of Reference

The Committee, in discharging its functions ensures that:

- There is compliance with the SEC and Listing Rules and Code of Best Practices,
- Shareholder interests are protected, and
- Fairness and transparency are maintained.

The approved guidelines for conducting Related Party Transactions sets out the following:

- The principles that guide RPTs, including pre-approval and other reporting requirements,
- Process to identify transactions that require immediate market disclosures and shareholder approval,
- Steps to be followed by the Management in reporting RPTs to the Committee, including documentation templates, and
- The Executive and Non-Executive Directors of the Board and Executive Committee Members of CTC would form a part of the Key Management Personnel (KMP).

Activities

During the year, the Committee reviewed the RPTs of CTC and their compliance according to SEC, the Listing Rules and Code of Best Practices. There was only one non - recurrent new RPT which required pre-approval from the Committee, and the recurrent RPTs were reviewed at quarterly intervals for noting. Furthermore, there were no RPTs which met the disclosure thresholds as per the CSE Listing Rules and Code of Best

Practices on Corporate Governance. The Committee communicated the same to the Board of Directors, quarterly, through verbal briefings and by tabling the minutes of the Committee's meetings.

Conclusion

The Committee in its review process, recognised the adequacy of the content and quality of the information forwarded to its members by the Management during the year and affirms that the RPTs have occurred on an arm's length basis.



Yudhishtan Kanagasabai

Chairman

Related Party Transactions Review Committee

21 April 2022

Report of the Board Compensation and Remuneration Committee

The Board Compensation and Remuneration Committee of Ceylon Tobacco Company PLC is established to take independent, objective and defensible decisions on all matters associated with the total reward package and other terms of service of the managers and executives, so that the remuneration policy at all times remains both competitive and sustainable in terms of attracting and retaining talent.

Composition

The Committee comprised of the following members as at the end of the year with 3 Non-Executive Directors of whom, 2 are Independent Non-Executive Directors and is Chaired by an Independent Non-Executive Director.

Mr. Anil Tittawella – Chairman (demised)

Mr. Yudhishtan Kanagasabai

Mr. Usman Zahur

Brief profiles of the Committee members are given in pages 32 to 35 of this Report.

Terms of Reference

The Terms of Reference of the Committee includes the following:

- Ensure that arrangements are made for regular surveys of remuneration and benefits, with a sufficient sample of comparator companies to obtain a reliable measure of the market.
- Ensure that remuneration systems offer the opportunity of excellent reward for excellent performance.
- Examine reward packages as a whole, seeking overall competitiveness rather than item-by-item comparability.
- Ensure that the remuneration package is at all times fully in compliance with local taxation and legal requirements.
- Establish and maintain an effective system of job evaluation.

Also, the Committee reviews and approves the Remuneration policy for below:

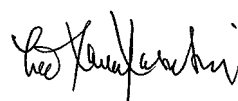
- Basic salaries,
- Perquisites and benefits,
- Performance bonus,
- Pension entitlements,
- Long Term Incentive Plan.

Meetings & activities

The Board Compensation and Remuneration Committee met only once during the year. During the meeting, the Committee reviewed and granted approval for the below topics:

- Employee Compensation and Benefit Proposals as per BAT guidelines,
- Pay Range Review, and
- Salary Review.

Note: The Chairman of the Board Compensation and Remuneration Committee, Mr. Anil Tittawella passed away on 26 February 2022.



Yudhishtan Kanagasabai

Member

Board Compensation and Remuneration Committee

21 April 2022

Report of the Nominations Committee

Ceylon Tobacco Company PLC's Nominations Committee (the Committee) performs an assessment on Board composition as and when the need for the appointment of new Independent Non - Executive Board members arise.

Composition

The Committee comprised of the following members as at the end of the year.

Mr. Anil Tittawella – Chairman (demised*)

Mr. Yudhishtan Kanagasabai

Ms. Monisha Abraham

Brief profiles of the Committee members are given in pages 32 to 35 of this Report.

Terms of Reference

The Terms of Reference of the Committee includes the following:

- Propose a suitable Charter for the appointment and the re-appointment of Independent Non-Executive Directors to the Board.
- Provide advice and recommendation to the Board or the Chairman on appointing Independent Non-Executive Directors.
- Select and appoint Independent Non-Executive Directors as required.
- Regularly review the structure, size, and composition (including the skills, knowledge and experience) of the Board, and make recommendations to the Board with regard to any suitable changes.

Meetings & activities

The Nominations Committee meets only when there is a necessity. During 2021, the Nominations Committee did not meet as there were no Independent Non-Executive Director appointments.

Note: The Chairman of the Board Compensation and Remuneration Committee, Mr. Anil Tittawella passed away on 26 February 2022.



Yudhishtan Kanagasabai

Chairman

Nominations Committee

21 April 2022

Purposeful Performance

CTC's progressive and purposeful performance is a testament to the Company's exceptional financial achievements in the year under review. We are convinced that the Company's efficiency is positioned to accelerate in the future, as we strengthen our business and value creation modules to support and sustain livelihoods across the business.

CTC's achievements in 2021:

Rs. Mn
33,615
Revenue

Rs. Mn
164,470
Market capitalisation

Rs. Mn
111,250
Tax contribution

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Finance Director's Review

"Our competitive edge is underpinned by the attitudes and competencies of our team and we place strategic emphasis on creating value year-on-year."



Syed Muhammad Ali Abrar
Finance Director



Rs. 134.37 Bn
(+2%)

Turnover



Rs. 26.13 Bn
(+6%)

Operating profit



Rs. 26.47 Bn
(+22%)

Total assets

2021 was an immensely challenging year for the business as we faced issues on the economic front as well as the operating landscape. The Company however navigated its way through these unique and complex set of challenges to successfully deliver on its top line and bottom line ambitions. While pandemic-led disruptions and escalating macro-economic pressures had an inevitable impact on supply and demand side dynamics, concerted and unrelenting efforts by team CTC to ensure continued supply sustainability, product quality, spend efficacy, and effective product distribution enabled the Company to perform despite strong external headwinds.

Volume growth and right pricing drive revenue expansion

CTC demonstrated adaptability and agility in an extremely challenging operating landscape to deliver a stable overall financial performance. This was driven by market relevant pricing and a strong consumer focused brand portfolio. One of the key factors that contributed to this performance despite the pandemic-led disruptions, was the deployment of an innovative 'Contingency Distribution Model' which enabled CTC to ensure maximum product availability despite the unprecedented challenges faced during the year, while simultaneously ensuring the safety and well-being of our employees and distribution partners. We are mindful of and remain committed to playing our role as a stable, reliable and sizeable contributor to Government

revenues. Despite this being a tough year, CTC managed to grow its Government revenue contribution to Rs. 111.25 Billion.

Cost efficiencies underpin effective margin management

At CTC, we firmly believe that an efficient, cost-effective and streamlined business model is key to robust business performance. The 6% increase in our operating profit is a reflection of our relentless pursuit of operational efficiencies and strategic business foresight. In recent years, CTC has placed continued emphasis on increasing productivity, driving cost rationalisation and enhancing distribution efficiencies, which in turn enabled the Company to grow its operating margin from 18.7% to 19.4% during the year. The notable increase in employee expenses however was mostly driven by the increase in retirement fund obligations due to the Government mandated increase in retirement age. Other operating expenses declined by 17%, reflecting operating efficiencies as well as the Management acting to streamline pandemic-related expenses in sync with the ground realities.

Profit-before-tax recorded a growth of 5% to Rs. 26.65 Billion driven by stronger operating performance, while net finance income declined by 47%, driven by the reduction in market interest rates. Profit-for-the-year increased by 4% to Rs. 16.15 Billion, attesting to the continued relevance of the Company's strategy and the exceptional commitment of our team in achieving organisational goals.

18.7%

Operating profit margin

Rs. 16.15 Bn

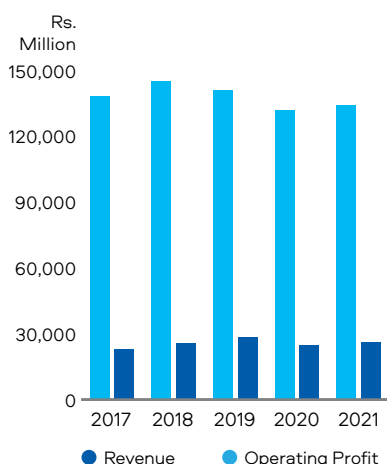
(+4%)

Profit-for-the-year



Unrelenting efforts by team CTC to ensure continued supply sustainability, product quality, spend efficacy, and effective product distribution enabled the Company to perform despite strong external headwinds.

Revenue and operating profit



operations. In pursuit of a world-class working environment, the Company also made a sizeable investment to renovate its Colombo head office as well as a few of its other locations around the country.

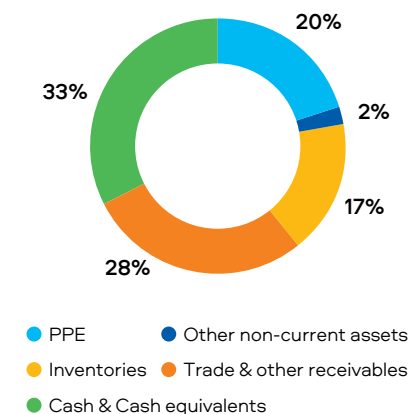
Investments in Trade & Other Receivables more than doubled to Rs. 7.41 Billion during the year. This is a reflection of our trust and confidence in this market, our commitment to our valued business partners, and our resolve to ensure uninterrupted availability of quality tobacco products to our loyal adult consumers across the island. This pivotal investment by the Company was crucial to our efforts in ensuring wider product availability despite the immense pandemic-driven logistical disruptions.

The 6% increase in our operating profit is a reflection of our relentless pursuit of operational efficiencies and strategic business foresight.

Strong balance sheet and healthy funding profile

The Company's total assets grew by 22% to Rs. 26.47 Billion during the year, led by an increase in Property, Plant and Equipment (PPE) and higher working capital investments. PPE increased by 14% to Rs. 5.35 Billion, reflecting our continued commitment to modernise and strengthen our production capabilities in pursuit of excellence in quality and to cater to the evolving and dynamic adult consumer needs. Enhancements to machinery and other infrastructure is expected to also accrue benefits by further streamlining our operations as we leverage higher efficiencies and adopt global best practices to further streamline our

Asset composition



Finance Director's Review

CTC's financial position is strong, with the Company remaining debt-free, liquid, and Shareholders' Funds accounting for 34% of the total balance sheet. Retained earnings more than doubled in view of the strong profit generation during the year while total liabilities increased by 23% due to an increase in dividends payable, which was mainly on account of scarcity of forex sources required to distribute funds to our key shareholders.

Cashflow

The Company's cashflow and liquidity levels remained healthy, with Cash & Cash Equivalents amounting to Rs. 8.59 Billion by end 31 December 2021. Net cash generated from operations amounted to Rs. 8.02 Billion reflecting resilient revenue generation while Net cash outflows from investing activities was Rs. 844.31 Million. Cash outflow from financing activities comprised mainly of dividends paid and amounted to Rs. 8.34 Billion during the year.

Returns to shareholders

The Company maintained its commitment to shareholders, delivering consistent growth in earnings, dividend and net assets as demonstrated in the following table. CTC has maintained its track record as a strong dividend distributor, with 3 interim dividends amounting to Rs. 53 per share, making us one of the highest dividend earning investments. However, in light of the recently proposed Surcharge Tax applicable at the rate of 25% of prior year taxable income, the Board decided not to announce any subsequent dividends for the year 2021. This will allow the business to absorb the probable impacts of the Surcharge Tax on the same lines as the Super Gains Tax of 2015.

The Company's share price declined by 8% to close the year at Rs. 878, mainly in view of the broader market volatility that prevailed during the year. With a market capitalisation of Rs. 164,470 Million as at 31 December 2021, CTC continues to rank among Sri Lanka's most valuable listed corporate entities.



| | Units | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|-------|-------|---------|---------|---------|---------|
| Earnings per share | Rs. | 86.20 | 83.16 | 92.13 | 90.78 | 77.87 |
| Dividend per share (Interim and proposed final dividend) | Rs. | 53.00 | 82.85 | 92.13 | 90.77 | 77.80 |
| Net assets per share | Rs. | 47.98 | 24.57 | 24.68 | 28.61 | 24.40 |
| Share price (31 December) | Rs. | 878.0 | 1,028.9 | 1,100.3 | 1,415.0 | 1,004.5 |
| Dividend pay-out | % | 61.49 | 99.63 | 99.99 | 99.99 | 99.90 |

Confidence in the future

While we are cognisant of the inevitable short-to-medium term pressures stemming from the country's macro-economic vulnerabilities, we remain optimistic about Sri Lanka's long-term prospects. The Company's remarkable resilience despite the unprecedented challenges of the past 2 years, have

reinforced our belief in the unique capabilities of the CTC team. We are therefore confident that the Company will continue to drive its aspirations in a commercially, socially and environmentally sustainable manner while fulfilling its role as a key source of revenue for the Government.

Syed Muhammad Ali Abrar

Finance Director

21 April 2022

Financial Reporting Calendar

| | |
|---|------------------|
| First Quarter Results 2021 | 14 May 2021 |
| Second Quarter Results 2021 | 12 August 2021 |
| Third Quarter Results 2021 | 10 November 2021 |
| Fourth Quarter Results 2021 | 18 February 2022 |
| Annual Report 2021 | 21 April 2022 |
| 91 st Annual General Meeting to be held on | 26 May 2022 |

Independent Auditor's Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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TO THE SHAREHOLDERS OF CEYLON TOBACCO COMPANY PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Ceylon Tobacco Company PLC, ("the Company"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies set out on pages 64 to 97 of this Annual Report.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS).

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with *Code of Ethics issued by CA Sri Lanka (Code of Ethics)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue Recognition

As described in Note 2.8.15 (accounting policies) and Note 4 (Revenue), the Company recorded revenue of Rs. 33.62 Bn for the year ended 31 December 2021 (2020: Rs. 32.07 Bn).

Key audit matter

Under Auditing Standards, we are required to consider that the fraud risk from revenue recognition is a significant risk.

Whilst revenue recognition and measurement is not complex for Ceylon Tobacco Company PLC, the Company operates in a market where volumes are in decline and/or contracting. This, together with the focus on volumes and revenue as key performance measures resulted in revenue being selected as a key audit matter.

We focused on whether transactions have been recorded in the period in which the Company becomes entitled to record revenue in accordance with SLFRS 15.

Our audit procedures included,

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to revenue recognition.
- Performing a fraud risk assessment through inquiry of management regarding any actual or suspected override of controls in relation to revenue recognition.
- Reviewing report on General IT Controls tested centrally at group level and Application Controls tested by our own IT specialist and consider impact at the end market level.
- Testing design and implementation and operating effectiveness of controls over journal entries and post-closing adjustments.
- Through inquiry and observation assessing the accounting for significant transactions that are outside of the normal course of business or are otherwise unusual.
- Testing that amounts have been recognised in the correct financial period and evaluating whether there are any significant amount of returns after the year-end.

2. Inventories

As described in Note 2.8.7 (accounting policies) and Note 14 (Inventory) the Company recorded Inventory of Rs. 4.61 Bn for the year ended 31 December 2021 (2020: Rs. 3.73 Bn).

Key audit matter

Inventory represents 17% of total assets and has increased by 24% year on year mainly due to the rise in leaf quantity and cost of raw materials.

Given the level of judgments, estimates and significance of inventory to the financial statements, this is considered to be a key audit matter.

Our audit procedures included,

- Obtaining an understanding of and assessing the design, implementation, and operating effectiveness of management's key internal controls relating to inventory counts and purchasing and issuing of inventories including testing of GITCs and application controls.
- Perform a three-way match for imported inventory items.
- Considering the principles of accounting for the inventory write-offs and also carrying out a comparison of inventory levels, to sales data to corroborate whether slow-moving and obsolete inventories had been appropriately identified and understand the process of recording inventory at the lower of cost and NRV.
- Attending stock counts as at the year-end. In addition, assessing the effectiveness of the physical count controls in operation at each count location to identify damaged stocks, expired stocks, and stock shortages that are written off in a timely manner and evaluating the results of the other cycle counts performed by the management throughout the period to assess the existence of inventory.

KPMG, a Sri Lankan partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

P. Y. S. Perera FCA
W. J. C. Perera FCA
W. K. D. C. Abeyaratne FCA
R. M. D. B. Rajapakse FCA
M. N. M. Shameel FCA
Ms. P. M. K. Sumanasekara FCA

C. P. Jayatilake FCA
Ms. S. Joseph FCA
S. T. D. L. Perera FCA
Ms. B. K. D. T. N. Rodrigo FCA
Ms. C. T. K. N. Perera FCA

T. J. S. Rajakarier FCA
Ms. S. M. B. Jayasekara FCA
G. A. U. Karunaratne FCA
R. H. Rajan FCA
A. M. R. P. Alahakoon ACA

Principals: S. R. I. Perera FCMA(UK), LLB, Attorney-at-Law, H. S. Goonewardene ACA, W. A. A. Weerasekara CFA, ACMA, MRICS

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with SLFRS/LKAS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1798.



Chartered Accountants
Colombo, Sri Lanka

21 April 2022

Statement of Profit or Loss and other Comprehensive Income

(all amounts in Sri Lanka Rupees thousands)

| | Note | Year ended 31 December | |
|--|--------|------------------------|-------------------|
| | | 2021 Rs. '000 | 2020 Rs. '000 |
| Turnover | 4 | 134,368,528 | 132,148,810 |
| Government levies | 4 | (100,753,295) | (100,076,289) |
| Revenue | | 33,615,233 | 32,072,521 |
| Raw materials used | | (2,644,896) | (2,168,630) |
| Employee benefit expenses | 5 | (1,518,591) | (1,365,458) |
| Depreciation expenses | 11 | (332,973) | (338,747) |
| Amortisation expenses | 12 | (1,150) | (1,150) |
| Other operating expenses | | (3,023,050) | (3,628,576) |
| Other operating income | 6 | 33,039 | 100,615 |
| Operating profit | | 26,127,612 | 24,670,575 |
| Finance income | 8 | 538,716 | 787,262 |
| Finance cost | 8 | (20,106) | (24,274) |
| Profit before income tax | | 26,646,222 | 25,433,563 |
| Income tax expenses | 9 | (10,499,737) | (9,855,469) |
| Profit for the year | | 16,146,485 | 15,578,094 |
| Other comprehensive income: | | | |
| Items that will not be reclassified to Profit or Loss | | | |
| Remeasurement of defined benefit obligations | 13 (b) | 236,808 | 1,538 |
| Total other comprehensive income for the year | | 236,808 | 1,538 |
| Total comprehensive income | | 16,383,293 | 15,579,632 |
| Earnings per share | | | |
| - Basic (Rs.) | 10 | 86.20 | 83.16 |
| - Diluted (Rs.) | 10 | 86.20 | 83.16 |

The Notes on pages 68 to 97 form an integral part of these financial statements.

Statement of Financial Position

(all amounts in Sri Lanka Rupees thousands)

| | | As at 31 December | |
|--|--------|-------------------|-------------------|
| | Note | 2021 Rs. '000 | 2020 Rs. '000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 5,347,524 | 4,682,376 |
| Intangible assets | 12 | 670 | 1,820 |
| Employee benefit plan asset | 13 (b) | 369,610 | 180,904 |
| Other receivables | 15 | 136,215 | 111,820 |
| Total Non-current assets | | 5,854,019 | 4,976,920 |
| Current assets | | | |
| Inventories | 14 | 4,611,987 | 3,732,192 |
| Trade and other receivables | 15 | 7,408,865 | 3,229,974 |
| Assets held for sale | 11.4 | - | - |
| Cash and cash equivalents | 16 | 8,592,971 | 9,782,347 |
| Total current assets | | 20,613,823 | 16,744,513 |
| Total assets | | 26,467,842 | 21,721,433 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Stated capital | 17 | 1,873,238 | 1,873,238 |
| Retained earnings | | 7,113,882 | 2,729,151 |
| Total equity | | 8,987,120 | 4,602,389 |
| Non-current liabilities | | | |
| Unfunded retirement benefit obligation | 13 (a) | 163 | 163 |
| Deferred tax liabilities | 18 | 377,118 | 396,350 |
| Lease liabilities | 21 | 100,074 | 83,772 |
| Total Non-current liabilities | | 477,355 | 480,285 |
| Current liabilities | | | |
| Trade and other payables | 19 | 5,168,689 | 7,827,053 |
| Lease liabilities | 21 | 122,414 | 104,918 |
| Income tax liabilities | | 4,219,475 | 4,966,761 |
| Dividend payable | 20 (a) | 7,220,436 | 3,465,489 |
| Unclaimed dividends | 20 (b) | 272,353 | 274,538 |
| Total current liabilities | | 17,003,366 | 16,638,759 |
| Total liabilities | | 17,480,721 | 17,119,044 |
| Total equity and liabilities | | 26,467,842 | 21,721,433 |

The Notes on pages 68 to 97 form an integral part of these financial statements.

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Syed Muhammad Ali Abrar

Finance Director

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were authorised for issue by the Board of Directors on 21 April 2022.



Monisha Abraham

Managing Director & CEO

21 April 2022



Syed Muhammad Ali Abrar

Finance Director

21 April 2022

Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

| | Note | Stated capital Rs. '000 | Retained earnings Rs. '000 | Total Rs. '000 |
|---|--------|-------------------------------|----------------------------------|-------------------|
| Balance at 1 January 2020 | | 1,873,238 | 2,749,626 | 4,622,864 |
| Profit for the year | | - | 15,578,094 | 15,578,094 |
| Other comprehensive income | | - | 1,538 | 1,538 |
| Total comprehensive income for the year | | - | 15,579,632 | 15,579,632 |
| Transactions with owners of the Company, recognised directly in equity | | | | |
| Write back of unclaimed dividend | 20 (b) | - | 65,777 | 65,777 |
| Dividend | 20 (c) | - | (15,665,884) | (15,665,884) |
| Total transactions with shareholders | | - | (15,600,107) | (15,600,107) |
| Balance at 31 December 2020 | | 1,873,238 | 2,729,151 | 4,602,389 |
| Balance at 1 January 2021 | | 1,873,238 | 2,729,151 | 4,602,389 |
| Profit for the year | | - | 16,146,485 | 16,146,485 |
| Other comprehensive income | | - | 236,808 | 236,808 |
| Total comprehensive income for the year | | - | 16,383,293 | 16,383,293 |
| Transactions with owners of the Company, recognised directly in equity | | | | |
| Write back of unclaimed dividend | 20 (b) | - | 55,721 | 55,721 |
| Dividend | 20 (c) | - | (12,054,283) | (12,054,283) |
| Total transactions with shareholders | | - | (11,998,562) | (11,998,562) |
| Balance at 31 December 2021 | | 1,873,238 | 7,113,882 | 8,987,120 |

The Notes on pages 68 to 97 form an integral part of these financial statements.

Statement of Cash Flows

(all amounts in Sri Lanka Rupees thousands)

| | | Year ended 31 December | |
|---|--------|------------------------|---------------------|
| | Note | 2021 Rs. '000 | 2020 Rs. '000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 24 | 18,770,505 | 20,745,028 |
| Interest received | 8 | 538,716 | 787,262 |
| Interest paid | 8 | (20,106) | (24,274) |
| Gratuity paid - unfunded scheme | | - | - |
| Taxes paid | | (11,266,258) | (11,564,049) |
| Net cash generated from operating activities | | 8,022,857 | 9,943,967 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | 11 | (844,308) | (952,014) |
| Purchase of intangible assets | 12 | - | - |
| Net cash used in investing activities | | (844,308) | (952,014) |
| Cash flows from financing activities | | | |
| Dividend paid | 20 (a) | (8,197,667) | (15,903,852) |
| Unclaimed dividend paid | 20 (b) | (48,134) | (29,594) |
| Payment of lease liabilities | | (122,124) | (121,391) |
| Net cash used in financing activities | | (8,367,925) | (16,054,837) |
| Net (decrease) / increase in cash and cash equivalents | | (1,189,377) | (7,062,884) |
| Movement in cash and cash equivalents | | | |
| At beginning of year | | 9,782,347 | 16,845,231 |
| (decrease) / increase in cash and cash equivalents | | (1,189,377) | (7,062,884) |
| At end of year | 16 | 8,592,971 | 9,782,347 |

The Notes on pages 68 to 97 form an integral part of these financial statements.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

1 GENERAL INFORMATION

Ceylon Tobacco Company PLC ('the Company') is a public limited company incorporated and domiciled in Sri Lanka. The principal operations of the Company are manufacturing, marketing and selling cigarettes. The Company's registered office is located at No. 178, Srimath Ramanathan Mawatha, Colombo 15.

British American Tobacco Plc ("BAT") is the ultimate parent company of Ceylon Tobacco Company PLC through British American Tobacco International Holdings BV. The ordinary shares of the Company are listed on the Colombo Stock Exchange.

2 BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with Sri Lanka Accounting Standards ('SLFRS/LKAS') as laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the Companies Act No. 07 of 2007.

These financial statements were authorised for issue by the Company's Board of Directors on 21 April 2022.

2.2 Functional and presentation currency

These financial statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.3 Going concern

The Company's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for a foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.4 Significant accounting judgements, estimates and assumptions

In preparing these financial statements, the Management has made judgements and estimates that effect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following notes:

- **Note 4** - Revenue Recognition: whether revenue from made-to-order products is recognised over time or at a point in time;
- **Note 21** - Lease Term: whether the Company is reasonably certain to exercise extension options;

Assumption

Information about assumptions and estimation uncertainties at 31 December 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- **Note 13** – measurement of defined benefit obligations: key actuarial assumptions; and
- **Note 18** – recognition of deferred tax assets

2.5 Comparative information

The comparative information has been reclassified where necessary to confirm to the current year's classification in order to provide a better presentation.

2.6 Changes in significant accounting policies

There were no changes in accounting policies for the year ended 31 December 2021

2.7 Segmental reporting

The Company operates in 02 geographical segments - domestic and export sales.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who are responsible for making strategic decisions, allocating resources and assessing performance of the operating segments, have been identified as the Chief Executive Officer (CEO) and the Board of Directors.

However, operating segments are not presented as exports make up less than 1% of turnover.

2.8 Summary of significant accounting policies

The Company has consistently applied the accounting policies to all periods presented in these financial statements.

2.8.1 Foreign currency transactions, translation and balances

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are

measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

2.8.2 Property, plant and equipment

Basis of recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

Basis of measurement

All property, plant and equipment are initially recorded at cost and stated at historical cost less depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate only when it is probable that future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation and derecognition

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|--|-----------------------|
| Freehold buildings | 40 years |
| Leasehold buildings | Over the lease period |
| Building improvements / upgrades | 10 years |
| Plant and machinery | 20 years |
| Furniture, fittings and office equipment | 5 years |
| IT equipment and household equipment | 3 years |
| Vehicles and accessories | 4 years |
| Lab equipment and canteen equipment | 10 years |
| IT infrastructure | 5 years |

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Capital work-in-progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings and major plant and machinery, awaiting capitalisation.

2.8.3 Intangible assets

Basis of recognition and measurement

Intangible assets wholly consist of cost of computer software acquired by the Company and have finite useful life is measured at cost less accumulated amortisation and impairment losses, if any.

Subsequent measurement

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss for the period.

Estimated useful life for current and comparative period are as follows:

| | |
|-------------------|---------|
| Computer software | 3 years |
|-------------------|---------|

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.8.4 Financial Instruments

Recognition and initial measurement

Trade receivable and debt securities issues are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing components is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets classified under amortised cost include trade and other receivables and cash and cash equivalents.

A debt investment is measured at FVOCI if it meets both of the following conditions and it not designated as at FVTPL.

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised

cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether Management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Company's Management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectation about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial Assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value for money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs. (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- Contingent events that would change the amount or timing of cash flows;
- Terms that may adjust the contractual coupon rate, including variable-rate features; and
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets – subsequent measurement and gains and losses

| | |
|------------------------------------|--|
| Financial assets at FVTPL | These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. |
| Financial assets at amortised cost | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| Debt investments at FVOCI | These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. |
| Equity investments at FVOCI | These assets are subsequently measured at fair value. Dividend is recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. |

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities measured at amortised cost include trade and other payables and lease liability.

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Company derecognises a financial liability when its contractual obligation are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.8.5 Impairment of financial assets

The Company uses simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables based on guidance received from the Group.

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(all amounts in Sri Lanka Rupees thousands)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 90 days past due;
- The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation.

2.8.6 Impairment of non-financial assets

Assets which are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal of each reporting date.

2.8.7 Inventories

Inventories are stated at the lower of cost or net realisable value after making due allowance for slow moving and obsolete items, on a basis consistently applied from year to year. Net realisable value is the estimate of the selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined on a weighted average basis. The value of raw materials includes the cost of leaf processed by the Company's leaf operations and wrapping material cost. The values of the work-in-progress and finished goods consist of the raw materials, direct labour, other direct costs and related

production overheads. All other stocks are included under the category of consumables which are valued at cost.

2.8.8 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment testing of trade receivables is described in Note 2.8.5.

2.8.9 Cash and cash equivalents

In the statement of cash flows of the Company, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 03 months or less and bank overdrafts.

2.8.10 Stated capital

The ordinary shares of the Company are quoted in the Colombo Stock Exchange (CSE). The ordinary shareholders are entitled to receive dividend as declared by the Company from time to time.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

2.8.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.8.12 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

The company has determined that interest and penalties related to income taxes, including uncertain tax treatments do not meet the definition of income taxes and therefore accounted for them under LKAS 37 provisions, contingent liabilities and contingent assets.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in

respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the statement of financial position. Deferred tax is determined using rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The rate used is considered as substantively enacted as at the reporting date.

2.8.13 Employee benefits

(a) Defined contribution plan

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

CTC Provident Fund

All local employees of the Company are members of the CTC Provident Fund to which Company contributes 15% of such employees' consolidated wage or salary.

Employees' Trust Fund

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

(b) Defined benefit plan

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The Company is liable to pay retirement benefits under the Payment of Gratuity Act No. 12 of 1983. The liability for the gratuity payment to an employee arises only on the completion of five years of continued service with the Company.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(c) Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Wages, salaries, paid annual leave and sick leave, bonuses, leave encashment, and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

(d) Share based payments

The fair value of the amount payable to employees in respect of Phantom shares in BAT PLC, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees are entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the current price of the BAT share. Any changes in the liability are recognised in profit or loss.

2.8.14 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

2.8.15 Revenue recognition

Sale of goods

Revenue principally comprises sales of cigarettes and other tobacco products to external customers. Revenue excludes duty, excise and other taxes collected on behalf of third parties, rebates, discounts and certain

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(all amounts in Sri Lanka Rupees thousands)

marketing expenses, which are not distinct from sales or fair value of the goods or services that cannot be reasonably estimated or excess value of fair value of such product or services. The Company considers sales and delivery of products as one performance obligation and recognises revenue when it transfers control to a customer.

Disaggregation of revenue

SLFRS 15 requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Company's contracts with customers are similar in nature and revenue from these contracts are not significantly affected by economic factors apart from exports sales. The Company believes objective of this requirement will be met by using one type of category - Geographical markets (refer Note 4).

2.8.16 Leases

Recognition

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property and motor vehicles, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful

life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'lease liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1). The amendment applies to annual reporting periods beginning on or after 1 January 2023
- Definition of Accounting Estimates (Amendments to LKAS 8).
- Disclosure of Accounting Policies (Amendments to LKAS 1)

2.8.17 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividend distributions are recognised in the period in which the dividends are declared and paid.

2.8.18 Fair value estimation

The carrying values of applicable financial instruments represent their fair values as they are mostly short term non-derivative financial instruments, considering the discounting impact as immaterial.

2.9 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted. However, the Company has not early adopted the new and amended standards in preparing these financial statements.

A Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to LKAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023

B Other Standards

The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37).
- Annual Improvements to SLFRS Standards 2018–2020. The amendments are effective for annual reporting periods beginning on or after 1 January 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16). The amendment applies to annual reporting periods beginning on or after 1 January 2022
- Reference to Conceptual Framework (Amendments to SLFRS 3). The amendment applies to annual reporting period beginning on or after 1 January 2022

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(all amounts in Sri Lanka Rupees thousands)

3 FINANCIAL RISK MANAGEMENT

Introduction

The Company has exposure to the following risks from financial instruments

- (a) Market risk
- (b) Credit risk
- (c) Liquidity risk

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board consists of Directors with wide financial and commercial knowledge and experience. The Board discharges its governance responsibility through the Board of Directors and the Audit Committee. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Audit Committee is responsible for monitoring compliance with the Company's risk management policies and procedures.

3.1 Financial risk factors

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices that will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD), Euro (EUR) and the Great Britain Pound (GBP). Foreign exchange risk arises from future commercial transactions of recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. Management complies with the treasury policy to manage foreign exchange risk against their functional currency.

The following significant exchange rates were applied during the year:

| | Year ended 31 December | |
|------------------------------|------------------------|--------|
| | 2021 | 2020 |
| Closing exchange rate | | |
| US Dollar (USD) | 202.79 | 185.25 |
| Great Britain Pound (GBP) | 274.66 | 253.23 |
| Euro (EUR) | 230.61 | 226.66 |
| | | |
| | Year ended 31 December | |
| | 2021 | 2020 |
| Average exchange rate | | |
| US Dollar (USD) | 198.50 | 185.45 |
| Great Britain Pound (GBP) | 273.05 | 238.00 |
| Euro (EUR) | 234.69 | 211.70 |

The Company considered a further 5% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 5% increase or decrease of functional currency against non-functional currencies would result in Rs. 35.5 Million impact on pre-tax profit.

(ii) Price risk

Price risk represents the risk that the fair value of future cash flows of a financial statement will fluctuate because of a change in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to any price risk.

Equity price risk

The Company is not exposed to equity price risk since there are no investments in equity securities.

Commodity price risk

The Company is not significantly exposed to commodity price risk as material prices are contractually agreed to on a long term basis.

(iii) Cash flow and fair value interest rate risk

As the Company has no long term interest bearing assets or liabilities, the Company's income and operating cash flows are independent of changes in market interest rate. Hence, there is no impact to the Company.

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge a contractual obligation. Credit risk mainly arises from trade debtors, advances and cash and cash equivalents. Group Treasury guidelines are followed for managing cash and cash equivalents, while short term investment decisions are taken after proper review by treasury committee ensuring compliance with group guidelines. The Company sales are on an order to order basis with guarantees equivalent to a day's sales, being obtained from all distributors. Management does not expect any losses from non performance by these counterparties. The maximum exposure to credit risk at the reporting date in terms of carrying value of assets are as follows:

| | As at 31 December | |
|---|-------------------|------------|
| | 2021 | 2020 |
| Trade receivables [Note 15] | 6,442,871 | 2,816,979 |
| Receivables from related parties [Note 25 (iii)] | 76,896 | 57,714 |
| Staff loans [Note 15] | 400,699 | 265,447 |
| Advances to farmers [Note 15] | 188,018 | 215,766 |
| | 7,108,484 | 3,355,906 |
| Provision [Note 15] | (160,891) | (156,835) |
| Cash and cash equivalents, excluding cash in hand | 8,592,663 | 9,782,025 |
| | 15,540,256 | 12,981,096 |

The following tables provide information about the exposure to credit risk on trade receivables;

As at 31 December 2021

| Ageing Category | Gross Receivable (Rs.'000) | % Provision | Total Provision (Rs.'000) | Net Receivable (Rs.'000) |
|-----------------|-------------------------------|-------------|------------------------------|-----------------------------|
| Not Due | 6,373,812 | 0.10% | 6,373,812 | 6,367,437,850 |
| 1 - 30 Days | 69,059 | 0.12% | 82,871 | 68,976,533 |
| 31 - 90 Days | - | 0.14% | - | - |
| 91 - 180 Days | - | 0.16% | - | - |
| 181-360 Days | - | 0.18% | - | - |
| >360 Days | - | 0.20% | - | - |
| | 6,442,871 | | 6,456,683 | 6,436,414 |

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(all amounts in Sri Lanka Rupees thousands)

3.1 Financial risk factors (Contd.)

As at 31 December 2020

| Ageing Category | Gross Receivable (Rs.'000) | % Provision | Total Provision (Rs.'000) | Net Receivable (Rs.'000) |
|-----------------|-------------------------------|-------------|------------------------------|-----------------------------|
| Not Due | 1,803,638 | 0.10% | 1,804 | 1,801,834 |
| 1 - 30 Days | 927,704 | 0.12% | 1,113 | 926,591 |
| 31 - 60 Days | 80,450 | 0.14% | 113 | 80,337 |
| 61 - 90 Days | - | 0.14% | - | - |
| 91 - 120 Days | - | 0.16% | - | - |
| 121 - 180 Days | - | 0.16% | - | - |
| 181-360 Days | 5,187 | 0.18% | 9 | 5,178 |
| >360 Days | - | 0.20% | - | - |
| | 2,816,979 | | 3,039 | 2,813,940 |

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Cash at bank and short term bank deposits:

| | Rating | As at 31 December | |
|--|------------|-------------------|------------------|
| | | 2021 | 2020 |
| | AAA (Ika) | 743,776 | 5,555,516 |
| | AA+ (Ika) | - | 193,680 |
| | AA - (Ika) | 339,590 | - |
| | A | 81,885 | - |
| | AA- | 7,375,117 | 3,989,595 |
| | BBB | - | 43,234 |
| | BBB+ | 52,295 | - |
| Total cash at bank and short term bank deposits | | 8,592,663 | 9,782,025 |

(c) Liquidity risk

Liquidity risk is the risk that the entity will not be able to honour its financial obligations as they fall due.

The Company's Management monitors rolling forecasts of the liquidity position, expressed in cash and cash equivalents on the basis of expected cash flow and ensure access to short term credit as per approved credit limit. However, the Company is able to meet all working capital requirements with its cash at bank and in hand. Excess funds are invested in term deposits of less than one year. The Management considers liquidity risk to be very negligible.

Relevant non-derivative financial liabilities at the reporting date are as follows:

| | | Undiscounted Contractual Cash Flows | | | |
|--|-----------------|-------------------------------------|--------------------|-----------------------------|------------------|
| | Carrying amount | Total | Less than 3 months | Between 3 months and 1 year | More than 1 year |
| At 31 December 2021 | | | | | |
| Trade and other payables, excluding accrued expenses and government levies | 1,568,933 | 1,568,933 | 1,324,852 | 244,081 | - |
| Lease liabilities | 222,488 | 254,323 | 41,716 | 98,772 | 113,835 |

| | | Undiscounted Contractual Cash Flows | | | |
|--|-----------------|-------------------------------------|--------------------|-----------------------------|------------------|
| | Carrying amount | Total | Less than 3 months | Between 3 months and 1 year | More than 1 year |
| At 31 December 2020 | | | | | |
| Trade and other payables, excluding accrued expenses and government levies | 987,367 | 987,367 | 375,056 | 612,311 | - |
| Lease liability | 188,690 | 210,278 | 38,686 | 81,152 | 90,440 |

3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2021, the Company's strategy, which was unchanged from 2020, was to be fully equity funded and have no external borrowings.

3.3 Analysis of financial instruments by measurement basis

The fair value of financial assets and liabilities, together with carrying amounts shown in the statement of financial position are as follows:

| As at 31 December 2021 | Financial Assets at amortised cost | Financial Assets measured at fair value through profit or loss | Financial Assets measured at fair value through other comprehensive income | Total |
|------------------------|------------------------------------|--|--|-------|
|------------------------|------------------------------------|--|--|-------|

Assets as per statement of financial position

| | | | | |
|---|-------------------|----------|----------|-------------------|
| Trade and other receivables, excluding pre-payments | 7,470,255 | - | - | 7,470,255 |
| Cash and cash equivalents | 8,592,971 | - | - | 8,592,971 |
| Total | 16,063,226 | - | - | 16,063,226 |

| As at 31 December 2021 | Financial Liabilities measured at fair value through profit and loss | Financial liabilities measured at amortised cost | Total |
|------------------------|--|--|-------|
|------------------------|--|--|-------|

Liabilities as per statement of financial position

| | | | |
|--|----------|------------------|------------------|
| Trade and other payables, excluding accrued expenses and government levies | - | 1,568,933 | 1,568,933 |
| Lease liability | - | 222,488 | 222,488 |
| Total | - | 1,791,421 | 1,791,421 |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

3.3 Analysis of financial instruments by measurement basis (Contd.)

| As at 31 December 2020 | Financial Assets at amortised cost | Financial Assets measured at fair value through profit or loss | Financial Assets measured at fair value through other comprehensive income | Total |
|------------------------|--|---|---|-------|
|------------------------|--|---|---|-------|

Assets as per statement of financial position

| | | | | |
|---|-------------------|----------|----------|-------------------|
| Trade and other receivables, excluding pre-payments | 3,234,784 | - | - | 3,234,784 |
| Cash and cash equivalents | 9,782,347 | - | - | 9,782,347 |
| Total | 13,017,131 | - | - | 13,017,131 |

| As at 31 December 2020 | Financial Liabilities measured at fair value through profit and loss | Financial liabilities measured at amortised cost | Total |
|------------------------|--|--|-------|
|------------------------|--|--|-------|

Liabilities as per statement of financial position

| | | | |
|--|----------|----------------|----------------|
| Trade and other payables, excluding accrued expenses and government levies | - | 375,056 | 375,056 |
| Lease liability | - | 188,690 | 188,690 |
| Total | - | 563,746 | 563,746 |

4 REVENUE

| | Year ended 31 December | |
|-----------------------|------------------------|--------------------|
| | 2021 | 2020 |
| Local turnover | 134,317,331 | 132,074,321 |
| Export turnover | 51,197 | 74,489 |
| Total turnover | 134,368,528 | 132,148,810 |

Government levies

| | | |
|--------------------------------|----------------------|----------------------|
| Excise special provision tax | (90,696,197) | (90,215,609) |
| Value added tax | (10,041,116) | (9,843,343) |
| Tobacco tax | (15,982) | (17,337) |
| Total government levies | (100,753,295) | (100,076,289) |
| Revenue | 33,615,233 | 32,072,521 |

The Company does not distinguish its products into significant components for different geographical / business segments as they are insignificant. Export proceeds of the Company are less than 1% of total turnover.

5 EMPLOYEE BENEFIT EXPENSES

| | Year ended 31 December | |
|---|------------------------|-----------|
| | 2021 | 2020 |
| Executive Directors' emoluments | 125,966 | 112,207 |
| Non-Executive Directors' remuneration | 14,987 | 9,000 |
| Salaries and wages | 1,142,262 | 1,070,555 |
| Defined contribution plans | 85,246 | 77,742 |
| Provision for voluntary separation scheme [(a) below] | 102,028 | 78,503 |
| Defined benefit obligations [Note 13] | 48,102 | 17,451 |
| | 1,518,591 | 1,365,458 |

a) Voluntary Separation Scheme (VSS) was available to selected employees.

6 OTHER OPERATING INCOME

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2021 | 2020 |
| Sundry sales / gains | 33,204 | 13,418 |
| Recharge income | (165) | 29,316 |
| Gain from disposal of assets held for sale | - | 57,870 |
| Derecognition of right of use assets | - | 11 |
| | 33,039 | 100,615 |

7 OPERATING PROFIT

The operating profit is stated after charging the following other operating expenses :

| | Year ended 31 December | |
|--|------------------------|---------|
| | 2021 | 2020 |
| Auditors' remuneration | | |
| - Audit fees | 3,943 | 3,755 |
| - Audit related services | 1,390 | 2,005 |
| - Non-audit fees | - | - |
| Legal fees | 72,583 | 50,036 |
| Donations | 102,440 | 129,047 |
| Technical and advisory fees | 430,442 | 570,200 |
| Fixed assets write-offs | 2,109 | 328 |
| Provision for obsolete inventories (net of write-offs) | (27,059) | (900) |
| Provision for doubtful debts (net of write-offs) | 4,056 | 43,450 |
| Repairs and maintenance | 277,425 | 216,583 |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

8 NET FINANCE INCOME

| | Year ended 31 December | |
|---|------------------------|----------------|
| | 2021 | 2020 |
| Interest income | | |
| - Interest income from bank deposits | 538,716 | 787,262 |
| Interest expense | | |
| - Interest on lease liabilities [Note 21] | (20,106) | (24,274) |
| Net Finance income | 518,610 | 762,988 |

9 INCOME TAX EXPENSES

The Company is liable for income tax in accordance with Inland Revenue Act No. 24 of 2017 and income tax has been provided on the taxable income of the Company at 40% and 24% on profits arising from sales and interest income respectively in 2021.

| | Year ended 31 December | |
|------------------------------------|------------------------|------------------|
| | 2021 | 2020 |
| Current tax on profit for the year | 10,518,970 | 10,055,955 |
| Deferred tax [Note 18] | (19,233) | (200,486) |
| | 10,499,737 | 9,855,469 |

| | Year ended 31 December | | | |
|--|------------------------|-------------------|---------------|------------------|
| | % | 2021 | % | 2020 |
| Profit before tax | | 26,646,222 | | 25,433,563 |
| Tax calculated at tax rate of 40% | 40% | 10,658,489 | 40% | 10,173,425 |
| Tax effects of: | | | | |
| Expenses not deductible for tax purposes | 2.03% | 216,226 | 4.88% | 496,420 |
| Expenses deductible for tax purposes | (2.53%) | (269,548) | (4.80%) | (487,836) |
| Rate differentials | (0.81%) | (86,196) | (1.24%) | (126,055) |
| Deferred taxation [Note 18] | (0.18%) | (19,233) | (1.97%) | (200,486) |
| Tax charge | 38.51% | 10,499,737 | 36.87% | 9,855,469 |

10 EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December | |
|--|------------------------|--------------|
| | 2021 | 2020 |
| Net profit attributable to shareholders (in thousands) | 16,146,485 | 15,578,094 |
| Weighted average number of ordinary shares in issue | 187,323,751 | 187,323,751 |
| Basic earnings per share (Rs.) | 86.20 | 83.16 |
| Diluted earnings per share (Rs.) | 86.20 | 83.16 |

PROPERTY, PLANT AND EQUIPMENT

| | Freehold land | Freehold buildings | Building improvements / upgrades | Leasehold buildings | Plant and machinery/ equipment | Motor vehicles | Capital work in progress | Right of use assets | Total |
|----------------------------------|---------------|--------------------|----------------------------------|---------------------|--------------------------------|----------------|--------------------------|---------------------|------------------|
| Cost | | | | | | | | | |
| At 1 January 2020 | 96,837 | 359,059 | 225,507 | 25,942 | 5,347,892 | 8,643 | 1,203,502 | 313,916 | 7,581,298 |
| Additions of right-of-use assets | - | - | - | - | - | - | - | 91,172 | 91,172 |
| Transfers from CWIP | - | 1,663 | 29,624 | - | 371,155 | - | (402,442) | - | - |
| Additions to CWIP | - | - | - | - | - | - | 952,014 | - | 952,014 |
| Write-offs / Derecognitions | - | - | - | - | (10,632) | - | - | (903) | (11,535) |
| At 31 December 2020 | 96,837 | 360,722 | 255,131 | 25,942 | 5,708,415 | 8,643 | 1,753,074 | 404,185 | 8,612,949 |
| Accumulated depreciation | | | | | | | | | |
| At 1 January 2020 | - | 231,204 | 127,879 | 25,855 | 3,103,014 | 7,780 | - | 107,301 | 3,603,033 |
| Depreciation | - | 5,327 | 19,196 | 30 | 190,529 | - | - | 123,665 | 338,747 |
| Write-offs / Derecognitions | - | - | - | - | (10,605) | - | - | (602) | (11,207) |
| At 31 December 2020 | - | 236,531 | 147,075 | 25,885 | 3,282,938 | 7,780 | - | 230,364 | 3,930,573 |
| Closing net book value | 96,837 | 124,191 | 108,056 | 57 | 2,425,477 | 863 | 1,753,074 | 173,821 | 4,682,376 |
| Cost | | | | | | | | | |
| At 1 January 2021 | 96,837 | 360,722 | 255,131 | 25,942 | 5,708,415 | 8,643 | 1,753,074 | 404,185 | 8,612,949 |
| Addition of right-of-use assets | - | - | - | - | - | - | - | 155,922 | 155,922 |
| Transfers from CWIP | - | - | 8,347 | - | 193,711 | - | (202,058) | - | - |
| Additions to CWIP | - | - | - | - | - | - | 844,308 | - | 844,308 |
| Write-offs / Derecognitions | - | - | - | - | (144,142) | - | - | - | (144,142) |
| At 31 December 2021 | 96,837 | 360,722 | 263,478 | 25,942 | 5,757,994 | 8,643 | 2,395,324 | 560,107 | 9,469,037 |
| Accumulated depreciation | | | | | | | | | |
| At 1 January 2021 | - | 236,531 | 147,075 | 25,885 | 3,282,938 | 7,780 | - | 230,364 | 3,930,573 |
| Depreciation | - | 5,346 | 20,332 | 30 | 187,847 | - | - | 119,418 | 332,973 |
| Write-offs / Derecognitions | - | - | - | - | (142,033) | - | - | - | (142,033) |
| At 31 December 2021 | - | 241,877 | 167,407 | 25,915 | 3,328,752 | 7,780 | - | 349,782 | 4,121,513 |
| Closing net book value | 96,837 | 118,845 | 96,071 | 27 | 2,429,232 | 863 | 2,395,324 | 210,325 | 5,347,524 |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

- 11.1** Property, plant and equipment includes fully depreciated assets which are in use, the cost of which as at the end of the reporting date amounted to Rs. 2,049,819,742 (2020 - Rs. 2,078,216,901).
- 11.2** Capital work in progress, represents the operational and administrative activities related project works in progress, which mainly consists improvements and additions to machinery/equipment.

11.3 Company Property

The freehold land and buildings were valued by professional valuers W.D.P. Rupananda, FIV, MRICS & Dr. Prathap Kaluthanthri MRICS, AIV. The valuations carried out on 31 December 2020 have been considered to derive the market values of the respective properties as at 31 December 2021.

The Company follows the cost model as stated in its accounting policy to measure property, plant and equipment. The purpose of this valuation is for management information and to ascertain the current market prices of the freehold land and buildings owned by the Company. The valuation results have not been incorporated in the financial statements. The valuation of the properties mentioned below amounts to Rs. 7,374,500,000.

| Asset Type | Property Location | Extent of Land | | | No of Buildings | Revalued Amount Rs. '000 |
|--------------------|---|----------------|---|-------|--------------------|-----------------------------|
| | | A | R | P | | |
| Land and Buildings | Colombo Head Office Factory | 7 | 2 | 22.15 | 15 | 5,999,000 |
| Land and Buildings | Kandy industrial premises | 3 | 3 | 26.05 | 5 | 520,750 |
| Land and Buildings | Kandy commercial premises | 2 | 1 | 18.75 | 2 | 174,000 |
| Land and Buildings | Haliela depot, stores and quarters | 1 | 1 | 38.50 | 7 | 39,450 |
| Land and Buildings | Anuradhapura depot, stores and quarters | 2 | 1 | 33.50 | 5 | 56,850 |
| Land and Buildings | Nildanhinna depot, stores and quarters | 2 | 1 | 4.00 | 9 | 31,100 |
| Land and Buildings | Hanguranketa depot, stores and quarters | 2 | 3 | 21.00 | 8 | 16,150 |
| Land and Buildings | Melsiripura depot, stores and quarters | 1 | 3 | 1.25 | 5 | 57,500 |
| Land and Buildings | Ambale depot, stores and quarters | 2 | 0 | 9.66 | 4 | 19,500 |
| Land and Buildings | Wendaruwa quarters | 0 | 2 | 0.00 | 1 | 3,700 |
| Land and Buildings | Galewela depot, stores and quarters | 5 | 3 | 39.88 | 8 | 142,500 |
| Land and Buildings | Hunnasgiriya quarters | 0 | 2 | 0.00 | 1 | 2,050 |
| Land and Buildings | Nuwara Eliya | 0 | 1 | 31.30 | 1 | 161,750 |
| Land | Naula | 0 | 0 | 21.00 | - | 10,500 |
| Land | Nuwara Eliya Yalta | 0 | 1 | 23.50 | - | 139,700 |

11.4 Assets held for sale

The land and building at Kabitigollawa, land at Walapane and land at Kalagedihena which were classified as held for sale in 2019, were disposed during 2020.

- 11.5** The Company changed the expected useful life of Machinery and Equipment w.e.f. 1 January 2018. The Machinery and Equipment which initially had a useful life of 14 years, are now expected to remain in production for 20 years from the date of purchase. As a result, their expected useful life increased and its estimated residual value decreased. The effect of these changes on actual and expected depreciation expense, was as follows.

| | 2018 | 2019 | 2020 | 2021 | 2022 | Later |
|--|----------|----------|----------|----------|----------|---------|
| (Decrease) / Increase in depreciation expense (Rs. 000') | (86,818) | (80,626) | (73,413) | (61,746) | (49,875) | 352,478 |

The revisions would be accounted prospectively as a change in accounting estimates.

12 INTANGIBLE ASSETS

Intangible assets comprise computer software development and purchase cost incurred by the Company that is not integral to the functionality of the related equipment as explained in Note 2.8.3

| | As at 31 December | |
|------------------------------|-------------------|--------------|
| | 2021 | 2020 |
| Cost | | |
| At 1 January | 66,874 | 66,874 |
| Additions | - | - |
| Write-offs | (29,493) | - |
| At 31 December | 37,381 | 66,874 |
| Amortisation | | |
| At 1 January | 65,054 | 63,904 |
| Amortisation during the year | 1,150 | 1,150 |
| Write-offs | (29,493) | - |
| At 31 December | 36,711 | 65,054 |
| Net book value | 670 | 1,820 |

13 EMPLOYMENT BENEFITS

(a) Unfunded defined benefit plan

The retiring gratuity is a defined benefit plan covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs. 0.16 Million (2020 - Rs. 0.16 Million) is not funded and has been provided for in the books of the Company.

| | As at 31 December | |
|----------------------|-------------------|------|
| | 2021 | 2020 |
| Unfunded obligations | 163 | 163 |

(b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 307 (2020 - 310) employees attached to the Company. The plan is fully funded by a policy obtained from AIA Insurance Lanka PLC. This policy meets the criteria mentioned in Sri Lanka Accounting Standard LKAS 19 - Employee Benefits, to classify it as a qualifying insurance policy.

The amounts recognised in the statement of financial position are determined as follows:

| | As at 31 December | |
|---------------------------------------|-------------------|-----------|
| | 2021 | 2020 |
| Defined Benefit Obligation | 266,249 | 426,974 |
| Fair Value of the Plan Asset | (635,859) | (607,878) |
| Net Defined Benefit (Asset)/Liability | (369,610) | (180,904) |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

13 EMPLOYMENT BENEFITS (CONTD.)

The movement in the defined benefit (asset) / liability over the year and the comparative period are as follows:

| | Defined benefit obligation | Fair value of plan asset | Net defined benefit (asset) / liability |
|---|----------------------------|--------------------------|---|
| Included in profit or loss: | | | |
| At 1 January 2021 | 426,974 | (607,878) | (180,904) |
| Current service cost | 41,381 | - | 41,381 |
| Past service cost - plan amendments | 20,651 | - | 20,651 |
| Interest expense / (income) | 30,856 | (44,786) | (13,930) |
| | 92,888 | (44,786) | 48,102 |
| Included in OCI: | | | |
| Remeasurements: | | | |
| - Return on plan assets, excluding amounts included in interest expense | - | (35,689) | (35,689) |
| - Actuarial gain from change in financial assumptions | (179,346) | - | (179,346) |
| - Experience gain | (21,773) | - | (21,773) |
| | (201,119) | (35,689) | (236,808) |
| Other: | | | |
| Benefits paid | (52,494) | 52,494 | - |
| At 31 December 2021 | 266,249 | (635,859) | (369,610) |
| | Defined benefit obligation | Fair value of plan asset | Net defined benefit (asset) / liability |
| Included in profit or loss: | | | |
| At 1 January 2020 | 403,435 | (600,252) | (196,817) |
| Current service cost | 37,330 | - | 37,330 |
| Interest expense / (income) | 35,231 | (55,110) | (19,879) |
| | 72,561 | (55,110) | 17,451 |
| Included in OCI: | | | |
| Remeasurements: | | | |
| - Return on plan assets, excluding amounts included in interest expense | - | (61,741) | (61,741) |
| - Actuarial loss from change in financial assumptions | 49,355 | - | 49,355 |
| - Experience loss | 10,848 | - | 10,848 |
| | 60,203 | (61,741) | (1,538) |
| Other: | | | |
| Benefits paid | (109,225) | 109,225 | - |
| At 31 December 2020 | 426,974 | (607,878) | (180,904) |

The principal assumptions the Company used are as follows:

| | As at 31 December | |
|------------------------------|-------------------|-------|
| | 2021 | 2020 |
| Discount rate per annum | 11.80% | 7.70% |
| Annual salary increment rate | 9.00% | 9.00% |
| Staff turnover rate | 9.00% | 9.00% |
| Retirement Age (years) | 60 | 55 |

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

| | Impact on defined benefit obligation 2021 | | |
|------------------------------|---|------------------------|------------------------|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate per annum | 1.00% | (27,576) | 32,578 |
| Annual salary increment rate | 1.00% | 33,171 | (28,473) |

| | Impact on defined benefit obligation 2020 | | |
|------------------------------|---|------------------------|------------------------|
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate per annum | 1.00% | (43,367) | 50,929 |
| Annual salary increment rate | 1.00% | 49,790 | (43,265) |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the pension liability recognised within the statement of financial position.

As at 31 December 2021, the weighted-average duration of the defined benefit obligation of the permanent cadre was 11 years.

During 2021, the pension arrangements were adjusted to reflect new legal requirements in the country regarding the retirement age. A corresponding past service credit was recognised in profit or loss during 2021.

14 INVENTORIES

| | As at 31 December | |
|--|-------------------|-----------|
| | 2021 | 2020 |
| Raw materials | 4,292,383 | 3,219,177 |
| Work-in-progress | 43,215 | 51,105 |
| Finished goods | 86,499 | 264,756 |
| Consumables | 275,671 | 309,993 |
| Provision for obsolete and slow moving inventories [Note 14.1] | (85,781) | (112,839) |
| | 4,611,987 | 3,732,192 |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

14.1 Provision for obsolete and slow moving inventories

| | As at 31 December | |
|----------------------------------|-------------------|---------|
| | 2021 | 2020 |
| At 1 January | 112,839 | 113,739 |
| Charge/(reversal)during the year | (27,058) | (900) |
| Write offs during the year | | - |
| At 31 December | 85,781 | 112,839 |

A provision for obsolete and slow moving items is primarily made in relation to slow moving consumables that have not been used in a 02 years period. Finished goods, wrapping material are provided for based on their shelf life.

15 TRADE AND OTHER RECEIVABLES

| | As at 31 December | |
|--|-------------------|-----------|
| | 2021 | 2020 |
| Current | | |
| Trade receivables | 6,442,871 | 2,816,979 |
| Receivables from related parties [Note 25 (iii)] | 76,896 | 57,714 |
| Advances to farmers | 188,018 | 215,766 |
| Staff loans | 264,484 | 153,627 |
| Other receivables | 597,487 | 142,723 |
| Less: provision for impairment of receivables | (160,891) | (156,835) |
| | 7,408,865 | 3,229,974 |
| Non-current | | |
| Staff loans | 136,215 | 111,820 |
| Total trade and other receivables | 7,545,080 | 3,341,794 |

- (i) Trade receivables wholly consist of amounts receivable from distributors. No specific impairment indicators were noted as all receivables are less than 12 months.
- (ii) Provision for doubtful debts has been made on a case by case basis on loans made to farmers and on long outstanding balances included under other receivables.

The fair values of trade and other receivables are as follows :

| | As at 31 December | |
|---|-------------------|-----------|
| | 2021 | 2020 |
| Trade receivables | 6,442,871 | 2,816,979 |
| Receivables from related parties | 76,896 | 57,714 |
| Advances to farmers | 188,018 | 215,766 |
| Staff loans | 400,699 | 265,447 |
| Other receivables | 597,487 | 142,723 |
| Less: provision for impairment of receivables | (160,891) | (156,835) |
| | 7,545,080 | 3,341,794 |

Movements on the Company's provision for impairment of receivables are as follows:

| | As at 31 December | |
|----------------------------|-------------------|----------|
| | 2021 | 2020 |
| At 1 January | 156,835 | 113,385 |
| Provision for the year | 95,094 | 76,717 |
| Write-offs during the year | (90,445) | (13,282) |
| Reversals during the year | (593) | (19,985) |
| At 31 December | 160,891 | 156,835 |

16 CASH AND CASH EQUIVALENTS

| | As at 31 December | |
|--|-------------------|-----------|
| | 2021 | 2020 |
| Cash at bank and in hand | 6,566,341 | 5,755,514 |
| Short term investments | 2,026,630 | 4,026,833 |
| Cash and cash equivalents in the statement of cash flows | 8,592,971 | 9,782,347 |

17 STATED CAPITAL

| | Number of shares | Value Rs. |
|-----------------------|------------------|-------------|
| Share value (Rs. 000) | 1,873,238 | 1,873,238 |
| Number of shares | 187,323,751 | 187,323,751 |

All issued ordinary shares are fully paid.

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

18 DEFERRED TAX LIABILITY

Deferred tax is recognised in respect of all temporary differences under liability method using the effective tax rate.

The movement on the deferred income tax account is as follows:

| | As at 31 December | |
|--------------------------|-------------------|-----------|
| | 2021 | 2020 |
| At beginning of the year | 396,350 | 596,836 |
| Charge for the year | (19,233) | (200,486) |
| At end of the year | 377,118 | 396,350 |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

18 DEFERRED TAX LIABILITY (CONTD.)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The movement in deferred income tax assets and liabilities during the year is as follows:

| | Property, plant and equipment | Unfunded defined benefit obligation | Provisions | Total |
|------------------------------|----------------------------------|---|----------------|------------------|
| Balance as at 1 January 2020 | (596,901) | 65 | - | (596,836) |
| Recognised in profit or loss | (75,824) | - | 276,310 | 200,486 |
| At 31 December 2020 | (672,725) | 65 | 276,310 | (396,350) |
| Balance as at 1 January 2021 | (672,725) | 65 | 276,310 | (396,350) |
| Recognised in profit or loss | (26,246) | - | 45,479 | 19,233 |
| At 31 December 2021 | (698,972) | 65 | 321,789 | (377,118) |

| | 2021 | | 2020 | |
|-------------------------------------|--------------------------|------------|--------------------------|------------|
| | Temporary Differences | Tax Effect | Temporary Differences | Tax Effect |
| Deferred Tax Liability On | | | | |
| Property, Plant and Equipment | (1,747,429) | (698,972) | (1,681,813) | (672,725) |
| | (1,747,429) | (698,972) | (1,681,813) | (672,725) |
| Deferred Tax Assets On | | | | |
| Unfunded defined benefit obligation | 163 | 65 | 163 | 65 |
| Provision | 804,472 | 321,789 | 690,774 | 276,310 |
| | 804,635 | 321,854 | 690,938 | 276,375 |
| | (942,794) | (377,118) | (990,875) | (396,350) |

19 TRADE AND OTHER PAYABLES

| | As at 31 December | |
|--|-------------------|------------------|
| | 2021 | 2020 |
| Trade payables | 500,978 | 701,864 |
| Payable to related parties [Note 25 (iii)] | 715,389 | 715,598 |
| Accrued expenses | 1,844,917 | 2,908,392 |
| Other payables incl. Government levies | 2,107,404 | 3,501,199 |
| | 5,168,688 | 7,827,053 |

20 DIVIDENDS PAYABLE**(a) The movement of dividend payable over the year is as follows:**

| | As at 31 December | |
|--|-------------------|------------------|
| | 2021 | 2020 |
| At 1 January | 3,465,489 | 3,746,475 |
| Dividends declared [Note (c)] | 12,054,283 | 15,665,884 |
| Dividends paid | (8,197,667) | (15,903,852) |
| Transfers to unclaimed dividend [Note (b)] | (101,670) | (43,018) |
| At 31 December | 7,220,436 | 3,465,489 |

(b) Unclaimed dividend over the year is as follows:

| | As at 31 December | |
|-----------------------|-------------------|----------------|
| | 2021 | 2020 |
| At 1 January | 274,538 | 326,891 |
| Transfers | 101,670 | 43,018 |
| Payments | (48,134) | (29,594) |
| Write back | (55,721) | (65,777) |
| At 31 December | 272,353 | 274,538 |

(c) The dividend declared during the year is as follows:

| | 2021 | | 2020 | |
|-------------------------------|--------------|-------------------|--------------|-------------------|
| | per share | Rs. | per share | Rs. |
| Final dividend for prior year | 11.35 | 2,126,125 | 12.13 | 2,272,237 |
| First interim dividend | 19.00 | 3,559,151 | 19.00 | 3,559,151 |
| Second interim dividend | 19.00 | 3,559,151 | 15.00 | 2,809,856 |
| Third interim dividend | 15.00 | 2,809,856 | 19.00 | 3,559,151 |
| Fourth interim dividend | - | - | 18.50 | 3,465,489 |
| | 64.35 | 12,054,283 | 83.63 | 15,665,884 |

21 LEASES

The Company's material leases include Buildings and Vehicles rented. The useful life of the leases of the company is between 1 - 4 years. Information about leases for which the Company is a lessee is presented below.

(a) Right-of-use assets

| | 2021 | 2020 |
|--------------------------------------|----------------|----------------|
| Balance as of 1 January | 173,821 | 206,615 |
| Addition to right-of-use assets | 155,922 | 91,172 |
| Derecognition of right-of-use assets | - | (301) |
| Depreciation charge for the year | (119,418) | (123,665) |
| Balance as at 31 December | 210,325 | 173,821 |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

21 LEASES (CONTD.)

(b) Lease liabilities

| | 2021 | 2020 |
|------------------------------------|----------------|----------------|
| Balance as of 1 January | 188,690 | 219,221 |
| Additions to lease liabilities | 155,922 | 91,172 |
| Derecognition of lease liabilities | - | (312) |
| Interest expense | 20,106 | 24,274 |
| Payment of lease liabilities | (142,230) | (145,665) |
| Balance as at 31 December | 222,488 | 188,690 |

Maturity analysis - contractual undiscounted cash flows

| | | |
|---|----------------|----------------|
| Less than 01 year | 140,488 | 119,838 |
| 01 to 05 years | 113,835 | 90,440 |
| More than 05 years | - | - |
| Total undiscounted liabilities as at 31 December | 254,323 | 210,278 |

Lease liabilities included in the statement of financial position as at 31 December

| | | |
|-------------|---------|---------|
| | 222,488 | 188,690 |
| Current | 122,414 | 83,772 |
| Non-current | 100,074 | 104,918 |

(c) Amounts recognised in profit or loss

| | 2021 | 2020 |
|---------------------------------------|---------|---------|
| Depreciation of right-of-use assets | 119,418 | 123,665 |
| Interest on lease liabilities | 20,106 | 24,274 |
| Expense relating to short term leases | 8,610 | 17,854 |

(d) Amounts recognised in statement of cash flows

| | 2021 | 2020 |
|-------------------------------|---------|---------|
| Total cash outflow for leases | 142,230 | 145,665 |

22 CONTINGENT LIABILITIES

No provision has been made in the financial statements of the Company in respect of the following :

- (a) Rs. 500 Mn (2020 - Rs. 500 Mn) Bank Guarantee issued in favour of Commissioner General of Excise to obtain certificate of registration (Manufacturing License) in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 (as amended).
- (b) Shipping and Bank Guarantees have been issued amounting to Rs. 77.74 Mn (2020 - Rs. 58.9 Mn), for goods cleared before the arrival of original bank documents.
- (c) Outstanding litigation
Considering the opinion of the Company's lawyers, the Directors have reasonable assurance that any pending litigation will not have a material impact on the financial statements.

23 COMMITMENTS**Capital commitments**

There were no capital commitments at the end of the reporting period.

Financial commitments

There were no financial commitments at the end of the reporting period.

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

| | Year ended 31 December | |
|--|------------------------|-------------------|
| | 2021 | 2020 |
| Profit before tax | 26,646,222 | 25,433,563 |
| Adjustments for: | | |
| Depreciation [Note 11] | 332,973 | 338,747 |
| Amortisation of intangible assets [Note 12] | 1,150 | 1,150 |
| Write offs | 2,109 | 328 |
| Interest expense [Note 8] | 20,106 | 24,274 |
| Interest income [Note 8] | (538,716) | (787,262) |
| Net interest on retirement benefit obligations [Note 13] | 48,102 | 17,451 |
| Provision for obsolete inventories and doubtful debts | (23,003) | 42,550 |
| Derecognition of right of use assets | - | (11) |
| Changes in working capital : | | |
| - Inventories | (852,736) | (1,001,843) |
| - Trade and Other Receivables | (4,207,340) | (470,119) |
| - Trade and Other Payables | (2,658,363) | (2,853,800) |
| Cash generated from operations | 18,770,505 | 20,745,028 |

25 RELATED PARTY TRANSACTIONS**Transactions with related parties**

The Company has a number of transactions and relationships with related parties, as defined in LKAS 24 - Related Party Disclosures, all of which are undertaken in the normal course of business and on an arm's length basis.

Non-recurrent related party transactions

Any non-recurrent related party transactions of which the aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31 December 2020 audited financial statements requires additional disclosures in the 2021 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices. However, Ceylon Tobacco Company PLC has not entered into any transaction with related party that exceeds the specified thresholds.

Recurrent related party transactions

Any recurrent related party transactions of which the aggregate value exceeds 10% of revenue of the Company as per 31 December 2020 audited financial statements requires additional disclosures in the 2021 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Corporate Governance. However, Ceylon Tobacco Company PLC has not entered into any transaction with a related party that exceeds the specified thresholds.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

25 RELATED PARTY TRANSACTIONS (CONTD.)

The following transactions were carried out with related parties:

(i) Sale of goods / services

| | Year ended 31 December | |
|--|------------------------|--------|
| | 2021 | 2020 |
| British American Shared Services (GSD) Limited | (165) | 19,210 |
| BAT Marketing (Singapore) Private Limited | 14,332 | 8,306 |
| British American Tobacco Myanmar Limited | - | 379 |
| Pakistan Tobacco Co Ltd | 1,150 | 13,575 |
| BAT (Holdings) Limited | - | 485 |
| BAT AsPac Service Centre Sdn Bhd | 16,026 | 4,368 |
| BAT Investments LTD | 10,415 | 13,584 |
| British American Tobacco Chile | 325 | - |
| BAT Global Travel Retail Limited | 7,988 | 6,040 |
| CN Creative Ltd | 3,905 | 3,571 |
| BAT Jordan | 5,867 | 5,738 |
| BAT Zimbabwe (Holdings) Limited | 674 | - |
| British American Tobacco Kenya Ltd | 499 | - |
| British American Tobacco Mexico S.A. de C.V. | 81 | - |
| BAT TDR | 101 | - |
| British American Tobacco Tutun | 106 | - |
| British American Tobacco So | 297 | - |
| BAT Nigeria Ltd | 115 | - |
| BAT Romania Investment | 212 | - |
| | 61,927 | 75,256 |

(ii) Purchase of goods / services

| | Year ended 31 December | |
|--|------------------------|-----------|
| | 2021 | 2020 |
| BAT AsPac Service Centre Sdn Bhd | 167,969 | 153,382 |
| BAT Investments Limited | 430,442 | 570,200 |
| Benson & Hedges (Overseas) Limited | 6,262 | 7,885 |
| BAT Asia Pacific Region Limited | - | 530 |
| BAT (Holdings) Limited | 68,742 | 190,171 |
| British American Shared Services (GSD) Limited | 741,851 | 647,548 |
| BAT Pecci Dohanygyar KFT | 121 | - |
| British American Tobacco Kenya Ltd | 99 | 1 |
| British-American Tobacco (Singapore) Pte Ltd | 209,029 | 202,964 |
| PT Bentoel Prima | 11,843 | 165,050 |
| British American Tobacco (Cambodia) Ltd | - | 893 |
| British American Tobacco Argentina | - | 12 |
| Pakistan Tobacco Company Limited | - | 27,460 |
| British American Tobacco Tutun | 447 | - |
| BAT Korea Manufacturing Limited | 118,271 | 933 |
| BAT Bangladesh Company Limited | - | 2,957 |
| British American Tobacco Exports Li | 423,715 | 230,838 |
| CTBAT International Co. Limited | - | 252 |
| British American Tobacco So | 47 | 2,102 |
| BAT ME DMCC | 220,869 | 123,526 |
| CN Creative Ltd | 931 | 834 |
| BAT Venezuela | - | 1,122 |
| British American Tobacco Chile | 39 | - |
| British American Tobacco Jordan | 4,315 | - |
| | 2,404,989 | 2,328,660 |

(iii) Outstanding balances arising from sale and purchase of goods / services

| | As at 31 December | |
|--|-------------------|--------|
| | 2021 | 2020 |
| Receivable from related parties [Note 15] | | |
| BAT (Holdings) Limited | - | 326 |
| BAT Investments LTD | 8,259 | 12,383 |
| BAT Marketing (Singapore) Private Limited | - | 6,617 |
| British-American Tobacco (Singapore) Pte Ltd | 3,236 | 3,249 |
| VINA-BAT JV HCMC Branch | 1,739 | 1,569 |
| BAT AsPac Service Centre Sdn Bhd | 16,071 | 4,403 |
| Pakistan Tobacco Company Limited | 29,993 | 13,732 |
| British American Tobacco Myanmar Li | 66 | 132 |
| BAT Global Travel Retail Limited | 8,893 | 5,994 |
| CN Creative Ltd | 7,733 | 3,571 |
| BAT Jordan | - | 5,738 |
| British American Tobacco Tutun | 4 | - |
| BAT TDR | 1 | - |
| BAT Romania Investment | 29 | - |
| BAT Zimbabwe (Holdings) Limited | 675 | - |
| British American Tobacco Mexico S.A. de C.V. | 81 | - |
| BAT Nigeria Ltd | 115 | - |
| | 76,896 | 57,714 |

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

25 RELATED PARTY TRANSACTIONS (CONTD.)

| | As at 31 December | |
|--|-------------------|----------------|
| | 2021 | 2020 |
| Payable to related parties [Note 19] | | |
| BAT Investments Limited | 11,530 | 11,333 |
| BAT ASPAC Service Centre Sdn Bhd | 112 | 2,252 |
| BAT (Holdings) Limited | 63,176 | 54,729 |
| British American Shared Services (GSD) Limited | 195,973 | 160,999 |
| Benson & Hedges (Overseas) Limited | 1,770 | 913 |
| BAT Asia Pacific Region Limited | 766 | 526 |
| BAT (Germany) GmbH | - | 1,216 |
| Pakistan Tobacco Company | - | 6,117 |
| BAT Korea Manufacturing Limited | 1,033 | 952 |
| British-American Tobacco (Singapore) Pte Ltd | 126,062 | 111,363 |
| BAT Switzerland S.A. | 96 | 90 |
| British American Tobacco Mexico S.A. de C.V. | 12,615 | 11,630 |
| BAT Pecs Dohanygyar KFT | 89 | 925 |
| British American Tobacco Kenya Ltd | 769 | 776 |
| PT Bentoel Prima | 17,969 | 161,587 |
| British American Tobacco (Cambodia) Ltd | 17,202 | 15,715 |
| BAT Nigeria Ltd | 754 | 688 |
| BAT Romania Investment | 586 | 576 |
| British American Tobacco Tutun | 1,858 | 1,398 |
| BAT Bangladesh Company Limited | 2,957 | 2,959 |
| British American Tobacco Exports Li | 29,817 | 41,200 |
| CTBAT International Co. Limited | 42 | 82 |
| British American Tobacco So | 2,336 | 2,090 |
| BAT ME DMCC | 222,610 | 123,526 |
| CN Creative Ltd | 909 | 834 |
| BAT Venezuela | - | 1,122 |
| British American Tobacco Jordan | 4,323 | - |
| British American Tobacco Chile | 39 | - |
| | 715,389 | 715,598 |

(iv) Key Management compensation

Key Management personnel include members of the Board of Ceylon Tobacco Company PLC and the members of the Executive Committee. The compensation paid or payable to key management:

| | Year ended 31 December | |
|---|------------------------|---------|
| | 2021 | 2020 |
| Salaries and other short-term employee benefits | 231,249 | 216,299 |
| Terminal benefit payments | - | - |
| Share based payments | 6,774 | 2,955 |

(v) Post-employment benefits

| | Year ended 31 December | |
|---|------------------------|--------|
| | 2021 | 2020 |
| Ceylon Tobacco Company PLC Group Provident Fund | 85,246 | 61,115 |

There were no other related parties or related party transactions other than those disclosed above in the financial statements.

The Company has no share ownership plans. However, the BAT Group through an International Executive Incentive Scheme (IEIS) offers value of phantom shares in BAT Plc, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC. This is operated as a cash settled share based payment where a liability equal to the portion of the services received is recognised at its current fair value determined at each reporting date. Fair value is measured by the use of Black-Scholes option pricing model.

As at 31 December 2021, the fair value of the phantom shares granted was Rs. 7.9 Million (2020 - Rs. 12.9 Million).

26 EVENTS AFTER THE REPORTING PERIOD

The Surcharge Tax Act, No.14 of 2022 had been passed on 8 April 2022 as a one-off tax on any individual, partnership or company whose taxable income calculated in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017, exceeds rupees two thousand million, for the year of assessment, that commenced on 1 April 2020 at the rate of twenty-five per centum on the taxable income of such individual, partnership or company.

As per the provisions of Section 2 of the Surcharge Tax Act, the Company is liable for a Surcharge Tax of Rs. 6,306 Million, which needs to be paid in two equal installments on or before 20 April 2022 and 20 July 2022. The first installment of Surcharge Tax amounting to Rs. 3,153 Million was paid on 20 April 2022. According to the Act, the Surcharge Tax shall be deemed to be an expenditure in the financial statement relating to the year of assessment commenced on 1 April 2020.

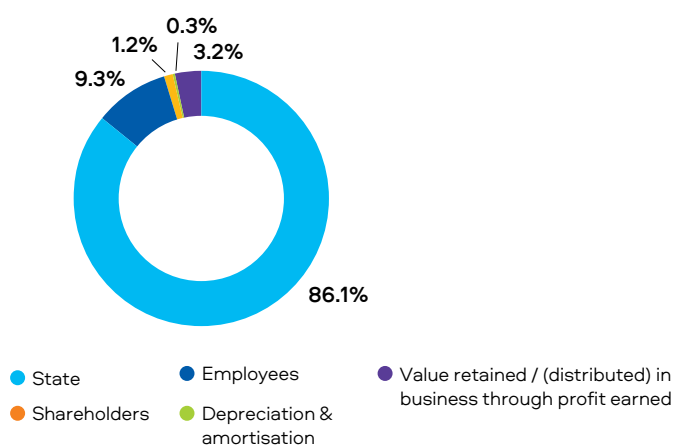
No other material events have occurred since the end of the reporting date which would require adjustments to, or disclosure in the financial statements.

Statement of Value Added

(all amounts in Sri Lanka Rupees thousands)

| | Year ended 31 December | |
|--|------------------------|-------------|
| | 2021 | 2020 |
| Turnover | 134,368,528 | 132,148,810 |
| Supplied material and services | (5,667,946) | (5,797,206) |
| Net interest income | 518,610 | 762,988 |
| Other operating income | 33,039 | 100,615 |
| | 129,252,231 | 127,215,207 |
| State | 111,253,032 | 109,931,758 |
| Shareholders | 12,054,283 | 15,665,884 |
| Employees | 1,518,591 | 1,365,458 |
| Depreciation & amortisation | 334,123 | 339,897 |
| Value retained / (distributed) in business through profit earned | 4,092,202 | (87,790) |
| | 129,252,231 | 127,215,207 |

Statement of Value Added



Share Information

Stock Exchange Listing

The issued ordinary shares of Ceylon Tobacco Company PLC are listed with the Colombo Stock Exchange of Sri Lanka.

Shareholders

The number of ordinary shareholders as at 31 December 2021 was 4,440 (3,909 as at 31 December 2020).

Ordinary Shareholding

| | |
|---|-------------|
| Stated Capital - Rs. million | 1,873 |
| Number of shares representing the Entity's stated capital | 187,323,751 |
| Number of Shareholders as at 31 December 2021 | 4,440 |
| Number of Shareholders as at 31 December 2020 | 3,909 |

Categorisation of Shareholding

| 2021 | Resident | | | Non Resident | | | Total | | |
|-------------------|---------------------|------------------|-------------|---------------------|--------------------|--------------|---------------------|--------------------|---------------|
| | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % |
| 1-1000 | 3,404 | 605,161 | 0.32 | 41 | 13,126 | 0.01 | 3,445 | 618,287 | 0.33 |
| 1001-10,000 | 823 | 2,377,639 | 1.27 | 40 | 180,226 | 0.10 | 863 | 2,557,865 | 1.37 |
| 10,001-100,000 | 91 | 2,493,428 | 1.33 | 23 | 787,742 | 0.42 | 114 | 3,281,170 | 1.75 |
| 100,001-1,000,000 | 5 | 1,063,348 | 0.57 | 9 | 2,853,857 | 1.52 | 14 | 3,917,205 | 2.09 |
| Over 1,000,000 | - | - | - | 4 | 176,949,224 | 94.46 | 4 | 176,949,224 | 94.46 |
| Total | 4,323 | 6,539,576 | 3.49 | 117 | 180,784,175 | 96.51 | 4,440 | 187,323,751 | 100.00 |

| 2020 | Resident | | | Non Resident | | | Total | | |
|-------------------|---------------------|------------------|-------------|---------------------|--------------------|--------------|---------------------|--------------------|---------------|
| | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % | No. of Shareholders | No. of Shares | % |
| 1-1000 | 2,494 | 547,802 | 0.29 | 37 | 11,175 | 0.01 | 2,961 | 558,257 | 0.30 |
| 1001-10,000 | 788 | 2,301,439 | 1.23 | 43 | 179,036 | 0.09 | 831 | 2,480,475 | 1.32 |
| 10,001-100,000 | 75 | 2,040,233 | 1.09 | 24 | 962,414 | 0.51 | 99 | 3,002,647 | 1.60 |
| 100,001-1,000,000 | 4 | 755,946 | 0.40 | 9 | 2,484,557 | 1.33 | 13 | 3,240,503 | 1.73 |
| Over 1,000,000 | - | - | - | 5 | 178,041,869 | 95.05 | 5 | 178,041,869 | 95.05 |
| Total | 3,361 | 5,645,420 | 3.01 | 118 | 181,679,051 | 96.99 | 3,909 | 187,323,751 | 100.00 |

| | 2021 | | | 2020 | | |
|--------------|--------------------|---------------------|---------------|--------------------|---------------------|---------------|
| | No. of Shares | No. of Shareholders | % of Shares | No. of Shares | No. of Shareholders | % of Shares |
| Individuals | 5,860,721 | 4,220 | 3.13 | 5,360,264 | 3,708 | 2.86 |
| Institutions | 181,463,030 | 220 | 96.87 | 181,963,487 | 201 | 97.14 |
| | 187,323,751 | 4,440 | 100.00 | 187,323,751 | 3,909 | 100.00 |

Share Information

Market Value of Share (Rs.)

| | 2021 | 2020 |
|--|-----------|-----------|
| Price Movements (Rs.) | | |
| Highest | 1,150.00 | 1,160.00 |
| Lowest | 850.00 | 900.00 |
| Closing Price | 878.00 | 1,028.90 |
| Market Capitalisation (Rs. million) | | |
| | 164,470 | 192,737 |
| No. of share transactions for the year | 11,592 | 5,453 |
| No. of shares traded | 1,659,167 | 2,735,723 |

CTC Share performance at Colombo Stock Exchange (CSE) - Reuters' code CTC,CM

Dividend Payments

| | 2021 Rs. per share | 2020 Rs. per share |
|-------------------------------|-----------------------|-----------------------|
| Final dividend for prior year | 11.35 | 12.13 |
| First interim dividend | 19.00 | 19.00 |
| Second interim dividend | 19.00 | 15.00 |
| Third interim dividend | 15.00 | 19.00 |
| Fourth interim dividend | - | 18.50 |

Directors shareholding (including spouses & children)

| | No. of Shares As at 31 December | |
|------------------------|---------------------------------|------|
| | 2021 | 2020 |
| Mr. W F Pegel | - | - |
| Mr. S K Shah | - | - |
| Mr. N L Salem | - | - |
| Ms. M Abraham | - | - |
| Mr. Y Kanagasabai | - | - |
| Mr. K M A T Tittawella | - | - |
| Mr. U Luqman | - | - |
| Mr. A Abrar | - | - |
| Mr. U Zahur | - | - |
| Mr. S Kidd | - | - |
| Ms. R Rahman | - | - |

Public Shareholding

| | No. of Shares As at 31 December | |
|---|---------------------------------|-------------|
| | 2021 | 2020 |
| Parent Company | 157,590,931 | 157,590,931 |
| Subsidiaries or Associate Companies of Parent | - | - |
| 10% or more holding | - | - |
| Directors shareholding (including spouses & children) | - | - |
| Public Holding | 29,732,820 | 29,732,820 |
| | 187,323,751 | 187,323,751 |
| Public Holding as a % of Issued Share Capital | 15.872% | 15.872% |
| Number of shareholders holding the Public Holding | 4,439 | 3,908 |
| Market Capitalisation of Public Holding (Rs. million) | 26,105 | 30,592 |

The Company complies with option 1 of the Listing Rule 7.13.1(a) - Float Adjusted Market Capitalisation of Rs. 10.0 Bn which requires no minimum public holding percentage.

Share Information

20 Largest Shareholders

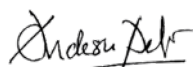
| | 31 December 2021 | | 31 December 2020 | |
|---|--------------------|---------------|--------------------|---------------|
| | No. of Shares | % | No. of Shares | % |
| 1 British American Tobacco International Holdings BV | 157,590,931 | 84.13 | 157,590,931 | 84.13 |
| 2 Philip Morris Brand SARL | 15,585,910 | 8.32 | 15,585,910 | 8.32 |
| 3 CB NY S/A Allan Gray Frontier Markets Equity Fund Limited | 2,167,374 | 1.16 | 2,167,374 | 1.16 |
| 4 Pershing LLC S/A Averbach Grauson & Co. | 1,605,009 | 0.86 | 1,605,009 | 0.86 |
| 5 SSBT-AL MEHWAR Commercial Investments L.L.C | 698,258 | 0.37 | 698,258 | 0.38 |
| 6 Northern Trust Company S/A Fundsmith Emerging Equities Trust PLC | 637,085 | 0.34 | 1,092,645 | 0.58 |
| 7 J.B. Cocoshell (PVT) LTD | 468,380 | 0.25 | 354,513 | 0.19 |
| 8 RBC Investor Services Bank-COELI SICAV1 - Frontier Markets Fund | 398,735 | 0.21 | 398,735 | 0.21 |
| 9 Mrs. Jasbinderjit Kaur Piara Singh | 306,802 | 0.16 | 306,802 | 0.16 |
| 10 Miss Neesha Harnam | 211,030 | 0.11 | 211,030 | 0.11 |
| 11 Deutsche Bank AG Singapore A/C 01 | 175,600 | 0.09 | 175,600 | 0.09 |
| 12 Mr. Jayawardena Sanjeeva Praneeth | 173,103 | 0.09 | 98,247 | 0.05 |
| 13 Harnam Holdings SDN BHD | 150,000 | 0.08 | 150,000 | 0.08 |
| 14 SSBT-Frank Russel Trust Company Comingled Benefit Funds Trust GNA-6QH3 | 146,660 | 0.08 | 200,124 | 0.11 |
| 15 Seylan Bank PLC/W.D.N.H. Perera | 143,859 | 0.08 | - | - |
| 16 Bank Of Ceylon No. 1 Account | 143,175 | 0.08 | 143,175 | 0.08 |
| 17 Deutsche Bank AG AS Trustee For JB Vantage Value Equity Fund | 134,831 | 0.07 | 134,831 | 0.07 |
| 18 BNYM RE-GHI Holdings Mauritius | 129,687 | 0.07 | 129,687 | 0.07 |
| 19 Mr. Ratnayake Susantha Chaminda | 100,000 | 0.05 | 100,000 | 0.05 |
| 20 SSBT-PARAMETRIC Tax-Managed Emerging Markets Fund | 96,609 | 0.05 | - | - |
| BBH-Mathews Emergine Asia Fund | - | - | 214,321 | 0.11 |
| Malship Ceylon Ltd | - | - | 123,427 | 0.07 |
| Sub Totals | 181,063,038 | 96.65 | 181,480,619 | 96.88 |
| Others | 6,260,713 | 3.35 | 5,843,132 | 3.12 |
| Total Shares | 187,323,751 | 100.00 | 187,323,751 | 100.00 |

Notice of Meeting

NOTICE IS HEREBY given that the 91st Annual General Meeting (AGM) of Ceylon Tobacco Company PLC will be held as a virtual meeting using a digital platform from Ceylon Tobacco Company PLC, No. 178, Srimath Ramanathan Mawatha, Colombo 15, on Thursday, 26 May 2022 at 10.00 a.m. for the following purposes:

- (i) To receive, consider and adopt the Report of the Board of Directors and the Financial Statements for the year ended 31 December 2021 and the Report of the Auditors thereon.
- (ii) To re-elect the following Directors.
 - To re-elect as Director Ms. Rumana Rahman who retires by rotation in terms of the Articles of Association of the Company.
 - To re-elect as Director, Mr. Stuart Kidd, who retires by rotation in terms of the Articles of Association of the Company.
 - To re-elect as Director, Ms. Monisha Abraham, who was appointed since the last AGM and comes up for re-election under the Articles of Association of the Company.
 - To re-elect as Director, Mr. Syed Muhammad Ali Abrar, who was appointed since the last AGM and comes up for re-election under the Articles of Association of the Company.
 - To re-elect as Director, Mr. Kushan D'Alwis, who was appointed since the last AGM and comes up for re-election under the Articles of Association of the Company.
- (iii) To authorise the Directors to determine and make donations.
- (iv) To re-appoint Messrs. KPMG as the Company's Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board



Sudesh Peter

Company Secretary

21 April 2022

AGM 2022 Instructions to Shareholders

In order to comply with the measures imposed by the Sri Lankan Government on account of the ongoing COVID-19 pandemic and to ensure the health & safety of our shareholders, employees and management, the Directors of the Company have decided that the Company's Annual General Meeting for 2022 (AGM) will be convened as a virtual meeting using a digital platform. This is in line with the previous directions given by the Colombo Stock Exchange and noted by the Registrar of Companies in accordance with which successive AGMs in 2020 and 2021 were successfully held virtually.

Shareholders may attend the meeting virtually and if they are unable to so attend, they may exercise their vote by appointing a proxy in the form of the template provided in the Annual Report. In order to ensure the smooth functioning of the AGM in this manner via a digital platform, shareholders are encouraged to authorise an Independent Director as proxy to attend and vote at the AGM on their behalf.

Shareholder prior registration and verification

In order for a shareholder or proxy to attend the AGM virtually, the following must be shared via email or post to reach the Company not later than 5.00 p.m. on Monday, 23 May 2022 (Deadline):

- Shareholder's Full Name
- Shareholder's NIC / Passport number
- Shareholder's CDS number if any
- Shareholder's phone number (preferably a mobile number registered in the name of the shareholder)
- Shareholder's email address
- In the case of a Corporate Member, the duly completed Form of Proxy must be submitted.

You can share the above details with the Company in the following manner:

- By emailing CTCAGM2022@bat.com; or
- By post to: The Assistant Company Secretary, Ceylon Tobacco Company PLC, 178, Srimath Ramanathan Mawatha, Colombo 15.

Any incomplete details or details shared past the Deadline will not be accepted under any circumstances. Therefore, in order to attend the AGM, the shareholders are required to strictly comply with the Deadline.

Once all required information have been received, reviewed and verified by the Company, the shareholder will receive details of the virtual meeting link with all necessary instructions to join the AGM. A computer or smartphone having internet access is required to join the AGM. Shareholders who are unable to provide an email address, may join the meeting via a mobile number that is registered in the name of the shareholder. Only shareholders and proxies whose details have been verified will be allowed to attend the AGM via the link provided. The Company reserves the right to deny access to the meeting to any person who fails to register and/or be verified as an active shareholder of the Company.

Shareholder participation via questions, comments and suggestions prior to the AGM

Shareholders may submit questions, comments or suggestions relating to the business of the AGM directly to the Company by email to CTCAGM2022@bat.com by 5.00 p.m. on Monday, 23 May 2022, in order to be addressed at the AGM. Only those questions, comments or suggestions which have been received on the aforesaid email address

latest by the said date and time will be discussed at the AGM. Kindly note that no questions, comments or suggestions will be entertained during the meeting to ensure the smooth running of the AGM.

This is not a public event and therefore any recording or publishing of this event, in full or in part without the prior written consent of the Company, is strictly prohibited and due action will be taken against those who are in violation of these instructions.

Form of Proxy

(Please read the notes carefully before completing this form)

I / We the undersigned (please print)
 of being a member/members of the Company, hereby
 appoint of whom failing

| | |
|-----------------------------|--------------|
| Mr. Suresh Shah | whom failing |
| Mr. Yudhishtan Kanagasabai | whom failing |
| Mr. Kushan D'Alwis | whom failing |
| Ms. Monisha Abraham | whom failing |
| Mr. Syed Muhammad Ali Abrar | whom failing |
| Mr. Usman Zahur | whom failing |
| Ms. Rumana Rahman | whom failing |
| Mr. Stuart Kidd | |

as my / our Proxy to represent me / us and * vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held at 10.00 a.m. on Thursday, 26 May 2022 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

| | Yes | No |
|--|--------------------------|--------------------------|
| (i) To receive and adopt the Report of the Directors and the Financial Statements for the year ended 31 December 2021. | <input type="checkbox"/> | <input type="checkbox"/> |
| (ii) To re-elect as Director, Ms. Rumana Rahman, who retires by rotation in terms of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| (iii) To re-elect as Director, Mr. Stuart Kidd, who retires by rotation in terms of the Articles of Association of the Company | <input type="checkbox"/> | <input type="checkbox"/> |
| (iv) To re-elect as Director, Ms. Monisha Abraham, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| (v) To re-elect as Director, Mr. Syed Muhammad Ali Abrar, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| (vi) To re-elect as Director, Mr. Kushan D'Alwis, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| (vii) To authorise the Directors to determine and make donations. | <input type="checkbox"/> | <input type="checkbox"/> |
| (viii) To appoint Messrs. KPMG as the Company's Auditors and authorise the Directors to determine their remuneration. | <input type="checkbox"/> | <input type="checkbox"/> |

.....

Signature

Signed this day of Two Thousand and Twenty Two.

Note: Instructions as to completion appear on the reverse of this Form of Proxy

Form of Proxy

Instructions as to completion:

1. The persons mentioned in the Form of Proxy are Directors of the Company and are willing to represent any shareholder as Proxy and vote as directed by the shareholder. They will not, however, be willing to speak or move or second any amendment to a resolution or make any statement in regard thereto on behalf of any shareholder.
2. If any Proxy is preferred, delete the names printed, add the name of the Proxy preferred and initial the alteration.
3. Please indicate with an 'X' in the space provided how your Proxy is to vote on each Resolution.
If there is in the view of the Proxy holder a doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder will vote as he/she thinks fit.
4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting, you should interpolate the words "to speak and" in the place indicated with an asterisk (*) and initial such interpolation.
5. In the case of a Corporate Member, the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If the Form of Proxy is signed by an Attorney, the relevant Power-of-Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No. 178, Srimath Ramanathan Mawatha, Colombo 15, Sri Lanka or email: CTCAGM2022@bat.com by 5.00 p.m. on Monday, 23 May 2022.
7. The full name and address of the Proxy and the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy.

Appendices



Environmental Policy Statement

Ceylon Tobacco Company PLC, is committed to meeting its consumer needs in an environmentally responsible and sustainable way in the direct operations it controls and the wider supply chain it influences. We believe as a responsible organisation that good environmental practice is good business practice and therefore we commit that we will:

- Comply with all applicable national environmental laws and regulations and BAT's EHS Guidelines,
- Use our established framework of policy, good practices and procedures to manage our environmental performance and monitor compliance to them through internal auditing capabilities,
- Understand our impacts on the environment in which we operate and proactively put in place plans to minimise such impacts,
- Monitor environmental performance through a set of key matrices, set targets for continuous improvement and where applicable use external assurances to verify our performance,
- Provide appropriate training as may be required to staff and share good practice across the organisation,
- Work with suppliers and service providers to reduce the impacts of our products and services across the total lifecycle, share good practices and support them to manage their business in an environmentally sustainable manner,
- Collaborate with key stakeholders to understand emerging issues, regulatory and social expectations and technological innovations and work to develop sustainable solutions to these challenges, and
- Continuously seek to conform to best international environmental standards in line with business objectives

Specific to our business we will focus on the following two priority areas,

Agriculture

We are committed to:

- Working with internal and external suppliers to mitigate environmental impacts of producing the tobacco we source.
- Incorporating biodiversity protection and conservation into our recommended practices.
- Aligning with other stakeholders in areas we operate to assist farmers adopt sustainable agriculture practices, with special focus on soil fertility and water.

Operations and trade

We are committed to:

- Setting absolute targets of reduction in emissions from our manufacturing sites.
- Identifying initiatives and projects to deliver these sustainable reductions and review the business cases for investment in these initiatives against reduction targets.
- Focusing on transport & warehouse energy efficiency projects and driving innovations with our logistics partners.

The Executive Committee has overall responsibility for the Environment under our control and owns this policy. All staff regardless of their level in the organisation will take reasonable care of the environment under our control and co-operate fully with the Company in all environment related matters.

Monisha Abraham

Managing Director & CEO
Ceylon Tobacco Company PLC
21 April 2022

Appendices



Sustainable Tobacco Programme (STP) Policy

Ceylon Tobacco Company PLC hereby assures dedication focus on the following areas for the Sustainable Tobacco Programme (STP).

- Conduct all our business activities according to the Company EHS, Quality, Biodiversity and STP policies.
- Minimise our contribution to climate change through focus on soil and water conservation, Integrated Pest Management (IPM), cultivation of productive varieties, minimum and appropriate use of fuel in tobacco production, elimination of farm Non Tobacco Related Material (NTRM), reduction of carbon emission per Kg of tobacco and Integrated Crop Management (ICM) to ensure sustainable development.
- Motivate tobacco farmers through effective and efficient training methods to follow Good Agriculture Practices (GAP). Facilitate such practices to be transmitted to the wider farming community by setting examples.
- Educate on Green Tobacco Sickness (GTS) to ensure stakeholder health and safety.
- Improve productivity to ensure better living standards through socio-economic development.
- Educate farmers on children's rights to education to ensure that the industry does not employ minors in crop production.
- Educate and promote Good Labour Practices (GLP) among relevant stakeholders aligning to local and international guidelines.
- Maintain a continuous productive dialogue with stakeholders to capture the opinions and retain responsibility to respond to them in a timely manner.
- Contribute to rural and national development through social responsibility.
- Establish BAT standards across the operation and ensure compliance to all legal requirements and commitment to implement all best practices among the relevant stakeholders.

A handwritten signature in black ink, appearing to read 'Monisha', with a horizontal line underneath.

Monisha Abraham

Managing Director & CEO

Ceylon Tobacco Company PLC

21 April 2022



Biodiversity Statement

We recognise that we have both, an impact and a dependence on biodiversity, through our business operations and use of ecosystem services, such as forest products, soil and water.

Under the British American Tobacco Plc business principle of Good Corporate Conduct, we aim to minimise our impact on biodiversity and the wider environment. Part of this commitment means avoiding, minimising or mitigating our impacts on biodiversity and linked ecosystem services, or where this is not appropriate or most beneficial, offsetting those impacts at a regional or national level. In order to meet this commitment:

- We will ensure that our business is in compliance with all international and national biodiversity laws as a minimum requirement.
- We commit to assessing our impacts, i.e. we will identify areas of high biodiversity value and understand our impacts on ecosystem services. We will also assess our impacts where our ecological footprint is changing due to an increase or decrease in production or changes to production methods.
- We will undertake these assessments, engaging with stakeholders such as farmers, conservation organisations, universities and governments, to understand local issues and take into account their needs and requirements.
- These assessments and stakeholder engagements will lead to action plans to avoid, minimise, mitigate or offset our impacts, with effective monitoring mechanisms to ensure such action plans are implemented and progress is reported.
- We will also take steps to share information with suppliers, assisting them in understanding and managing their impacts on biodiversity, hence minimising our impact throughout the supply chain, e.g. in the sourcing of leaf and packaging materials.

This statement will enhance the integration of biodiversity conservation principles into the business. All further guidelines and assessment tools will be integrated into the existing systems and tools such as:

- Environmental, Health & Safety (EHS) Policy and guidelines
- Agronomy guidelines
- Social Responsibility in Tobacco Production (SRTP) Policy and guidelines
- Business Enabler Survey Tool (BEST)
- Sustainable Tobacco Programme (STP)

This statement will be reviewed periodically by the EHS department in conjunction with the British American Tobacco Biodiversity Partnership.

Monisha Abraham

Managing Director & CEO

Ceylon Tobacco Company PLC

21 April 2022

Appendices



Health & Safety Policy Statement

Ceylon Tobacco Company PLC, in its seed to smoke supply chain as manufacturer, marketer and distributor, is committed to safeguard the health, safety and welfare of all employees and non-company personnel on our premises, in the successful conduct of our business. Therefore we commit that we will:

- Comply with all applicable national laws and regulations on health & safety and BAT's EH&S Guidelines,
- Prevent injury and ill-health of employees and non-company personnel on our premises by providing and maintaining safe and healthy working conditions, equipment and systems of work,
- Provide work instructions, training and supervision for all employees and other associated personnel as may be required to ensure safe and healthy work conditions,
- Strive for continued improvement in our health & safety management and performance, through setting clear objectives, including the monitoring and measurement of key performance indicators,
- Ensure the active participation of each employee and others as appropriate, in promoting, achieving and maintaining the highest standards of health & safety in so far as reasonably practicable,
- Effectively control workplace health & safety risks through hazard identification and risk assessment and initiate actions to mitigate significant risks, and
- Continuously seek to conform with best international health & safety standards in line with business objectives.

The Executive Committee has overall responsibility of Health & Safety and owns this policy. All staff regardless of their level in the organisation will take reasonable care of the health & safety of themselves and others while at work and co-operate fully with the Company in all health & safety related matters.

Monisha Abraham

Managing Director & CEO
Ceylon Tobacco Company PLC
21 April 2022

Corporate Information

Name of the Company

Ceylon Tobacco Company PLC
Reg. No. PQ 29

Registered Office

178, Srimath Ramanathan Mawatha,
Colombo 15

Legal Form

A Public Quoted Company with limited liability incorporated in Sri Lanka in 1932

Registrars

SSP Corporate Services (Private) Limited

Legal Advisors

Sudath Perera Associates
Attorneys-at-Law

Messrs. Julius & Creasy
Attorneys-at-Law

Auditor

Messrs. KPMG Chartered Accountants

Bankers

Bank of China
Citibank NA
Commercial Bank of Ceylon PLC
Deutsche Bank AG
HSBC
People's Bank
Standard Chartered Bank

Holding Company

British American Tobacco Plc through
British American Tobacco International Holdings BV



tomorrow's IMPACT

ESG REPORT 2021

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Online references:
www.ceylontobaccocompany.com

An Impactful Approach

As CTC aspires to place the environment and people at the forefront of our operations and decision-making processes, the approach has enabled us to address specific stakeholder concerns by implementing action plans to achieve BAT Group's ambitions in achieving environmental excellence long-term corporate goals.

BAT Group's Goal

Carbon Neutral

operations (Scope 1 and 2) by 2030 and net zero emissions across our value chain by 2050

100%

of operations sites to be zero waste to landfill by 2025

30%

of total energy from renewable sources by 2025

Our ESG Report

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Welcome to our 1st ESG Report

This year, we are proud to present our 1st ESG Report, outlining how sustainability considerations are at the front and centre of our business. This step represents an important milestone in our corporate reporting journey, as we align our reporting with our sustainability aspirations, which are central to the CTC's evolved corporate strategy. The Report contains detailed information on our policies, management approach, goals and performance for our Environmental, Social & Governance (ESG) priorities.

Scope and boundary

The Report covers the Social and Governance scope of Ceylon Tobacco Company PLC ("CTC" or "the Company") for the period from 1 January to 31 December 2021 and the Environmental information from the period 1 December 2020 to 30 November 2021. The information presented herein represents the Company's 2 operating locations, Colombo and Kandy, as well as its Leaf depots and buying centres. While this is our 1st dedicated ESG Report, our previous Annual Report for 2020 contained disclosures on our economic, social and environmental performance in line with best practices in sustainability reporting. There have not been any significant changes to the Company's structure, size, operations and/or supply chain during the year.

While we are fully aligned to BAT Group's 'HESG' Sustainability Framework, our focus areas are further refined to deliver national priorities. Our ESG strategy and Report, therefore, focuses predominantly on the ESG pillars while our efforts in the harm reduction space primarily take place at Group level.

Frameworks and assurance

We have referred to the following reporting standards, frameworks and principles in preparing this Report.

- Global Reporting Initiative (GRI): This Report has been prepared in accordance with the GRI Standards: Core option.
- Guidance on ESG Reporting issued by the Colombo Stock Exchange (CSE).
- United Nations Sustainable Development Goals (SDG) reporting.
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017).

We adopt a combined assurance model to ensure the integrity of the information provided in the Annual Report. Social and environmental information is measured and reported in line with Board-approved policies and procedures, while these processes are monitored by the Internal Audit team. Meanwhile, the Company's Greenhouse Gas Statement has been verified by The Sri Lanka Climate Fund in accordance with the ISO 14064-1:2018 standard, while the 'Verification of Compliance of the Greenhouse Gas Compensation Process' was carried out by the Totum Institute of Business

Our Commitment

In 2020, we set ourselves targets which align with BAT Goals to,



Achieve carbon neutrality in Scope 1 & 2 by 2030



Enable prosperous livelihoods for all our contracted tobacco farmers



Champion corporate governance excellence in Sri Lanka



ESG Report 2021

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Development and Management LTDA, based on the requirements of the PAS 2060:2014 standard. While not formally adopting the Precautionary principle, the Company ensures that all environmental impacts are duly considered prior to engaging in any significant investments.

Feedback

We are committed to consistently enhancing the quality, readability and relevance of our Report. We welcome your feedback on this publication and invite you to kindly direct your suggestions to our Assistant Company Secretary - 0112 496 200.

Quick Links

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ESG Performance Highlights



Environment

E

1st end-market within BAT Group to achieve

Carbon neutrality

in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial

67%

reduction in Scope 1 & 2 CO₂e
(Market-based) emissions

1,334 tCO₂e

Scope 1 emissions

75%

reduction in Scope 1 & 2 carbon
intensity (Market-based)

7.81%

water recycled and reused

Zero

Scope 2 CO₂e
(Market-based) emissions
achieved by purchasing 100%
renewable electricity via i-RECs

13%*

increase in water withdrawn

No reported instances
of non-compliance with
environmental laws and
regulations

*Scope of our reporting has been enhanced to capture 100% of the GRI reporting scope.



Social

S

269

permanent employees

17,445

training hours

Over

57,000

CSI beneficiaries

30%

representation of women
at Management level

1,613

contracted tobacco
farmers supported

54

employees promoted



Governance

G

Launched 'Beyond
Basics': Excellence
in Corporate
Governance
programme

Internal
Governance review
by the Board of
Directors

No reported instances
of non-compliance
with SoBC, 'Speak-up'
and other relevant
policies

No reported
instances of non-
compliance with
applicable laws and
regulations

Our ESG Strategy








BAT has set a clear corporate purpose to build A Better Tomorrow™ by transforming the business for a sustainable future and working to deliver sustainable value to all stakeholders. As part of the BAT Group, CTC too has embraced a new vision and commitment centred around our ESG priorities, seeking to put sustainability front and centre in everything we do, as our sustainability agenda has always been an integral part of our corporate framework.

Outlined below are the priority areas that form the core of our Group's Sustainability Agenda. These are backed by clear, measurable goals and targets for each area relevant to CTC.

BAT Group's sustainability agenda



CTC's ESG roadmap

| Pillars | Enablers | BAT Goals | CTC Progress in 2021 & Future Goals |
|--|---|--|--|
| E  Climate change | <ul style="list-style-type: none"> Reducing emissions Renewable energy | Net Zero achieve carbon neutral operations (Scope 1 & 2 CO ₂ e emissions) by 2030 and net zero emissions across our value chain by 2050 30% by 2025 of total energy from renewable sources 100% by 2030 of electricity sourced for operations sites that is renewable | Progress in 2021: In 2021, CTC became the 1 st end-market within the BAT Group to achieve Carbon Neutrality in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial Zero Scope 2 CO ₂ e (Market-based) emissions achieved by purchasing 100% renewable electricity via i-RECs Future Goals: 30% renewable sources for indirect energy: Implementation of solar panels to cover 100% viable roof space at Colombo and Kandy premises by 2022 Conversion to 100% hybrid vehicles by 2024 100% conversion to paddy husk fuelled Loose Leaf Barns (LLB) in Yala areas (as used by contracted tobacco farmers) by 2027 |
| |  Eliminating Waste | <ul style="list-style-type: none"> Reduce waste Increase recycling | 100% by 2025 of operations sites to achieve zero waste to landfill Future Goals: Achieved zero waste to landfill by 2025 Increase recycling of total waste generated to 98% by 2025 |
| |  Water stewardship | <ul style="list-style-type: none"> Reduce withdrawal Increase recycling of water | -35% by 2025 of total amount of water withdrawn (vs 2017 baseline) Future Goals: Reduce water withdrawal by 30% by 2025 Increase amount of water recycled in our operations to 30% by 2025 |
| |  Biodiversity and reforestation | <ul style="list-style-type: none"> Long-term reforestation projects | Net Zero Deforestation by 2025 aiming for net zero deforestation of managed forests in our supply chain and net positive impact on forests in our tobacco supply chain Progress in 2021: Maintained a 123-acre biodiversity site in Matala Future Goals: Initiate 40 Ha carbon credits certified reforestation project to generate our own carbon credits source Reforest 12 acres of degraded land in Sigiriya (2019 - 2023) |
| S  Farmer livelihoods | <ul style="list-style-type: none"> Livelihoods across our value chain Livelihoods via CSI | Livelihoods committed to enabling prosperous livelihoods for all farmers in our tobacco supply chain | Progress in 2021: 100% farmer livelihoods supported with economic or educational initiatives 100% buy back guarantee provided to the contracted tobacco farmers Future Goals: Support 300,000 beneficiaries via CSI by 2025 |
| |  Human rights | <ul style="list-style-type: none"> Eliminating the risk of child labour across our value chain | Zero by 2025 aiming for zero child labour in our tobacco supply chain by 2025 Progress in 2021: No farmers with identified incidents of child labour |
| |  Health & safety | <ul style="list-style-type: none"> A culture of safety | Zero aiming for zero accidents Group-wide each year Progress in 2021: 100% Personal Protective Equipment coverage reported Zero work-related accidents reported |
| |  People & culture | <ul style="list-style-type: none"> Inclusive and dynamic culture | 45% by 2025 increase the proportion of women in Management roles to 45% Progress in 2021: 30% women in Management roles 50% women in Senior Management roles Future Goals: 40% overall representation of women in Management by 2023 Increase representation of women in Senior Management to 50% by 2023 |
| G  Business ethics | <ul style="list-style-type: none"> Delivery with integrity Regulatory compliance Corporate Governance knowledge sharing platform ESG Governance | 100% aiming for full adherence to our Standards of Business Conduct (SoBC) policy | Progress in 2021: No reported instances of non-compliance with SoBC and 'Speak-up' policies No reported instances of non-compliance with applicable laws & regulations Conducted 'Beyond Basics' sessions in collaboration with the CSE Governance systems and procedures in place to identify and manage ESG-related issues |
| |  Responsible marketing | <ul style="list-style-type: none"> Responsible marketing and preventing access by youth | 100% aiming for full adherence to our Youth Access Prevention (YAP) Guidelines Progress in 2021: 100% reported compliance to International Marketing Principles (IMP) and Youth Access Prevention (YAP) |

Sustainability Milestones

Our Sustainability Journey

2000 - 2021

2021

1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial

Launched a 2.8MW solar panel project covering 100% of the viable roof space in our Colombo & Kandy premises

Launched 6 CSI brand identities

Commissioned 10 RO plants

Established 19 paddy husk fuelled LLBs

Launched 'Beyond Basics' in collaboration with the CSE

Produced CTC's 1st dedicated ESG Report along with the statutory information, which formed the Annual Report

2020

Revamped CTC's ESG Strategy aligned with BAT's new Sustainability Agenda

Piloted paddy husk fuelled 'Loose Leaf Barn (LLB)' project


2019

Revamped CSI Strategy

Launched initiatives to provide clean drinking water through Reverse Osmosis (RO) plants (water filtration plants)


2014

Construction of 100 agro-wells to support farmers in the Eastern Province



Establishing
2000 - 2009

Developing
2010 - 2015

2000

Established our first Group-wide Environment, Health & Safety management systems, aligned to international standards

Adopted the Social Responsibility in Tobacco Production (SRTP) standard

2001

Publication of CTC's first Sustainability Report

**2002**

Adopted Statement of Business Principles developed by BAT

**2005**

Commenced the Tsunami Housing Reconstruction project

**2013**

Produced the Company's 1st Integrated Annual Report

Launched SADP Ultra initiatives under the SADP programme

**2011**

Launched SADP Light and SADP Mega initiatives under the SADP programme

**2010**

Adopted BAT Group policies and standards on

- Diversity & Inclusion (D&I)
- Human Rights
- Sustainable Tobacco Programme (STP)
- Supplier Code of Conduct (SCC)
- Thrive Programme

Thrive
SUSTAINABLE AGRICULTURE
AND FARMER LIVELIHOODS

2006

Launched Sustainable Agriculture Development Programme (SADP) - an organic home gardening programme to assist farmers in rural communities



Embedding
2016 - 2019

Accelerating
2020 onwards

Our Contribution to the SDGs

The achievement of the UN Sustainable Development Goals (SDG) requires the collective effort and collaboration of governments, the private sector and civil society. BAT Group has identified and prioritised 8 SDGs that are most relevant to its sustainability agenda, its global business and stakeholders. CTC's contribution to these SDGs are summarised herein.



Strategic



These goals align with BAT Group's principal focus areas to reduce the health impact of its business* and with BAT's global efforts to combat climate change, which extends across all aspects of its business.

Priority



These goals align with BAT's ESG priority areas, and where a significant contribution can be made through BAT's global activities.

Localised



These goals align with issues for which a localised response is needed, tailored to the specific circumstances.

**Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free, and are addictive.*

Strategic

SDG



Relevance to corporate strategy and sustainability agenda



Harm Reduction
(Group level)



Health &
safety

Our contribution

Given the known health risks of combustible cigarettes, BAT Group is working to reduce the health impact of its business with a strategy underpinned by tobacco harm reduction. BAT Group offers a range of non-combustible products with reduced risk potential compared to cigarettes, which are available in over 50 countries. At CTC we will continue to assess the relevance of these products to the Sri Lankan market.

CTC's Health & Safety policies and procedures are aligned to BAT Group standards.

SDG



Relevance to corporate strategy and sustainability agenda



Climate
Change



Biodiversity
and
reforestation
(including
water)



Waste



Water

Our contribution

Climate action is key to CTC's environmental agenda, and we are committed to driving sustained reductions in our carbon footprint by reducing emissions across our operations and supply chains and increasing reliance on renewable energy. We are also committed to supporting reforestation programmes.

Progress in 2021

- 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial
- 67% reduction in Scope 1 & 2 CO₂e (Market-based) emissions
- Zero Scope 2 CO₂e (Market-based) emissions achieved by purchasing 100% renewable electricity via i-RECs

Priority

These goals are aligned to BAT's priority ESG areas, where we believe we can make a significant contribution.

SDG



Relevance to corporate strategy and sustainability agenda



Farmer livelihoods



Human Rights

Our contribution

We continue to support our contracted tobacco farmer livelihoods in various ways. This includes ensuring guaranteed purchase of their harvest at pre-agreed prices, providing the knowledge and technology to improve yields and productivity, and supporting them to diversify crops through our SADP Ultra initiative programme. We are also committed to preserving human rights across our supply chain and taking measures to ensure zero child labour through proactive monitoring and awareness programmes (refer page 151 for further information).

Progress in 2021

- 1,613 contracted tobacco farmer livelihoods supported
- Vegetable seeds provided to 100% of our contracted tobacco farmers free of cost
- Zero instances of child labour reported across the supply chain

SDG



Relevance to corporate strategy and sustainability agenda



Farmer livelihoods



Waste

Our contribution

We are leveraging technology to drive the simplification of business processes to make us a simpler-faster-stronger operating unit.

We have simplified our business processes, while improving monitoring of our environmental footprint which in turn has facilitated reductions in our while we work towards gradually reducing our waste to landfill. Digital capabilities are also deployed to support our field staff in working with and monitoring our contracted tobacco farmers across our supply chain (refer page 142 for further information).

Progress in 2021

- 8 processes digitalised via 'Project Simplification'- a Company-wide initiative to consider pain points across the business and introduce simpler, faster, stronger solutions across the Board
- Energy Hubs: Level 4 SCADA system in place to monitor energy consumption at individual machine level in Colombo
- 100% contracted tobacco farmers monitored through our Farmer Sustainability Management (FSM) app

SDG



Relevance to corporate strategy and sustainability agenda



Waste



Responsible Marketing

Our contribution

We are working towards eliminating unnecessary Single Use Plastic (SUP) from our packaging and increasing recycling to drive circularity across all operations. Meanwhile, our responsible marketing practices including Youth Access Prevention (YAP) programmes ensure that our products are made available only to adult consumers. As a responsible corporate, we also ensure that there are no instances of non-compliance with all applicable laws and regulations in Sri Lanka.

Progress in 2021

- 22.74% waste recycled
- No reported instances of non-compliance with applicable laws and regulations

SDG



Relevance to corporate strategy and sustainability agenda



Business ethics

Our contribution

CTC has adopted BAT's world-class governance frameworks and standards such as the SoBC policy, which help minimise unethical behaviour such as corruption, money laundering, bribery, and tax evasion. We are clear to all our employees, suppliers and stakeholders that our ethical standards of conduct must not be compromised on for the sake of results. They should speak-up if they have a concern about actual or suspected wrong-doing.

Progress in 2021

- No reported instances of non-compliance with SoBC, 'Speak-up' and other relevant policies
- 100% employees given training and awareness on the SoBC policy

Our Contribution to the SDGs



Localised

These goals align with issues for which a local response is required.

SDG



Relevance to corporate strategy and sustainability agenda



Farmer livelihoods



People & Culture

Our contribution

Our 'Thrive' farmer livelihoods programme is crucial for inclusive and sustainable economic growth in rural communities.

Our unique employee engagement platforms and diverse culture ensures that we are building a dynamic work environment and an inclusive culture for our employees. This year, we were proud to announce our first female General Manager appointment.

Progress in 2021

- 17,445 of total training hours
- 54 employees promoted
- 10 employees offered Above Market opportunities
- 16% representation of women across the organisation, including 30% at Management level

SDG



Relevance to corporate strategy and sustainability agenda



Biodiversity & reforestation



Water

Our contribution

Through our biodiversity and reforestation programmes, we continue to support Sri Lanka's ambition of extending forest cover from 29% to 32% by 2030. We shifted out of the use of firewood for tobacco curing as early on as 1998, becoming the first tobacco company in the world to eliminate unsustainable fuels in the curing process. We also work with our contracted tobacco farmers in propagating sustainable agricultural practices, thereby ensuring the preservation of natural resources in farming communities.

Progress in 2021

- A 123-acre biodiversity site maintained in Matale in partnership with the University of Peradeniya
- 2,500 jack-fruit saplings distributed to be planted in the Kanneliya forest buffer zone
- Maintaining a 12-acre land reforested in Sigiriya in partnership with the Department of Forest Conservation

An Impactful Collaboration

At CTC, we are committed to investing in new ways of working in our drive towards a more effective and integrated organisation. This aspiration centres on the promise of delivering shared value to all our stakeholders across operations.

CTC's achievements in 2021:

60,063

traders & retailers
working closely with CTC

100%

locally-supported contracted
tobacco farmers

57,132

beneficiaries across
our CSI projects

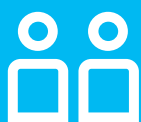


Creating Shared Value

| | |
|--|-----|
| Creating Shared Value | 124 |
| Engagement with Adult Consumers | 124 |
| Engagement with our Employees | 125 |
| Engagement with our Shareholders | 126 |
| Engagement with our Contracted Tobacco Farmers and other Suppliers | 127 |
| Engagement with our Communities | 128 |

Creating Shared Value

Our track record of 116 years in delivering the needs of the adult consumer has armed us with deep insights of their behaviour. This has enabled CTC to fulfill emerging adult consumer needs and continuously build equity across our brands, while communicating and marketing our products responsibly.



Engagement with our Adult Consumers

Methods of engagement

We do not engage directly with our consumers except as within the framework provided under the National Authority on Tobacco and Alcohol (NATA) Act No. 27 of 2006, its subsequent amendments and regulations, and other applicable laws and regulations.

Stakeholder needs

- Value for money
- Product availability
- Product development

Value created in 2021

Ensuring continued product availability across the island



12

Distributors



8

Third party owned
E-commerce
platforms

60,063

Traders &
Retailers

Enabling adult consumer choice through a comprehensive product portfolio



5

Brands



15

Stock Keeping
Units (SKUs)

4.3%

Volume growth

Ensuring responsible marketing and communication

Text and Graphic Health Warnings, as well as other information printed on product packaging as prescribed under local laws and regulations

100%

adherence to Youth
Access Prevention
(YAP) guidelines

100%

adherence to
International
Marketing Principles
(IMP)

Prioritising product quality and adult consumer safety needs

High product quality standards stemming from BAT's product stewardship

Access to best-in-class research capabilities of BAT



Our talented team of employees is key to our continued success. Their commitment, collective strength and passion to excel has enabled us to stay resilient in the face of challenging operating conditions. Our Employee Value Proposition centres on 'Creating a dynamic and purposeful place of work'.



Engagement with our Employees

Methods of engagement

- Your Voice employee survey (biennial)
- Performance appraisals (annual)
- Negotiations with trade unions
- Multiple level staff meetings
- Women of Worth (WOW) forum
- 'Spotlight' townhall meetings (quarterly)
- Digital engagement (ongoing)
- Training and development

Stakeholder needs

- Performance and reward management
- Multiple level staff meetings
- Digital engagement
- Safe working environment
- Opportunities for training and development

Value created in 2021

Ongoing engagement to ensure employee motivation and morale is maintained

Launched 'SAGA', the virtual platform to strengthen employee engagement



Engagement for women through 'WoW' platform



Training and capacity building, further strengthened by the launch of the 'GRID', an online training platform and repository and 'Ed-App', an educational and training platform for Trade Marketing employees



Investment in talent



Rs. 24.5 Mn
Training investment



10
Overseas opportunities



Digital learning
propositions



54
Promotions

Safe workplace



Comprehensive measures to ensure physical and mental well-being including Company-wide mental health awareness programmes and access to free counselling sessions



Necessary precautions to prevent and control the spread of COVID-19, including conducting PCR testing for employees, providing PPE, offering interim care centre facilities, and offering vaccination programmes.

Zero

serious injuries and lost days

Diverse and inclusive workplace

30%

Overall representation of women at Management level

100%

Engagement, networking and support through the WOW platform

Diversity & Inclusion (D&I) agenda targeting 40% representation of women across the business and 50% in Senior Management roles by 2023

Creating Shared Value

As one of Sri Lanka's highest dividend payers, we have a strong track record of consistently delivering on our shareholder commitments. Ambitious growth plans, best-in-class governance practices, and a central focus on sustainability and responsible value creation continues to drive shareholder value. Our shareholder value proposition accordingly focuses on 'delivering superior returns for shareholders'.



Engagement with our Shareholders

Methods of engagement

- Annual General Meeting
- Publication of Annual Report
- Regular performance updates (quarterly)
- Announcements to the Colombo Stock Exchange (periodic)
- Corporate website

Stakeholder needs

- Sustainable growth in financial performance
- Continuity of operations amidst the pandemic
- Positive social and environmental impacts
- Business ethics and corporate governance
- Transparency and credibility of disclosures
- Corporate reputation

Value created in 2021

Strong profitability, shareholder returns and dividend payments



3.65%

increase of
Profit after tax



86.2

Earnings
per share



95.3%

Net asset
value per share

Board refreshment



Increased gender diversity with the appointment of CTC's **first female MD & CEO**

Strengthened **Financial, Marketing and General Management** skills on Board

On-time in full reporting as per statutory requirements

Sustainable enterprise

Progress in all 3 pillars of the Company's ESG Strategy



Publication of CTC's first **ESG Report** as part of this year's Annual Report



Accelerated journey towards **carbon neutrality** in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial

The deep-rooted relationships we have nurtured with our 1,613 contracted tobacco farmers have enabled CTC to build a secure supply chain. We continue to inject value to the rural economy, drive sustainable agriculture practices and support farmer livelihoods through providing a regular source of income, while giving back to rural communities we operate in via our Corporate Social Investment (CSI) initiatives.



Engagement with our Contracted Tobacco Farmers and other Suppliers

Methods of engagement

- Sustainable Tobacco Programme (STP) Reviews (annual)
- Disseminating knowledge and best practices
- Farmer appreciation programmes
- Field support to contracted tobacco farmers through Leaf Field Officers
- Farmer meetings (seasonal)
- Supporting rural farmer organisations through CSI initiatives
- Supplier meetings
- Supplier reviews (monthly)

Stakeholder needs

- Fair pricing and buy-back guarantees for crops
- Health & safety
- Sustainable livelihoods
- Preserving human rights
- Financial assistance
- Best practices to improve efficiency and productivity

Value created in 2021

Continued value injection through purchasing tobacco leaves



Rs. 1.62 Bn

value injection to the rural economy through tobacco leaf purchase



Guaranteed

purchase of
100% crop
at pre-agreed price



Providing all **input material** to all contracted tobacco farmers at the beginning of the **growing season**

Guidance on sustainable agricultural practices

Achievement of higher yields and productivity (vs 2020):

17%
improvements in
Yield Per Hectare
(YPH)

Guidance on reducing use of agrochemical usage:

gradual shift
towards organic
fertiliser usage

Support in driving crop diversification:

80%
tobacco leaf
resourced from
hybrid varieties

Preserving human rights

Ongoing monitoring through the FSM app

Maintaining Zero instances of child and forced labour along the supply chain

Creating Shared Value

We have a long history of working with communities across Sri Lanka, addressing their critical problems and driving meaningful change in supporting their socio-economic progress. Through the suite of 6 new CSI brand identities launched in 2021 and the ongoing SADP programme, we continue to support and uplift the lives of vulnerable communities across the island.



Engagement with Communities

Methods of engagement

- Field support through Field Officers (ongoing)
- Community engagement initiatives (ongoing)

Stakeholder needs

- Reducing the social and environmental impacts of our business
- Opportunities for harmonious and mutually beneficial relationships

Value created in 2021

Sustainable Agriculture Development Programme (SADP)



Improve rural livelihoods



Enhance agricultural knowledge



18,800

beneficiaries across

4,700 families

Suwajeewana - Water for life



Access to clean drinking water through
10 RO plants

+30,000

beneficiaries across



+7,500

families

Prajaloka - Transforming communities

Small-scale infrastructure development projects

144 projects from 2019 with
88 projects in 2021

Govisavi - Uplifting generations of farmers



Improve access to irrigation facilities and improve other infrastructure



144 projects from 2019
77 combined projects (2020:2021)



45

projects delivered in 2021

Pawra - Volunteerism

Development and execution of
CSI projects by employees

Divisahana - Frontliners of hope

Disaster relief during national crises

COVID relief efforts in 2021

Udaharitha - Nurturing nature for the future



Commitment to increase the national forest cover



123-Acre

Biodiversity site maintained in Matale



12-Acre

Degraded land rehabilitated and maintained in Dambulla

Environmental Management

At CTC, sustainability is pivotal in creating shared value for our stakeholders. That's why our sustainability strategy is aligned to address climate change and environmental management.

CTC's achievements in 2021:

Carbon neutrality

achieved in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial

2.8 MW

solar panel project covering 100% of viable roof space in Colombo and Kandy

2,709 tCO₂e

reduction in Scope 1 & 2 (Market-based) GHG emissions

Environment

| | |
|--------------------------------|-----|
| Climate Change | 131 |
| Eliminating Waste | 134 |
| Water Stewardship | 136 |
| Biodiversity and Reforestation | 138 |


Environment

E

Our strategy aims to drive excellence in environmental management for a greener tomorrow and a climate-resilient supply chain. CTC's focus areas in environmental management are summarised below:



Key priority: Climate Change

 See page 131

Approach

Climate change is a global issue which requires global solutions. That's why our integrated strategy focuses on building climate-resilience across our business and supply chains.

Ambitions

- Drive sustained reductions in emissions through increased energy efficiency
- Increase reliance on renewable energy through solar power generation
- Reforestation through maintaining sites of biodiversity and distribution of saplings

Performance highlights

- 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial
- 67% reduction in Scope 1 & 2 tCO₂e (Market-based) emissions
- Commenced 2.8 MW solar panel installation project



Eliminating Waste

 See page 134


Given the increased scarcity of natural resources and environmental degradation caused by waste, the BAT Group is driving the principle of circularity across all operations, to which we at CTC align.

- Waste mapping and loss analysis across all operations
- Launch of programme to eliminate Single Use Plastics (SUP) across canteen, kitchen, and offices
- Driving food and garden waste recycling initiatives

- 456.90 MT of total waste generated*
- 70% of total waste sent for incineration with energy recovery by a third-party, 22.74% sent for recycling and 7.26% sent to landfill*



Water Stewardship

 See page 136

With risks of water scarcity intensifying across the world, we are committed to driving water efficiencies in our internal operations and across the supply chain.

- Reduce water consumption through improved monitoring and increased efficiencies
- Optimise water usage across the supply chain by working with our contracted farmers
- Identify and implement mechanisms for recycling water

- 7.81% water recycled*
- Total water withdrawn increased by 13%*



Biodiversity and Reforestation

 See page 138

We work with our farmers in propagating sustainable agricultural practices, which preserve natural resources while enhancing farmers' resilience to climate change.

- Support farmers in deploying techniques that help reduce agrochemical use.
- Promote crop diversity to ensure the optimisation of land resources
- Introduction of innovative curing technology, encouraging contracted farmers to use sustainable wood for curing fuels
- Long-term reforestation projects

- Distribution of 2,500 jack-fruit saplings planted in the Kanneliya buffer zone
- Maintenance of a 123-acre biodiversity site in Matale in collaboration with the University of Peradeniya
- Rehabilitation and maintenance of 12-acre degraded land in Murungahitakanda in Dambulla

*Scope of our reporting has been enhanced to capture 100% of the GRI reporting scope.



Climate Change

BAT Goals

NET ZERO

Carbon neutral operations
(Scope 1 & 2) by 2030

Net zero emissions across value
chain by 2050

CTC approach

Our journey to carbon neutrality and net zero centres on increasing reliance on renewable energy sources, driving reductions in the carbon footprint and reforestation. These efforts expand beyond our own operations to encompass impacts across the value chain.

Relevant policies and standards

- Group Environmental Policy
- ESG Strategy
- Carbon neutral standard PAS 2060:2014
- Supplier Code of Conduct
- Sustainable Tobacco Programme
- 'Thrive' Programme

Identifying and addressing climate risks across our supply chain is vital to ensuring our commercial sustainability given our reliance on agricultural inputs, in order to mitigate potential disruptions to livelihoods and distribution networks.

Emission reduction approach

As a Group, BAT has accelerated its pace in climate action, committing to the bold ambition of achieving carbon neutrality in operations by 2030, and across the value chain by 2050. In turn, CTC also accelerated its ambition in bringing forward its carbon neutral goals to 2022, and successfully delivered on this goal in 2021 - well ahead of its target by being the 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across our Depots, GLTP,

Colombo Factory and Commercial. Our climate strategy centres on a three-fold glide path supported by robust governance standards, an organisation-wide commitment, and adoption of global best practices. Scope 2 CO₂e (Location-based) emissions for the year was calculated as follows; Colombo factory - 1,715 tCO₂e, GLTP & Leaf - 456 tCO₂e and TM&D - 264 tCO₂e. However, Scope 2 CO₂e (Market-based) emissions were 100% set-off via i-RECs.

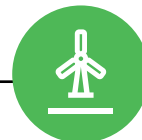
Immediate target:

Purchase renewable
energy certificates
and carbon credits



Short to medium-term target:

Drive reduction in emissions, increase
reliance on renewable energy



Long-term target:
Reforestation



Defining our long-term
strategy and goals

Execution and
monitoring of progress

Fostering a carbon-
conscious culture



Environment

Policies and accountabilities

Our environmental targets, including aspirations towards carbon neutrality and net zero have been endorsed by our Board of Directors. The scope of the CSI Steering Committee has been widened to include oversight on ESG performance including climate action. The progress against targets is reported to the Board Sub-Committee twice a year. The ESG 'Working Group' is responsible for driving the Company's ESG agenda, including the delivery of our climate action targets. The Working Group reports on the progress of our key ESG priorities (carbon neutrality, sustainable livelihoods, and ethics and conduct) to the Executive Committee on a monthly basis.

Climate-related risks

As an organisation relying on agricultural inputs, climate change can affect business continuity due to adverse effects on tobacco farming. These include impacts on crop yields, the cost of and access to tobacco supply and farmer livelihoods. In 2020, the BAT Group updated the Group Risk Register to incorporate risks of climate change as a key exposure to be mitigated. An independent study on the risks of climate change on tobacco leaf growing was commissioned to consider its impacts. Learnings from this study will be used to build bespoke mitigation plans for each tobacco growing market in the BAT Group and manage any long-term impacts on contracted tobacco farmers and livelihoods.

Climate reporting

In recognising the importance of relevant and transparent climate-related disclosures, and specifically the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), we have expanded disclosures on our management approach and metrics.

Carbon-conscious culture

Our carbon neutral journey commenced with the launch of 'Plan A' - an organisation-wide initiative aimed at nurturing a carbon-conscious culture. The programme centred on the theme of 'Little Acts, Big Wins', drawing ideas from employees across the organisation on potential ways to reduce emissions, waste, water use, and plastics. Through numerous awareness campaigns and

engagement mechanisms such as Hit Squads, we successfully obtained buy-in from all employees, enabling the Company to achieve its goals well ahead of the target date.

SPOTLIGHT

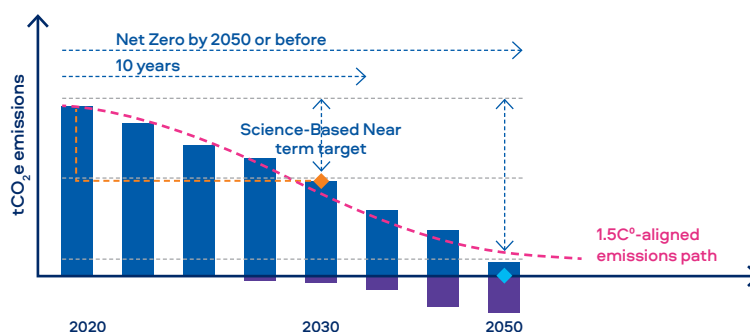
Accelerating our journey to net zero

In 2021, we marked a milestone in our journey towards net zero as we became the 1st end-market within the BAT Group to achieve carbon neutrality in Scope 1 & 2 GHG emissions across our Depots, GLTP, Colombo Factory and Commercial.



In 2021, the BAT Group was a signatory to the UN-backed 'Race to Zero' global campaign, the largest global alliance to halve global emissions by 2030 and achieve net zero carbon emissions by 2050. The BAT Group is working together with its suppliers, contracted farmers, and business partners to help develop solutions to bring about lasting change and accelerate progress to net zero. As we align with our parent company's ambitions for net zero, we will seek to drive reductions in our carbon footprint by increasing reliance on renewable energy and improving energy efficiency.

BAT Road Map to Net Zero



Driving reductions in emissions

Greener operations

Approximately 100% of our emissions stem from our Depots, Green Leaf Threshing Plant (GLTP) and the distribution fleet. During the year, although direct energy use increased by 8.5%, Scope 1 & 2 CO₂e (Market-based) emissions reduced by 67%. This was driven by the acceleration of our energy efficiency investment plans, centring on the increased use of energy-efficient manufacturing and cooling and heating technology. CTC has also accrued significant benefits in energy consumption through the success of its Integrated Work Systems (IWS) journey. We also enhanced energy monitoring with the establishment of energy hubs (powered by Level 4 SCADA system) to monitor energy consumption at individual machine level in Colombo.

In 2021, we replaced the condensate and chill water pump, which is expected to result in carbon savings of around 30 tCO₂e annually. In both our Colombo and Kandy facilities, we converted high-capacity motors to high efficiency motors across all operations, resulting in an estimated reduction of 28 tCO₂e annually. We also achieved 100% conversion to LED lighting solutions during the year. In our GLTP, we invested in energy-efficient cooling technology, with the installation of inverter air conditioners and the replacement of old compressors with more energy-efficient solutions.

Greener fleet

We are also transitioning our trade fleet to greener vehicles, with the Trade Marketing team and Area Distribution Managers using hybrid vehicles.

5%

Improvement in specific energy consumption

75%

Reduction in Scope 1 & 2 carbon intensity (Market-based)

67%

Reduction in Scope 1 & 2 CO₂e (Market-based) emissions intensity

SPOTLIGHT

Renewable energy

All renewable electricity (Market-based) purchased by CTC Depots, GLTP, Colombo factory and Commercial operations were 100% off-set via i-RECS which allowed for scope 2 CO₂e (Market-based) emissions to be reduced to zero. As planned, we commenced a 2.8 MW solar panel installation project at the Colombo and Kandy facilities, which will utilise a 100% of our viable roof space. This conversion is expected to result in annual carbon savings of approximately 1,217 tCO₂e, where 50% of our energy requirement will be fulfilled from solar energy. We also converted hot water generation in both Colombo and Kandy premises canteens and the boiler in the Kandy plant to solar power during the year. As planned, we also hope to convert 4 Leaf depots to renewable energy over the next 3 years.

Decarbonising the supply chain

The largest share of our Scope 3 CO₂e emissions stems from our tobacco supply chain, mainly in the tobacco curing process. 100% of our leaf volumes are cured through paddy husk - a renewable biomass energy source, and since 2020, we have worked with our contracted tobacco farmers in converting our traditional barns to LLB, an innovative, fuel-efficient curing technology which enables over 30% reduction in fuel use. Launched as a pilot project in 2020, we increased investments towards this initiative in 2021, deploying LLBs to nearly 5% of our Yala barn requirement. Over the next 5 years, we hope to convert 100% of Yala traditional barns to paddy husk fuelled LLBs, which will result in significant carbon savings across our supply chain.

Progress and Results

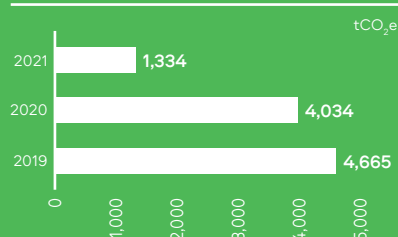
1,334 tCO₂e

Scope 1 emissions

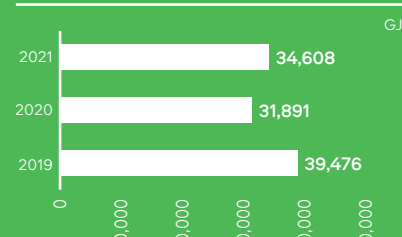
Zero

Scope 2 CO₂e (Market-based) emissions achieved by purchasing 100% renewable electricity via i-RECs

Scope 1 & 2 CO₂e (Market-based) emissions



Direct energy use



Environment



Eliminating Waste

BAT Goals

100% of operation sites to be

Zero

waste to landfill by 2025

Increased recycling to

95%

of total waste generated by 2025

CTC targets and approach

CTC is aligned with the BAT Group's circular economy strategy by minimising the environmental impacts of its waste through responsible waste management, increasing recycling and working towards eliminating unnecessary plastics from our operations.

Relevant policies and standards

- Group Environmental Policy
- ESG Strategy
- Supplier Code of Conduct
- Circular Economy Position Statement

Given the increased scarcity of natural resources and environmental degradation caused by waste, the BAT Group is driving the principle of circularity across all operations. We at CTC, are actively committed to reducing our waste to landfill and increasing reliance on renewable energy input material.

Circularity at CTC

We are committed to gradually reducing our waste to landfill and driving circularity across our operations. In addition to reducing waste and increasing recycling, we are

also actively seeking ways in which we could increase reliance on renewable input materials in our processes - this includes renewable energy and packaging material among others.



Eliminating Single Use Plastic (SUP)

During the year, we launched an ambitious programme to completely eliminate the use of SUP in canteens and other common staff areas, in both the Colombo and Kandy premises. The programme plan was formulated

through Plan A - an organisation-wide engagement which encouraged employees to put forward their ideas on reducing the Company's environmental impact. As a result, the use of SUP declined during the year.



SPOTLIGHT

Responsible waste management

Our waste comprises mainly of tobacco waste, waste from green leaf threshing as well as polythene, cardboard, and food waste. Hazardous waste consists of electronic waste (including printer toners and LED bulbs) and oil waste. During the year, emphasis was placed on implementing improvements in our waste segregation on site and reinforcing mechanisms to ensure responsible disposal. We also strengthened governance and compliance which required that our recycling partners comply with all licensing and certification requirements.

Following the issuance of the new waste reporting standard by the Global Reporting Initiative (GRI), from 2021, waste to energy will no longer be classified as a form of recycling. As this will impact our performance against our waste recycling target, we commenced recycling of our tobacco dust to compost through an approved third-party recycler. The key types of waste generated from our operations and the disposal method is set out below:



| Type of waste | Method of disposal |
|---------------------------------------|---|
| Tobacco waste | Sent to a recycler for composting |
| Waste wrapping and packaging material | Third party recyclers |
| Food waste from canteen | Sent for recycling |
| Used CFL and fluorescent light bulbs | Recycling facility operated by Orel Corporation |

Progress and Results

| Waste | Waste by disposal method | Material consumption | | | | | | | | | | | | | | | |
|---|--|----------------------|----------------|--------------------|-----------|---|----|------------------------------------|---|-----|----------|---|----|-------|------|---|--|
| <p>1.03%*</p> <p>increase in waste recycling rate</p> <p>Waste recycling rate</p> <p>2021 22.74</p> <p>2020 21.77**</p> | <table> <tr> <th>Disposal method</th><th>Hazardous (MT)</th><th>Non-hazardous (MT)</th></tr> <tr> <td>Recycling</td><td>-</td><td>98</td></tr> <tr> <td>Incineration with energy recovered</td><td>-</td><td>294</td></tr> <tr> <td>Landfill</td><td>-</td><td>59</td></tr> <tr> <td>Other</td><td>1.15</td><td>-</td></tr> </table> | Disposal method | Hazardous (MT) | Non-hazardous (MT) | Recycling | - | 98 | Incineration with energy recovered | - | 294 | Landfill | - | 59 | Other | 1.15 | - | <p>Types of materials</p> <p>Green leaf</p> <p>Non-renewable materials</p> <p>GLTP other production materials</p> <p>Wrapping materials</p> |
| Disposal method | Hazardous (MT) | Non-hazardous (MT) | | | | | | | | | | | | | | | |
| Recycling | - | 98 | | | | | | | | | | | | | | | |
| Incineration with energy recovered | - | 294 | | | | | | | | | | | | | | | |
| Landfill | - | 59 | | | | | | | | | | | | | | | |
| Other | 1.15 | - | | | | | | | | | | | | | | | |

*Scope of our reporting has been enhanced to capture 100% of the GRI reporting scope.

**Figure recalculated retrospectively as per updated GRI Waste 306 standard.

Environment



Water Stewardship

BAT Goals

35%

Reduction of total amount water withdrawal by 2025 (vs 2017 baseline)

30%

Increase in amount of water recycled in operations by 2025

CTC targets and approach

Although our industry is not water-intensive, we are committed to driving water stewardship across our operations and our supply chain through increasing water efficiency and recycling, and propagating sustainable water management practices across our supply chain.

Relevant policies and standards

- Group Environmental Policy
- ESG Strategy
- Water Security Standard
- Soil and Groundwater Protection Standard
- Supplier Code of Conduct

With risks of water scarcity intensifying across the world, we are committed to driving water efficiencies in our internal operations and across the supply chain. Our water management strategy in recent years has also focused on driving water stewardship across our operations and supply chain.

Interactions with water

Our manufacturing processes are not specially water intensive, and water is consumed primarily in our GLTP and Colombo factory, and for cleaning/hygiene purposes. Water is also an important input across the tobacco supply chain. Within our operations, water consumption is tracked through the 'Building Management System' and over 30 monitoring points, which provide access to real-time information. Meanwhile, used water

discharged from our operations are treated through an Effluent Treatment Plant (ETP) and re-used for non-critical activities such as gardening and cleaning roadways. Our water management strategy in recent years has focused on improving the efficiency of water usage, increasing recycling and driving water stewardship across our supply chain by working closely with our contracted tobacco farmers.

Water stewardship in our direct operations

Our water withdrawn increased by 13% during the year, whereby the increase is attributed to enhancement of the reporting scope of this year to capture the consumption at Depot level. Focus on improving water monitoring, water use mapping and loss analysis has enabled us to proactively identify and address water leakages. The implementation of IWS has also helped in optimising water consumption in our factory by eliminating leakages and increasing of recycling.

In line with BAT's 2025 target of obtaining 'Alliance Water Stewardship' (AWS) Certification for all manufacturing sites, CTC commenced

the AWS pre-assessment in the GLTP facility. This initial assessment was conducted by a local affiliate of AWS and set a good foundation for strengthening water governance through identifying catchment areas and challenged water bodies, while formulating an action plan for conservation.

During the year, we achieved 78% water recycling rate. Within the year, we commenced an upgrade of the ETP in Colombo, with the aim of expanding our recycling capacity. Plans are also underway to utilise the recycled water for water closets, cooling towers and boilers.



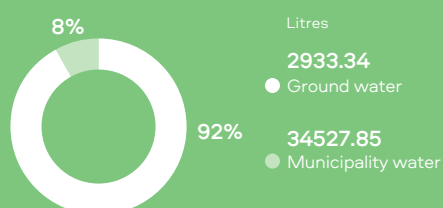
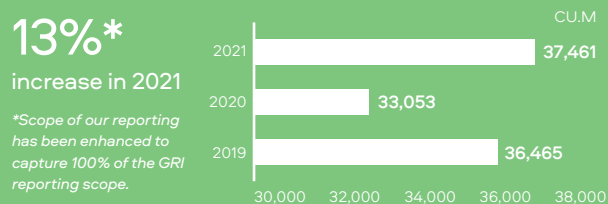
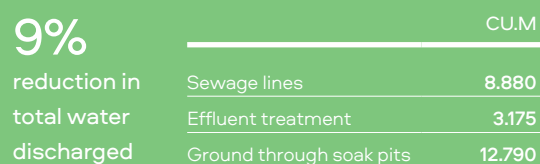
SPOTLIGHT

Water stewardship along the supply chain

Agriculture accounts for nearly 70% of fresh water withdrawal globally. We remain committed to driving water stewardship across our supply chain by working with our contracted tobacco farmers to advance sustainable agriculture practices. While rainwater is usually sufficient for a portion of the crops, for other locations and seasons, we support the farmers to find sustainable ways of securing water, which preserves access for local communities in adjacent areas. For instance, we introduced bed and furrow farming during the Yala season, which is estimated to result in a near 20% reduction in water withdrawal.

Monitoring water usage

Through the 'Thrive' programme, we monitor the environmental impacts of our contracted tobacco farmers, including water use and water management plans. This process has been strengthened through the 'Farmer Sustainability Management' (FSM) app, enabling automation of data collection and enhancing connectivity with our contracted tobacco farmers.

**Progress and Results****Water withdrawal by source****Water withdrawn****Water discharge by destination**

Environment



Biodiversity and Reforestation

BAT Goals

Net Zero

deforestation of managed forests in our supply chain by 2025

CTC targets and approach

Initiate a 40Ha Carbon Certified Reforestation Project to generate own Carbon Credits source

Continue to maintain a 123-acre biodiversity site in Matala

Over the years, we have advanced sustainable agriculture practices among our contracted tobacco farmers, including implementing solutions which minimise the use of agrochemicals, preserve soil quality, and enhance water efficiency.

Relevant policies and standards

- Group Environmental Policy
- Biodiversity Statement
- ESG Strategy
- Sustainable Tobacco Programme
- Supplier Code of Conduct

We work with our farmers in propagating sustainable agricultural practices, which preserve natural resources while enhancing farmers' resilience to climate change. We continue to advance our sustainable agricultural practices and shift towards exploring the possibilities of sustainable solutions.

Our team of expert field technicians continues to work closely with our contracted tobacco farmers in providing technical assistance and training on sustainable practices which conserve water, reduce agrochemical usage and preserve soil. Meanwhile all our Leaf operations also adhere to the requirements of the 'Sustainable Tobacco Programme' (STP) which sets out a range of criteria relating to

environmental protection, including sustainable management of water, soil and forests, pollution control and energy reduction (refer page 143 for further information).

Our Farmer Sustainability Management (FSM) app, a digital platform that supports the work of our field technicians, also enables a consistent approach to farm monitoring.

Sustainable agriculture through STP

Crop management

Seed testing and fertiliser

Soil analysis and fertiliser management

Crop management best practices

Environment

Sustainable management of water, soil and forests

Pollution control

Fuel and energy reduction

Reducing usage of agrochemicals

With the Government policy on chemical fertiliser, we accelerated our shift towards organic fertiliser, exploring the possibility of sustainable solutions such as biochar and organic compost. These methods are expected to enhance the soil's nutrient holding capacity and improve soil carbon levels. We also continue to train our contracted tobacco farmers

on the safe application, storage and disposal of agrochemicals.

Through our 'SADP Mega' initiatives, we have also established a 12-acre model farm in Sooriyawewa, serving as a knowledge hub for farmers to access ecologically sustainable agricultural practices.



SPOTLIGHT

Crop diversification

Crop diversification and rotation is recognised as a best practice in preserving soil health, as monocropping can adversely affect soil nutrients and quality. Through the 'SADP Ultra' initiative, we have continued to support over 4,100 farmers (including 1,613 contracted tobacco farmers) to grow alternative crops such as fruits, vegetables, maize, and ground nuts. In addition to its positive environmental impact, crop diversification has generated an alternative source of income to these farmers, while supporting their food security.

Soil conservation

CTC is working with its contracted tobacco farmers in applying 'Sloping Agricultural Land Technology (SALT)', an integrated soil preservation mechanism, which combines a range of conservation measures, including stone terraces, intercropping and agroforestry. Meanwhile, the gradual shift towards organic fertiliser is also expected to preserve soil nutrients and improve crop yields over the next few years.

Productivity drive

We continue to place strategic focus on achieving productivity improvements and better quality, through providing higher-yielding and disease-resistant tobacco varieties. This is supported by the research capabilities of Global Leaf Agronomy Development (GLAD) centre. During the year, 80% of tobacco leaf resourced were from hybrid varieties, resulting in 17% improvements in Yield Per Hectare (YPH), the highest yields in over a decade recorded in the 'Maha' region. Meanwhile, the transfer of knowledge has supported the build-up of new contracted tobacco farmer capabilities, which can drive productivity improvements and best practices in other crops cultivated by contracted tobacco farmers.

Use of sustainable fuels

With the shift towards paddy husk fuelled LLBs from traditional barns, our contracted tobacco farmers have been able to reduce the environmental footprint of tobacco curing. This method has driven reductions in fuel usage and the overall carbon footprint, while also supporting reductions in labour usage, curing costs, and minimising health & safety risks.

Progress and Results**Efficiency indicators (GLTP operation)**

| | |
|------|---------------------------------------|
| 1% | increase in yield (GLTP) |
| 1% | Overall Equipment Effectiveness (OEE) |
| 3.3% | Lamina Yield |

Reforestation

We revamped our biodiversity and reforestation efforts in 2021 by collaborating with the University of Peradeniya to maintain a 123-acre biodiversity site in Matale. In line with our accelerated carbon neutrality ambition and journey towards net zero, we strengthened our reforestation efforts, bringing all initiatives under the umbrella of the 'Udaharitha' programme. Through Udaharitha, we aim to support the national priority of increasing Sri Lanka's forest cover from 29% to 32% by 2030.

Key projects carried out during the year and developments of ongoing projects are listed as follows:

- Since 2012, the Company has maintained a **123-acre Government-owned land in Matale**, in collaboration with the University of Peradeniya. Efforts are currently underway to explore means of converting this mono-culture eucalyptus plantation to an indigenous forest. In addition to funding maintenance of the land, CTC has sponsored relevant research efforts and publication material.
- CTC partnered with the Forest Department as an ongoing project to plant 5,000 species of indigenous trees in a **Government-owned 12-acre land in Sigiriya**, which is part of the Murugahitikanda Forest Reserve. CTC has committed to providing the required funding to convert the land into a forest by 2026.
- In 2021, CTC **distributed 2,500 jackfruit saplings** to the Kottawa Forest Office, to be planted in the Kanneliya Forest Reserve buffer zone. The saplings were also distributed among volunteers and communities residing in the areas. Notably, the saplings were grown by and purchased from our SADP families, providing an additional source of income to the SADP communities.
- CTC is looking into the development of a long-term reforestation project, aimed to make contributions to the BAT Group's carbon neutrality aspirations.

An Impactful Culture

At CTC, we deeply value our key stakeholders who have immensely contributed towards the Company's success. In return for their hard work, CTC support over 57,000 beneficiaries across the business and over 1,600 contracted tobacco farmers.

CTC's achievements in 2021:

Rs. 73 Million

investment in CSI projects

Zero

accidents recorded

100%

purchase of our leaf requirements from our contracted tobacco farmers



Social

| | |
|--------------------|-----|
| Farmer Livelihoods | 142 |
| Human Rights | 151 |
| Health & Safety | 152 |
| People & Culture | 154 |

Social

S

Our established track record of 116 years of operations in Sri Lanka has nurtured mutually value-adding, deep-rooted relationships across supply chains, distribution channels and communities. We are cognisant of the important role we can play in delivering a positive societal impact and addressing some of the country's critical socio-economic issues.



Key priority: Farmer Livelihoods



See page 142

Approach

We have a deep commitment towards driving socio-economic empowerment in rural communities by providing agricultural knowledge, access to infrastructure and capacity building

Ambitions

- Support and empower livelihoods across our value chain via our multi-faceted CSI initiatives across the country

Performance highlights

- Rs. 1.62 Billion payments to contracted tobacco farmers
- Rs. 73 Million investment in CSI projects, with a beneficiary base of over 57,000



Human Rights



See page 151

Given the human rights considerations across our supply chain, we have focused on developing strong policies, due diligence and assessments to eliminate the risk of human rights violations

- Strengthen human rights risk assessments and compliance across the tobacco supply chain

- 100% farmers assessed through the Farmer Sustainability Management (FSM) app



Health & Safety



See page 152

We are committed to providing a safe and injury-free work environment for all our employees while ensuring that our farmers have access to suitable Personal Protective Equipment (PPE)

- Aim for zero accidents
- Provide farmers with adequate PPE

- Zero accidents reported
- 100% of farmers with access to PPE
- 35,000+ people engaged via farmer health & safety training



People & Culture



See page 154

We are focused on creating a more dynamic, inclusive and supportive culture that attracts, engages and retains talented and diverse people

- Increase representation of women in Management and Senior Management roles in the business

- 30% of women in Management roles and 50% in Senior Management roles at the end of 2021

Social



Farmer Livelihoods

BAT Goals

LIVELIHOOD

BAT is committed to working to enable prosperous livelihoods for all farmers in the tobacco supply chain

CTC targets and approach

300,000+

Beneficiaries supported via CSI by 2025

We are committed to driving socio-economic empowerment in rural communities by providing agricultural knowledge, access to infrastructure and capacity building. This will be achieved through both our network of contracted tobacco farmers and our strategic CSI initiatives, targeting vulnerable communities.

Relevant policies and standards

- Sustainable Tobacco Programme (STP)
- The 'Thrive' Programme
- Strategic Framework for Corporate Social Investment

We are committed to providing our value proposition to our contracted tobacco farmers, while driving socio-economic empowerment. Guidance on sustainable agricultural practices including improving efficiency and productivity provide support to our contracted tobacco farmers' commercial sustainability over the long-term.

Farmer livelihoods

Our commitment to our contracted tobacco farmers is to ensure that they have thriving livelihoods. Unpredictable weather conditions and volatile market dynamics have affected income stability in the agriculture sector. We continue to provide technical assistance and capacity building which can build the long-term resilience of our contracted farmers, while driving socio-economic empowerment.

Our value proposition to contracted tobacco farmers

The Company supports 1,613 farmers involved in the tobacco cultivation value chain through a multi-faceted value proposition, which includes guaranteed buyback at pre-agreed prices, training on improving efficiency, productivity, sustainable agriculture, and community support.

Forward pricing for tobacco leaf purchases is determined in advance, together with the 'Farmers' Union' and the relevant Government authorities, thereby providing visibility over future pricing. Despite the operational disruptions stemming from COVID-19, during the year, we purchased 100% of our leaf requirement from our

contracted tobacco farmers, thereby injecting over Rs. 1.62 Billion to the rural economy. We also operate a pension scheme, with contributions from both CTC and our contracted tobacco farmers.

Our Leaf field team works closely with our contracted tobacco farmers in developing farming techniques and practices that support higher yields, better quality and reduced environmental impact. For example, the use of hybrid seed varieties in selected regions have resulted in farmers obtaining the highest yields in decades (refer to page 139 for further information).

Through guidance on sustainable agricultural practices, including reducing the reliance on agro-chemicals, innovative curing techniques and soil preservation measures, we not only reduce environmental impacts across our supply chain, but also built climate resilience among our contracted farmers. These methods have also led to reduction in operating costs and labour requirements, thereby supporting our contracted tobacco farmers' commercial sustainability over the long-term.

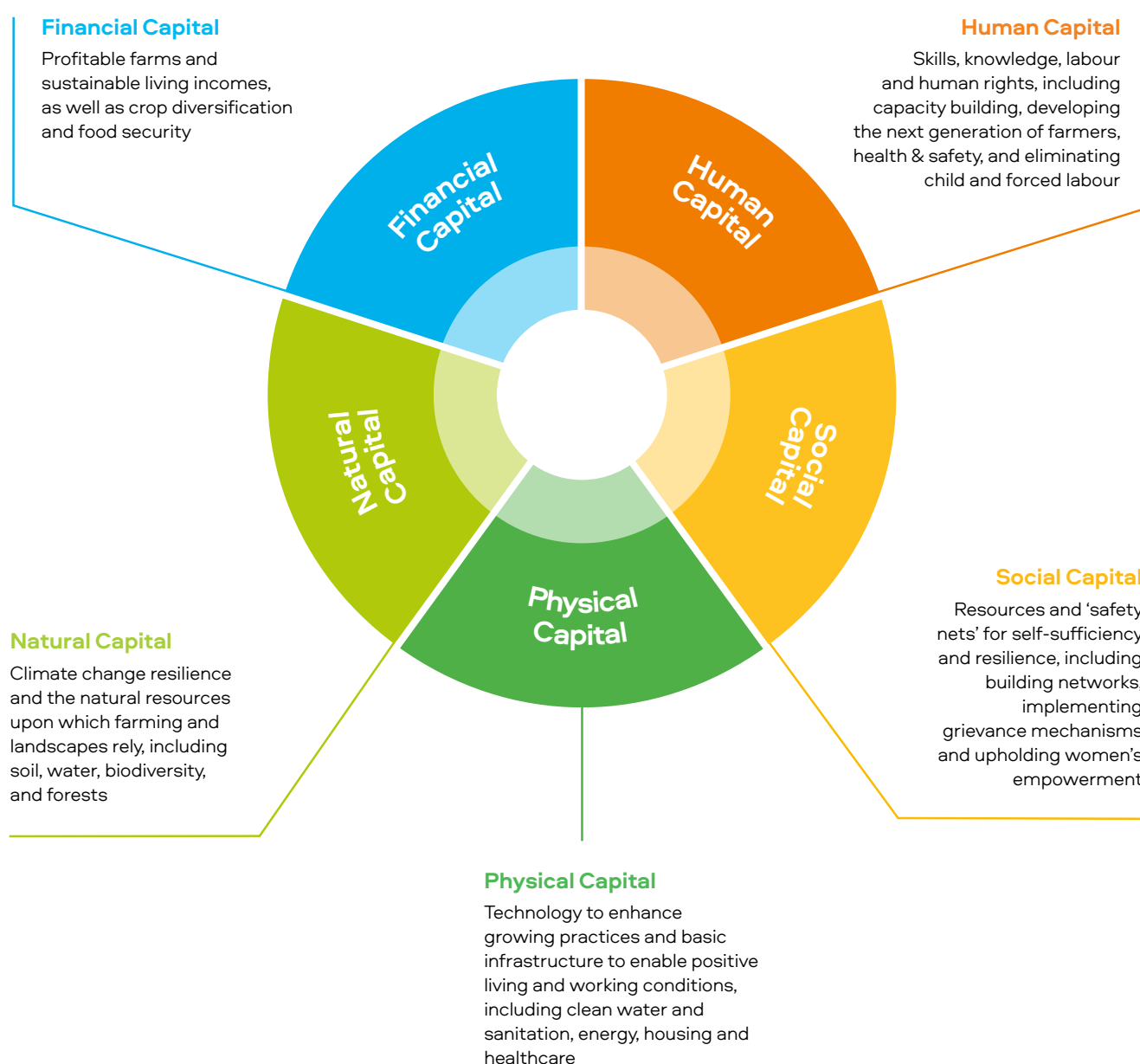


The 'Thrive' programme is used to measure progress in supporting farmer livelihoods. Although a global initiative of BAT, the programme has been tailored to suit the local circumstances of end-markets. The programme is based on the 'Five Capitals' framework and data is collected against key indicators in each capital. The Farmer Sustainability

Management (FSM) app supports the collection of this information through the monitoring of our contracted tobacco farmers and their overall sustainability performance through accurate and timely reporting. In addition to measuring progress against targets, 'Thrive' has enabled the formulation of plans for future developments as well.

Thrive
SUSTAINABLE AGRICULTURE
AND FARMER LIVELIHOODS

Sustainable Agriculture through STP



Social



SPOTLIGHT



Sustainable Tobacco Programme (STP)

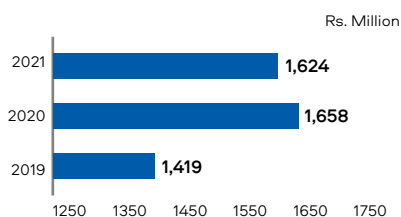
Our leaf operations adhere to the requirements of STP, which is an industry-wide standard covering a range of areas including human rights, environmental preservation, safety and people. It is aligned to international standards, including those set out by the International Labour Organisation (ILO) and the UN Guiding Principles on Business and Human Rights. Compliance is monitored through the FSM app, which is administered by the Extension Officers and tracks a range of indicators, in addition to providing access to relevant information on a real-time basis.

Progress and Results

Value injection to the rural economy

Rs. 1.62 Billion

Payments to contracted tobacco farmers



Livelihoods supported

100%

guaranteed purchase of the crop at pre-agreed prices

Programmes

200+

sessions conducted with 35,000+ beneficiaries

Sustainable livelihoods via Corporate Social Investment (CSI)

In addition to providing direct support to our contracted tobacco farmers, CTC has a long history of identifying and supporting the needs of the country's grassroot level communities. These programmes are typically aligned with national priorities and focus on a range of development areas, including poverty alleviation, health and well-being, agriculture and irrigation nutrition, and disaster relief.

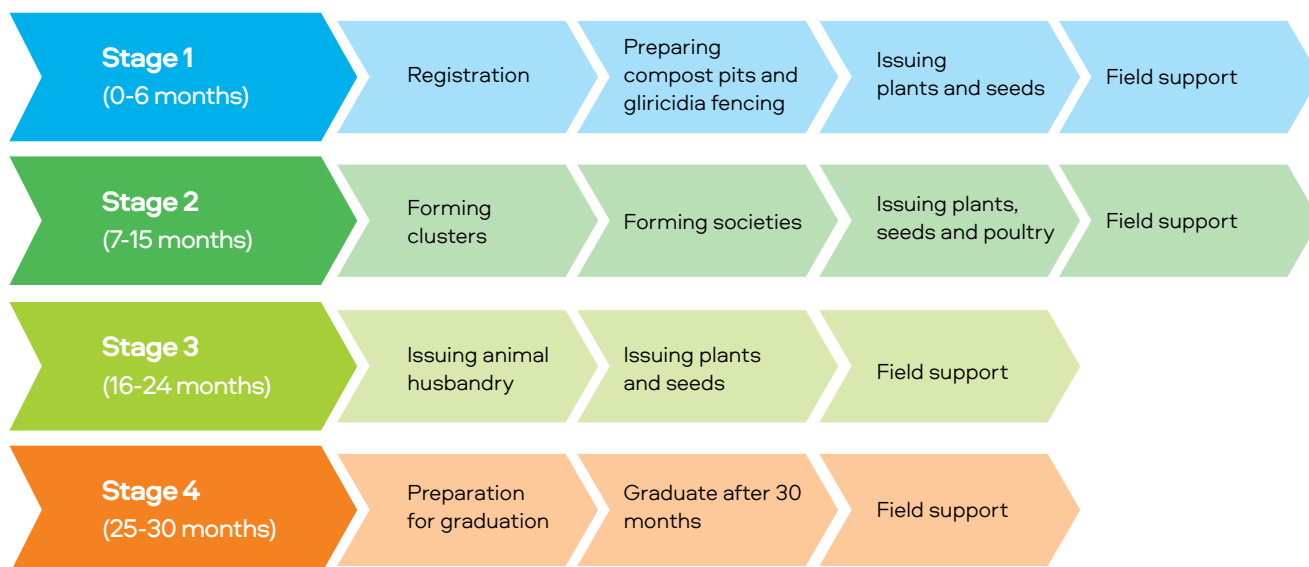
Management approach

The BAT Group's 'Strategic Framework for Corporate Social Investment' articulates how companies are expected to develop, deliver, and monitor community investment programmes. All CSI activities are managed at a local level to effectively cater to community-specific challenges and drive needs-based development. The CSI Steering Committee at Board level ensures that CTC's CSI projects are aligned to the Group Framework and that projects are managed in accordance with the SoBC policy. We also engage our employees in community development projects, thereby nurturing a sense of social consciousness from within.

Sustainable Agriculture Development Programme (SADP)

SADP is the Company's flagship CSI initiative; it was launched over a decade ago with the objective of uplifting communities and developing a platform for sustainable agriculture through knowledge transfer, resource assistance and empowerment.

The programme is structured in a manner that allows CTC to identify individuals living below the poverty line in selected villages and provide them with agricultural and other inputs to achieve self-sufficiency through home gardening and animal husbandry. The project is implemented in 4 stages over a period of 2.5 years as illustrated below.



Social

Over the years with multiple avenues, the SADP initiative encouraged engagement by the Company and its stakeholders. The programme evolved to meet new national challenges, resulting in hybrid programmes as summarised below:

| Project Type | Details | Beneficiary Base | Long-Term Project Impacts |
|---|--|-------------------------------------|--|
|  | Providing support for farmers including contracted tobacco farmers in the country to grow alternate crops such as fruits, vegetables and maize, thereby improving their income security and contributing to national food production | 4,100+ farmers |  Improve rural livelihoods |
| | | 16,400 beneficiaries |  Widespread organic farming |
|  | Providing agricultural inputs, enabling families to cultivate a range of crops for their consumption in the North and Eastern regions | 11,140 beneficiaries |  Enhance agricultural knowledge |
| | | |  Improve nutrition |
|  | Providing agriculture related vocational training to support former combatants undergoing rehabilitation | 1,449+ beneficiaries |  Female empowerment |
|  | Established a 12-acre model farm in Sooriyawewa to serve as a knowledge hub for tobacco farmers | 200+ community residents benefitted |  Maximise land utilisation |
| | | |  Economic independence and self-sufficiency in food |
|  | Constructed 100 agro-wells in drought-stricken areas of Welioya to provide water for drinking and irrigation | 400 families 1,600 beneficiaries |  Improve social harmony |



Suwajeewana

Through this programme, we aspire to uplift people's living standards by providing unrestricted access to clean drinking water.

The programme was formulated to support the national effort to combat the rise in Chronic Kidney Disease (CKD) across remote farming communities in the country. It entails the commissioning of Reverse Osmosis (RO) water purification systems that provides access to clean drinking water. Each plant has a capacity of 10,000 litres that can serve 750 families.

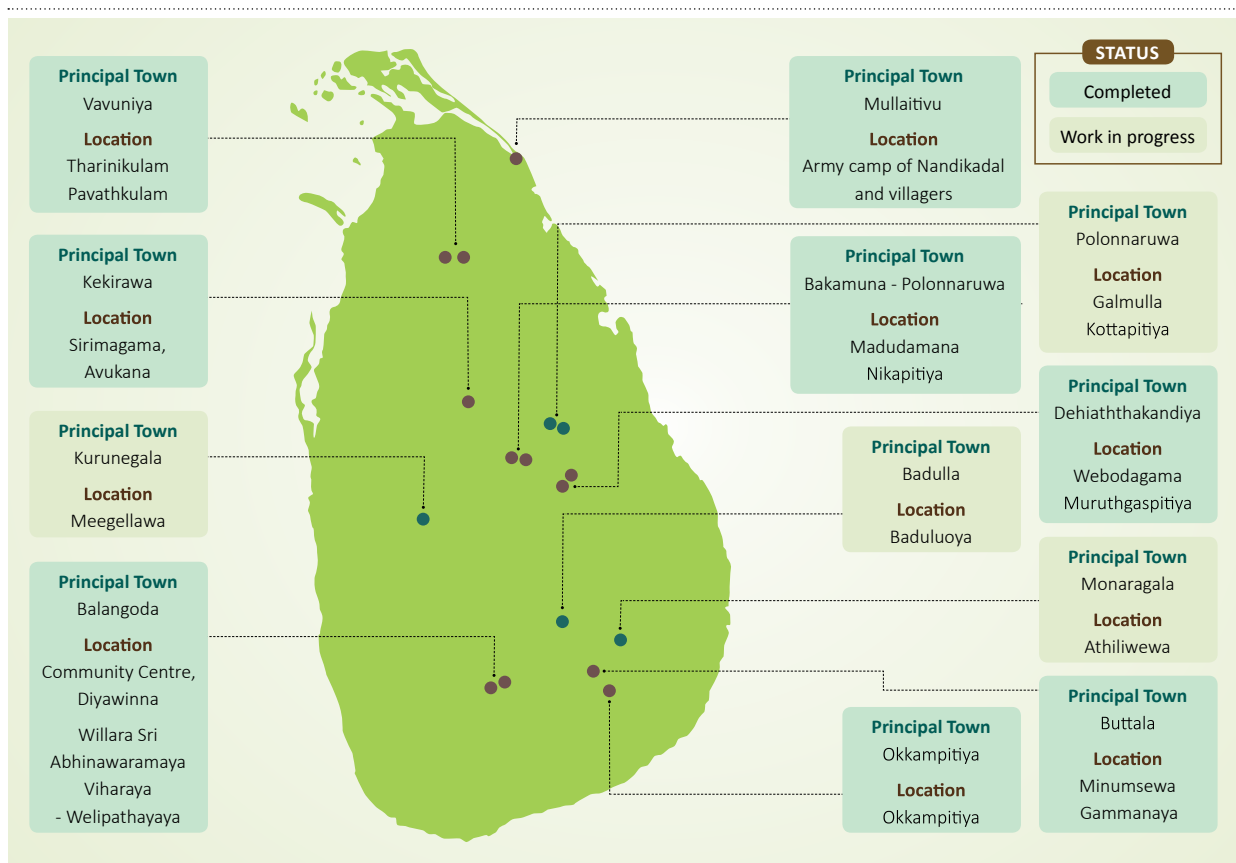


7,500+
Families

30,000+
Beneficiaries

10
RO Plants established

10,000
Litres produced per RO plant



Social



Govisavi

Developments carried out in rural farming communities include the following:

- Repair and construction of irrigation facilities
- Repair and construction of rural roads
- Construction and renovation of community centres
- Provision of PPE and other equipment to support the prevention of COVID-19

77 Projects delivered → **7,156** Lives touched

FARMER COMMUNITIES SUPPORTED

STATUS

Total Projects: **77**
Total Beneficiaries: **7,156**

Anuradhapura
Projects: **02**
Beneficiaries: **260**

Galewela
Projects: **34**
Beneficiaries: **2,270**

Udadumbara
Projects: **05**
Beneficiaries: **525**

Nildandahinna
Projects: **02**
Beneficiaries: **136**

Polonnaruwa
Projects: **21**
Beneficiaries: **1,868**

Mahiyanganaya
Projects: **07**
Beneficiaries: **1,250**

Haliela
Projects: **03**
Beneficiaries: **257**

Buttala
Projects: **03**
Beneficiaries: **590**



Prajaloka

We improve the living standards of rural farming and other communities by engaging in needs-based infrastructure development projects and capacity building. This includes small-scale infrastructure projects, dengue prevention campaigns in high-risk areas, providing access to irrigation and other infrastructure, and facilitating better agriculture practices, thereby enhancing livelihoods.

Other developments carried out benefitting deserving communities include the following:

- Small-scale infrastructure projects
- Hygiene academy for traders
- Vocational training programmes
- Dengue prevention programmes
- PPE and other equipment to support COVID-19 prevention

88

Projects in 2021

144

Activities from 2019-2020



Pawura

This initiative encourages our employees to come together and volunteer in our CSI initiatives, aligned with the 'Responsible' value of our Ethos.

Over the years, our employees have played a vital role in developing, driving and executing numerous impactful and meaningful CSI projects. In addition to generating sustainable value in communities, this has inculcated a greater sense of social responsibility among our employees, contributing to their overall satisfaction and motivation levels.

Key projects conducted during the year included the following:

- Construction of a bus shelter in Kotahena for community residents and general commuters
- Refurbishment of the Hettiaawatta fire brigade and provision of essential equipment to firemen
- Provision of PPE and ration packs for frontline workers



Divisahana

Through this programme, we aim to support those who have been affected by natural disasters and calamities, by providing essential aid and other forms of assistance that will help them get back on their feet.

– Tsunami relief efforts

We were among the first responders to support affected communities following the Tsunami in 2004, which led to a significant loss of lives, livelihoods and property damage. Our employees' combined efforts helped build over 200 houses for displaced persons island-wide.

– COVID-19 relief efforts

Following the outbreak of the COVID-19 pandemic, we supported affected communities through the distribution of ration packs to over 15,000 persons.



COVID-19 relief projects

896+

Beneficiaries



Disaster relief

280

Beneficiaries

Social



Udaharitha

The Udaharitha initiative aims to support the national agenda of increasing Sri Lanka's forest cover through reforestation and distribution of saplings island-wide.

Sri Lanka's long-term plan is to increase the country's forest cover from 29% to 32% by 2030. We have continued to support these efforts through long-term reforestation projects, tree planting and sapling distribution drives. These programmes typically combine the efforts of our employees, contracted tobacco farmers, and other suppliers.

Key initiatives conducted under Udaharitha are as follows:

- Maintenance of a 123-acre biodiversity site in Matale in collaboration with the University of Peradeniya
- Rehabilitation and continued maintenance of a 12-acre degraded land in Murungahitikanda in Dambulla in partnership with the Department of Forest Conservation
- Distribution of 2,500 jackfruit saplings to the Kottawa Forest Office, to be planted in the Kanneliya Forest Reserve buffer zone. The saplings were grown by our SADP families, thereby providing them with an additional source of income and were then distributed among the volunteers and villagers.

(Refer to page 139 for further information)



In addition to our ongoing projects, we are currently developing a long-term 38-Ha reforestation project in Bulathwelwatte, Embilipitiya with the aim of claiming carbon credits to support the Company's long-term carbon neutrality aspirations.



Human Rights

Ensure that our ethical standards of conduct are not compromised.

BAT Goals

ZERO

child labour and forced labour in tobacco supply chain by 2025

CTC targets and approach

ZERO

child labour and forced labour in our tobacco supply chain to be maintained

We work closely with our contracted tobacco farmers in assessing potential risks of human rights violations across the tobacco supply chain and take proactive efforts to tackle the root causes.

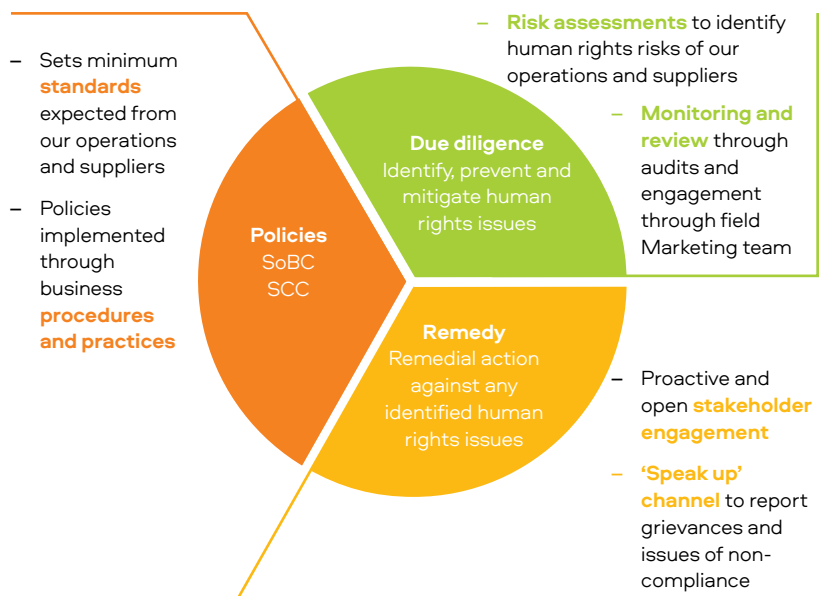
Relevant policies and standards

- Standards of Business Conduct
- Supplier Code of Conduct
- Employment Principles
- 'Speak-up' Channel

We continue to place great importance in adhering to robust human rights practices across our business and are committed to conducting our operations in a manner that ensures that the rights of our employees, business partners, and communities are respected.

We adhere to the Group's stringent policies on human rights, which demonstrate our commitment to conducting operations in a way that respects the human rights of our employees, business partners and communities in which we operate. Our SoBC policy guidelines which cover 'Respect in the Workplace' and 'Human Rights', align to the 'UN Guiding Principles on Business and Human Rights' and the ILO's 'Declaration on Fundamental Principles and Rights at

Work'. Meanwhile, the STP programme along with our SoBC policy set out the minimum standards we expect from our suppliers, including human rights criteria, which are typically incorporated into our contractual agreements. These frameworks ensure the prevention of child labour, respecting freedom of association, and preventing discrimination and harassment at the workplace.



Supply chain assessment

Our Leaf team maintains close engagement with our contracted tobacco farmers. The FSM app covers 100% of our contracted tobacco farmers and includes a self-assessment for child and forced labour, working conditions, health & safety, and fair treatment. Red flags for risks relating to child labour and forced labour allow immediate reporting and prompt action to be taken to remedy the situation. Other suppliers engaging with the Company are expected to mandatorily adhere to the requirements set out in the SCC, which includes assessment criteria on child and forced labour.

Social



Health & Safety

BAT Goals

Ongoing ambitions of :

ZERO accidents Group wide

100% farmers and workers with sufficient Personal Protective Equipment (PPE) for agrochemical use

CTC targets and approach

ZERO

serious workplace injuries and lost time

100%

PPE coverage of all employees

Ensuring a safe workplace for our employees supports their well-being, enabling them to thrive, while enhancing our reputation as a preferred employer. A robust Health & Safety policy and clearly defined governance structures ensure that our guidelines are implemented across the organisation in a cohesive and consistent manner.

Relevant policies and standards

- Standards of Business Conduct
- Supplier Code of Conduct
- Employment Principles
- 'Speak-up' Channel

Health & Safety aspects are governed by the BAT Group's integrated EHS (Environment, Health & Safety) guidelines. A cross-functional EHS Steering Committee, supported by departmental Health & Safety Committees, ensure that these guidelines are implemented across the Company, monitor performance parameters, and identify areas for continuous improvement. Our Health & Safety agenda is based on risk assessment and management, awareness and training, and implementing specific initiatives to mitigate high-risk areas of the business. Health & Safety aspects including the use of PPE, availability of first-aid, medical care, and health insurance are also covered in trade union agreements.





CTC progress and results

ZERO

serious work injuries
and lost days

Rs. 323 Mn

spent on safety initiatives

96%

staff vaccinated



| | |
|----------------------------|--|
| Guidelines and standards | <ul style="list-style-type: none"> – In addition to the guidelines issued by the Sri Lankan health authorities, we adopted the recommendations of the WHO as well as the Global and Regional Health & Safety standards of BAT – Maintained ongoing engagement with local health authorities including the PHIs – Implemented internal protocol to monitor the spread of the virus in Sri Lanka and deployed additional measures including transportation and for employees, where necessary |
| Safety measures/facilities | <ul style="list-style-type: none"> – Daily COVID-19 declaration from all individuals entering the premises – Screening and temperature check at entrance – PPE provided to all employees and third parties entering the premises |
| Work arrangements | <ul style="list-style-type: none"> – Bio-bubble within the factory and departments, based on shift-based rosters and work schedules – Separate functional operations for canteens and washrooms to minimise interaction between departments – 100% of our production and field staff were working on site, while arrangements were made for remote working for 80% of administrative staff |
| Controls | <ul style="list-style-type: none"> – Facilitated vaccinations for employees in partnership with the local health authorities – Random PCR testing and contact tracing – Continuous screening for symptoms during the annual health check |

In addition to the above COVID-19 related safety measures, we continued to strengthen our general Health & Safety standards. With the engagement of several third parties for machinery and solar installation, we ensured that all third parties within our premises maintained strict adherence to our EHS policies and Health & Safety standards, including but not limited to subjecting themselves to random PCR testing and mandatory temperature checks before entering the premises. Accordingly, we conducted safety awareness sessions, medical screening, and provided standardised PPE to ensure the protection of both internal and external parties. We also focused on strengthening vehicle safety, by standardising safety features and conducting ongoing awareness sessions on driver safety.

Social



People & Culture

BAT Goals

2025 goals

45%

Increase the proportion of women in management roles to 45%

40%

Increase the proportion of women on senior leadership teams to 40%

CTC targets and approach

40%

representation of women across Management roles by 2023

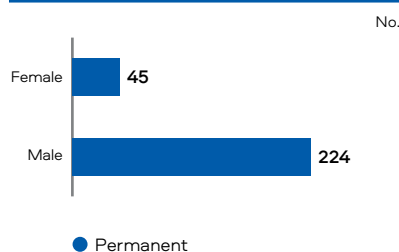
50%

representation of women in Senior Management roles by 2023

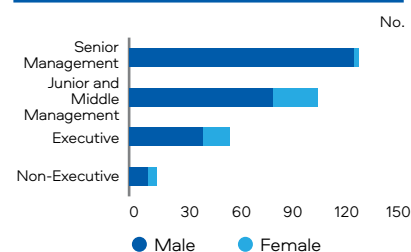
Our talent strategy

We continue to maintain healthy employee retention levels during the year. The unique value proposition we offer employees, including a diverse and open culture, opportunities for overseas exposure and attractive remuneration has enabled us to emerge as an employer of choice, with the ability to recruit and retain the right talent. CTC's retention levels were at a healthy 94% in 2021 and attested to the unique value proposition offered to our employees. We also received the 'Top Employer Certification' for the second consecutive year, awarded by the Top Employer Institute, the global authority on recognising excellence in people practices.

Employees by gender



Employees by category and gender



Profile of new recruits

| New recruits by gender | |
|------------------------|----|
| Male | 14 |
| Female | 9 |
| New recruits by age | |
| 21-30 years | 8 |
| 30-55 years | 15 |

| New recruits by region | |
|------------------------|----|
| Western | 16 |
| Central | 6 |
| Southern | 1 |

Turnover by gender

| | No. | Turnover % |
|--------|-----|------------|
| Male | 15 | 5.6% |
| Female | 13 | 4.9% |

Turnover by age

| | No. | Turnover % |
|-------------|-----|------------|
| 21-30 years | 9 | 3.3% |
| 30-55 years | 9 | 3.3% |

Our people management agenda and HR ways of working are governed by clearly communicated employment principles and robust policies aligned to that of BAT and revised to ensure compliance with local regulations and market practices. The policy framework ensures equal opportunities for all employees, a fair workplace with a climate of openness and responsiveness, accountability, and competitive and equitable remuneration structures.

Relevant policies and standards

- Standards of Business Conduct (which includes Human Rights and Respect in the Workplace)
- Employment Principles
- Diversity & Inclusion policy
- Health & Safety policy

SPOTLIGHT

Our focus

Our strategy for 2021 was formulated in view of the unique conditions that prevailed during the year, which included 100% of production and field staff working on site/field, while 80% of our administrative employees worked from home. Our team's ability to embrace these new realities and adapt to operating with limited face-to-face interaction was a key driver of the Company's performance, contributing towards building a more resilient and agile organisation.

Maintaining morale through unique engagement activities

With the majority of our employees working remotely, we quickly identified the potential risk of employee isolation and demotivation. In addressing this concern, the Company launched the Sports and Aesthetics Engagement Alliance (SAGA) - a unique virtual engagement platform, connecting all employees across departments and structures. Consisting of virtual content, interactive discussions, competitions, and talent shows, SAGA facilitated continued engagement throughout the year, maintaining employee morale and team spirit despite the challenging working conditions. Other ongoing forms of engagement include town hall sessions, digital engagement, and recreational activities.

Mental well-being

Given the potential isolation and stress-related concerns arising from the new work arrangements, we placed significant emphasis on supporting employees' mental well-being. Accordingly, we rolled out a full-scale mental health programme for employees which included:

- Ongoing awareness sessions covering a range of mental health topics including stress management, work-life balance and peer relationships
- Equipping line managers with the tools to identify and support employees who require support
- Providing access to counsellors and psychologists

CTC also successfully concluded the biennial 'Your Voice' survey during the year, recording 100% completion rate and emerging as one of the 1st end-markets within the BAT Group to do so. Survey scores revealed broad-based improvement across all key categories compared to 2019, attesting to the success of the people initiatives launched since then.

Other measures/initiatives held during the year are summarised below:



SAGA introduced a new employee engagement platform, to improve employee connectivity across the Company



Engagement through the Women of Worth (WoW) initiative



Strengthened frequency and depth of engagement with the Executive Committee



Increased employee engagement across multiple internal platforms



Celebration of International Women's and Men's Days



Virtual Kiddies Party

Social

CTC Trade Union

Approximately 33% of our employees are represented by unions and covered by a Collective Agreement, which forms the foundation for harmonious industrial relations with the employees. We continue to maintain a high level of engagement with trade unions, who extend their fullest support in adapting to the significant changes in work arrangements that were made due to the pandemic.

Union Committee - Colombo



Union Committee - Kandy



Social

Talent Development

We strengthened our digital learning propositions during the year offering an array of development opportunities in functional, leadership and technical skills. The launch of the 'GRID' platform, which provides multiple training resources from BAT and other external sources, was a key achievement of 2021. The platform is available to all management and executive level employee grades and provides an opportunity for employees to learn at their own pace. Meanwhile, the 'ED-App' platform was also launched during the year. This mobile-based platform is a global initiative geared towards Marketing teams and include Marketing related learning content curated and customised for the relevant end-markets. Our Leadership trainings such as 'Leading Self' and

'Leading Others' provides employees with an accelerated development experience, enabling them to proactively manage their career. Other ongoing training programmes conducted during the year included IWS related training, the 'Global Graduate Academy' programme, and functional and technical trainings.

Opportunities for cross-border exposure is a key element of our development proposition, and during the year, 10 CTC employees were offered Above Market opportunities, either on short/long-term engagements or global transfers. Meanwhile, 54 employees (including shop floor employees) were promoted, reflecting our commitment to build talent pipelines and nurture the next

generation of leaders. Approximately 82% of the Senior Management team represent Sri Lankan nationals.

Training record in 2021

70

On-the-job training

20

Mentoring and coaching

10

Formal training

Rs. 24.5 Million

Investment in training

17,445

Training hours

Performance management and productivity

Our rewards and remuneration structures are designed to nurture a performance-driven culture and have been formulated to instill the behaviour and attitudes identified in high performing organisations including flexibility, resilience, learning, and personal growth. Employees displaying these behaviours are recognised through our 'Performance Management' system and given increased visibility through various recognition initiatives which serves to showcase their achievements.

Organisational culture

Diversity is one of our key values and is a critical factor for success as we embark on our evolved corporate strategy. Through our engagement mechanisms, governance structures and internal communications, we have strived to nurture a culture that encourages diverse views and innovative thinking. This has underpinned the team's ability to come together and deliver results in challenging times, driving the overall resilience of the organisation.

Diversity and inclusion

Across the BAT Group, end-markets and business functions have adopted diversity action plans to implement the

Global agenda. CTC's strategy centres in ensuring a balanced talent sourcing approach, coaching and mentoring programmes to support development, and providing opportunities for engagement and networking.



Rs. 1.28 Billion

Total remuneration to employees

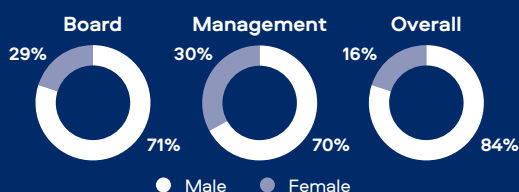
7.7%

Increase in remuneration to employees

Progress and Results

Diversity and inclusion

Representation of women across the Company



Training and development

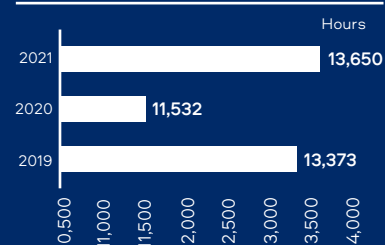
17,445

Total training hours

55 Male **53** Female

Average training hours/
employee

Total training hours



Women of Worth (WoW) initiative

The WoW initiative is a unique platform that provides the opportunity for engagement, networking, and shared experiences. The initiative is driven by a cross-functional team from CTC's female workforce and has contributed towards collectively addressing issues faced by them in their professional careers and personal lives. Engagement initiatives for 2021 were determined based on the needs and interests of CTC's female workforce during this period.

Engagement

Tailored engagement programmes to suit mothers and single and married females, which included round table discussions, virtual game nights and movie date nights

Supporting mental well-being

Interactive sessions on mental health issues faced by women, including stress management and work-life balance. The sessions featured contributions from therapists and psychologists, with whom employees could engage individually as required. This initiative was subsequently rolled out across the organisation.

Recognition

An awards programme was conducted recognising leadership across several key categories, including mentorship and success in traditionally male roles. Winners were selected via a voting process.

Sharing experiences and success stories

In celebration of International Women's Day, several female employees who had excelled in their roles amidst identifiable challenges were invited to share their experience with the rest of the team.

An Impactful Presence

At CTC, we are governed by a suite of well-established policies, procedures and standards, which are increasingly relevant in the complex environment we operate in today.

CTC's achievements in 2021:

100%

compliance to International Marketing Principles (IMP) and Youth Access Prevention (YAP)

Beyond Basics:

Excellence in Corporate Governance programme

100%

compliance to SoBC, 'Speak-up' and other relevant policies



Governance

| | |
|-----------------------|-----|
| Business Ethics | 162 |
| Responsible Marketing | 166 |

Governance

G

We are committed to conducting our operations with the highest degree of transparency, integrity and accountability. This is supported by the BAT Group's best-in-class governance structures, procedures and policy frameworks which have aided in nurturing an ethical, compliance-conscious workforce.



Business Ethics

[See page 162](#)

Approach

Ethical behaviour is a vital element of our culture and we are committed to ensuring that all our employees understand and play a role in nurturing an ethics centred culture

Ambition

- Achieve full compliance to the Company's internal frameworks including the SoBC policy
- Strengthen Board Governance with regular review of policies and procedures
- Achieve full regulatory compliance to the NATA Act and all relevant regulations
- Share corporate governance best practices with Sri Lankan listed entities
- Clearly define governance structures and robust policy frameworks, in line with BAT standards

Performance highlights

- 100% compliance to SoBC, 'Speak-up', and other relevant policies
- Internal Governance Review by the Board
- Zero instances of non-compliance with local laws and regulations.
- Launched 'Beyond Basics': Excellence in Corporate Governance programme
- Stakeholder engagement and rewarding sustainability



Responsible Marketing

[See page 166](#)

We adopt stringent and holistic measures to ensure that our products are marketed responsibly to adult only consumers

- Achieve full compliance to the International Marketing Principles (IMP) and Youth Access Prevention (YAP) guidelines

- 100% compliance to International Marketing Principles (IMP) and Youth Access Prevention (YAP) guideline



Governance



Business Ethics

BAT Goals

Each year, strive for:

100%

adherence to Standards of Business Conduct

CTC targets and approach

100%

adherence to Standards of Business Conduct

'Delivery with Integrity' is BAT's global narrative, which aims to drive a consistent approach to compliance across Group companies. This centres on empowering people to act with integrity by understanding the expectations of ethical conduct and raise concerns whenever they suspect a breach.

Relevant policies and standards

- Standards of Business Conduct
- Supplier Code of Conduct
- Third-party Anti-Financial Crime Procedure
- 'Speak-up' Channel

As part of a global Group, we benefit from our parent entity's best-in-class governance practices. While maintaining our identity as a Sri Lankan corporate, CTC has successfully adopted BAT's policies, principles and standards, thereby aligning with the standards of behaviour expected from companies operating within the BAT Group. We consistently work towards upholding and maintaining strict compliance with all our policies, procedures and guidelines by providing our employees with refresher sessions, trainings, and other communication.

Policy framework

Our SoBC policy clearly articulates the high standards expected from our Directors, employees and third parties working on behalf of the Company. It covers areas such as bribery and corruption, political contributions, money laundering, principles of engagement, and human rights. The SoBC policy requires all staff to act in an ethical and transparent manner with the highest standards of business integrity, in compliance with all applicable laws and regulations to ensure that standards are never compromised for results.

The SCC outlines the minimum standards and commitment expected from contractors and suppliers when engaging with the Company. The SCC includes provisions relating to bribery and corruption, illicit trade, fraud, money laundering, and tax evasion. It includes provision to maintain robust supply chain controls and take appropriate action where there are risks that may be present or identified. The SCC further sets out supply chain controls that should be maintained including

'Know Your Customer' and 'Know Your Supplier' evaluation and approval procedures, tracking and tracing supplies, and training for supply chain entities.

In 2021, the Group rolled out the Third-Party Anti-Financial Crime Procedure (AFC), a holistic standard combining and revising the requirements previously outlined under the Anti-Corruption and Anti-Bribery (ABAC) Procedure and supply chain compliance. The new procedure sets out the Group-wide minimum mandatory steps required for dealings with all third parties, and is designed to assess and mitigate third party risks on bribery and corruption, money laundering, terrorist financing, illicit trade, sanctions, and tax evasion. The risk-based due diligence of all third parties is conducted through an online workflow platform, Coupa Risk Assess (CRA) and each new contracting entity is required to undergo a vendor creation procedure, which is continually assessed and reviewed as per the risk rating of the entity. CTC also adopted the Group's new Gift & Entertainment policy during the year.



Compliance culture

We have always nurtured a strong compliance and control environment through comprehensive policies and procedures, structured governance mechanisms, and ongoing sessions to raise employee awareness. A CTC dedicated compliance resource ensures compliance to the SoBC policy and adherence to all internal policies and procedures at all times. This improves the overall control environment in the end-market. Meanwhile, Heads of key functions are required to annually sign-off on the key controls that are expected to be in place as part of a self-assessment mechanism for internal controls.

The following measures and mechanisms have supported the creation of a compliance-conscious culture within the Company:

Policy cascades

The Company adopted a unique and innovative approach to its policy cascade during the year, creating short videos, quizzes and other interactive events, which were delivered through virtual platforms. This engagement facilitated clearer understanding of the relevant policies, thereby enhancing employee buy-in and compliance.

SoBC app

The SoBC app provides easy access to the SoBC policies, procedures and guidance, improving awareness and understanding.

SoBC policy sign-off

All employees are required to formally confirm their compliance to the SoBC policy every year. During this sign-off, they undergo training and assessment and reaffirm their commitment to the SoBC policy, by disclosing any conflicts of interest with the business.

'Speak-up' channel

The 'Speak-up' channel allows employees and our business partners to anonymously report grievances or non-compliance of the SoBC policy, employment principles or other operational standards. The 'Speak-up' hotline is managed independently and available 24/7, online and via telephone.

Spotlighting best practices

During the year, under the leadership of LEX, CTC enhances employee communication on governance and compliance related aspects by spotlighting new developments, best practices, and other updates.

Membership of Association

The Company holds membership at The Ceylon National Chamber of Industries and The International Chamber of Commerce Sri Lanka.

Digitalisation of compliance

In recent years, we have sought to leverage on technology to simplify and automate compliance-related processes. For instance, compliance reporting including SoBC policy sign-off, 'Gift & Entertainment' reporting, and grievance channels have been fully automated. During the year, CTC also adopted 'Icertis', a BAT-driven initiative, which supports the simplification and consistency of all contracts through a software system.

Project Simplification

We launched 'Project Simplification' during the year, with the aim of increasing agility by digitalising and automating manual processes. In Phase 1, the project involved empowering through delegation, streamlining processes, and enabling faster delivery through digitalisation. Through this initiative, we digitalised the COVID-19 declaration form, implemented an automated safe behaviour observation data entry form, and updated and simplified existing platforms like the 'Travel & Entertainment' platform.

Governance

SPOTLIGHT

Knowledge sharing platform

We collaborated with the CSE in launching 'Beyond Basics': Excellence in Corporate Governance programme, a unique initiative aimed at sharing corporate governance insights and practices with Sri Lanka's other listed entities. Conducted as a 2-part series of online forums, the programme drew over 100 directors and senior management personnel from over 50 listed companies in Sri Lanka. The speakers and the panellists included experienced professionals from the corporate sector and relevant regulatory authorities. Several Independent Non-Executive Directors from the CTC Board, along with Executive Directors, Heads of Functions, and representatives from the LEX department contributed to the forum. The programme provides an effective platform for CTC to share its best-in-class corporate governance practices with its corporate counterparts, contributing to the overall resilience, integrity and transparency of the Sri Lankan corporate sector.

The first session centred on understanding the importance of creating good corporate governance practices to increase investor confidentiality through transparency and accountability. The second session focused on shareholder value creation including the importance of investor relations and communications, as well as the importance of establishing robust business continuity management practices and fostering a respectful workplace.



BUSINESS CONTINUITY MANAGEMENT

'The capability of the organisation to continue delivery of products and / or services at acceptable predefined levels following a disruptive event.'

BCM Strategy

REDUCE

Potential of business interruption occurring

ENSURE

Organisation can react effectively to and deliver a timely recovery

MAINTAIN

(And seek to improve)
Market position in the event of a business interruption



ESG Governance

Clearly-defined governance structures and robust policy frameworks in line with BAT's global standards ensure that our ESG strategy is actioned effectively across the organisation. The Board of Directors holds apex responsibility for the ESG Strategy and focus areas while the CSI Steering Committee is tasked with ensuring that the Company has the required governance systems and procedures in place to identify and appropriately manage environmental, social and governance-related issues, and that the business is conducted in a socially responsible manner. The Committee's scope and mandate was widened during the year from a CSI focus to encompass broader ESG performance, in line with CTC's revamped ESG strategy.

At executive level, the Executive Committee is responsible for overseeing the implementation of the Company's ESG strategy, policies, performance, and controls. The ESG Working Group, representing multi-functional representatives from across the organisation, drives the ESG agenda, combining the efforts of our various teams to achieve our sustainability targets.

Stakeholder engagement

In identifying our ESG focus areas and formulating the Company's ESG strategy, we engaged with a wide range of internal and external stakeholders. This engagement offered us valuable insights on their views and concerns, enabling the Company to appropriately tailor its strategy and approach, as well as procedures and ways of working. A summary of how the Company engaged with its stakeholders and the key topics and concerns identified are listed on pages 124 to 128 of this Report.

Rewarding sustainability

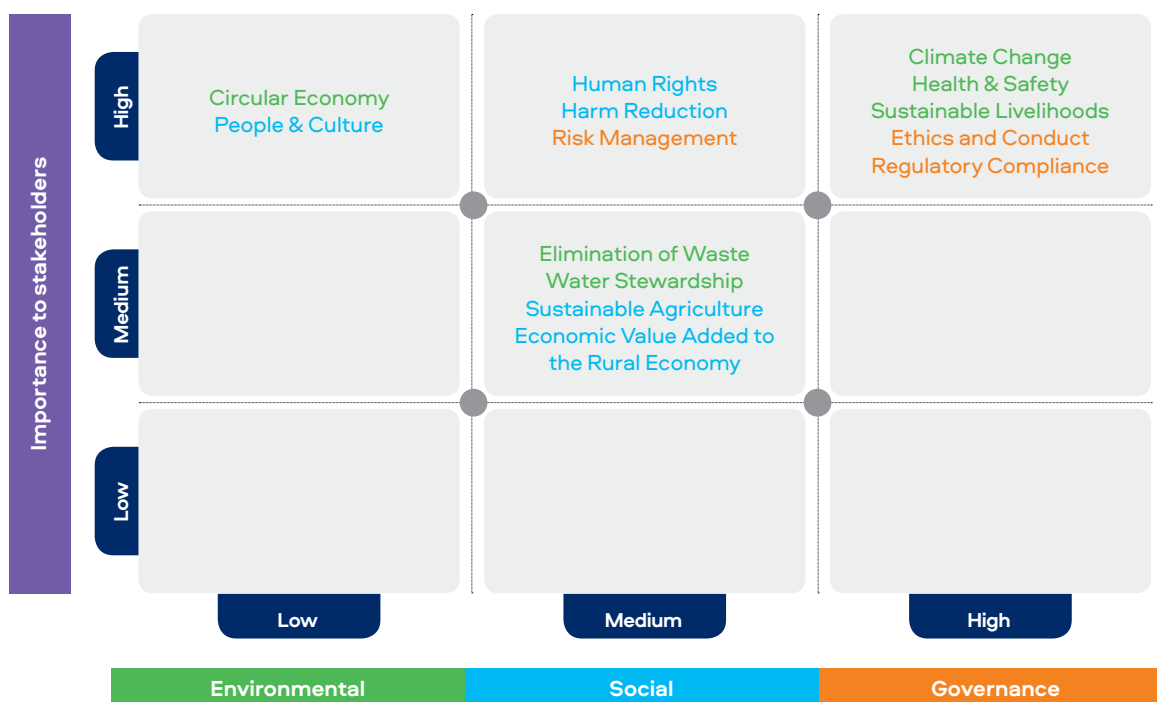
We understand the importance of aligning ESG impacts with long-term shareholder interests and have sought to link ESG performance to Executive

remuneration. Through this, we believe the Executive Committee and relevant operational employees who are responsible for the Company's ESG strategy are more likely to be accountable for the Company's sustainability priorities.

Materiality

The Company conducted a comprehensive materiality assessment, which provided valuable input for identifying its key ESG impacts, priorities and strategy. This robust process included proactive stakeholder engagement, assessment of industry opportunities and risks, and alignment with Sri Lanka's national sustainable development priorities. Emerging issues are also monitored continuously and reported on accordingly.

CTC's Materiality Map (demonstrated below) showcases the Company's material ESG priorities for 2021. Please refer to Appendix A to see how these selected material topics correspond to the topics prescribed by GRI.



Governance



Responsible Marketing

BAT Goals

Each year, strive for:

100%

adherence to International Marketing Principles

100%

adherence to Youth Access Prevention Guidelines

CTC targets and approach

100%

compliance to International Marketing Principles (IMP) and Youth Access Prevention (YAP) Guidelines

Our IMPs provide strict guidance on all marketing aspects and require them to be responsible, accurate and targeted only at adult consumers.

Relevant policies and standards

- International Marketing Principles
- Youth Access Prevention guidelines

Responsible marketing

CTC's marketing practices are regulated by the NATA Act, which sets out clear guidelines on product packaging and labelling, including trilingual text health warnings, TAR and Nicotine content disclosures, and Graphical Health Warning covering the top 80% of the surface area of the front and back of the pack. Internally, we are also bound by BAT's International Marketing Principles (IMP) - which ensure that products are targeted strictly at adult consumers and not designed to engage or appeal to youth. We also conduct mandatory training for employees in ensuring that the IMPs are consistently applied. During the year under review, there were zero instances of reported non-compliance with local laws and regulations.

| International Marketing Principles (IMP) | |
|--|-------------------------------|
| Our Principles | 10 themes |
| Responsible | A Better Tomorrow |
| | Consumer Choice |
| Accurate and not misleading | Adult only |
| | Always Responsible |
| Targeted at adult consumers | Science Assured |
| | Completely Transparent |
| Transparent | Sustainable Future |
| | Effective Partnerships |
| Compliant with all applicable laws | Diverse |
| | Through New Adult Generations |

Youth Access Prevention (YAP)

BAT's global Youth Access Prevention (YAP) Guidelines ensure that individuals under the legal age (21 in Sri Lanka) do not have access to our products. The measures adopted include proof-of-age schemes, mandatory requirements to provide traders with point-of-sale materials with YAP messaging, and ongoing training programmes for traders to uphold minimum age laws. Strict governance mechanisms are also in place to monitor and ensure 100% compliance to the given guidelines.



Appendix

GRI disclosures on ESG material topics

| Material topics and why it matters to us | Relevant GRI Standard | Topic boundary |
|---|--|--|
| Climate change Organisations are being called to action to accelerate their journey carbon reduction journeys, while climate change also presents significant risks for our supply chain and operations | GRI 302: Energy GRI 305: Emissions | Relates to the emissions generated from our procurement, manufacturing, and other operations |
| Health & safety Safety risks continue to be a priority following the emergence of new COVID-19 variants and potential impacts on our manufacturing operations and across our supply chain. | GRI 403: Occupational Health & Safety | Relates primarily to our employees |
| Sustainable livelihoods Ensuring sustainable livelihoods for our contracted tobacco farmers allows us to secure our supply chain while driving our social sustainability aspirations. | GRI 201: Indirect Economic Impacts GRI 413: Local Communities | Boundary extends to contracted tobacco farmers and communities in which we operate and retail |
| Ethics and business conduct Operating with the highest standards of integrity and transparency is not only the right thing to do, but important in managing a range of internal and external risks. | | Refers to the Company's operations and dealings with third parties |
| Regulatory compliance Maintaining 100% compliance to all relevant regulations is vital in managing our risks and preserving our reputation. | GRI 307: Environmental Compliance GRI 419: Socioeconomic Compliance | Relates to the Company's operations |
| Human rights We are exposed to the risk of human rights issues across our supply chain. | GRI 408: Child Labour GRI 409: Forced or Compulsory Labour | Boundary extends across our supply chain and includes contracted tobacco farmers and other suppliers |
| Harm reduction In line with BAT's long-term aspirations, we are committed to considering the reduction of the health impacts of our business. | GRI 417: Marketing & Labelling | Relates to the Company's products |
| Risk management Effectively managing our financial, social, and environmental risks are critical in ensuring commercial sustainability and maintaining our social license to operate. | | Internal and external risks |
| Water and waste We are committed to responsibly managing our environmental footprint, which in turn will ensure access to resources while minimising adverse impacts. | GRI 303: Water GRI 306: Effluents & Waste | Relates to the Company's operations |
| Sustainable agriculture Given that our primary raw material is an agricultural product, driving sustainable agriculture practices is key to ensuring security of supply, while fulfilling our environmental responsibility. | GRI 301: Materials GRI 308: Supplier Environmental Assessment | Boundary extends to our suppliers |
| Value infusion to economy Our 'win-win-win' approach to value creation centres on contributing to the Country's economic growth while driving shareholder value. | GRI 201: Economic Performance GRI 204: Procurement Practices | Boundary extends to external stakeholders including contracted tobacco farmers, suppliers, and other communities |
| Circular economy We believe adopting the principles of circular economy provides opportunities in reducing costs, driving innovation, and offering better value to customers. | | Relates to the Company's operations |
| People and culture Our employees are a critical element of our success and offering them a rewarding and dynamic work environment is a strategic priority. | GRI 401: Employment GRI 404: Training & Education GRI 405: Diversity & Equal Opportunity | Relates to the Company's operations |

GRI Context Index

| GRI Standard | Disclosure | Page number | Omission |
|---|---|-------------|----------|
| GRI 101: Foundation 2016 (does not include any disclosures) | | | |
| General Disclosures | | | |
| GRI 102: General Disclosures 2016 | 102-1 Name of Organisation | 3 | |
| | 102-2 Activities, brands, products and services | 23,25 | |
| | 102-3 Location of headquarters | 111 | |
| | 102-4 Location of operations | 111 | |
| | 102-5 Ownership and legal form | 111 | |
| | 102-6 Markets served | 23 | |
| | 102-7 Scale of the organisation | 4,5 | |
| | 102-8 Information on employees and other workers | 154 | |
| | 102-9 Supply chain | 142 | |
| | 102-10 Significant changes to the organisation and supply chain | 115 | |
| | 102-11 Precautionary principle | 120 | |
| | 102-12 External initiatives | 120 | |
| | 102-13 Membership of associations | 163 | |
| | 102-14 Statement from senior decision maker | 8 | |
| | 102-16 Values, principles, norms and standards of behaviour | 38 | |
| | 102-18 Governance Structure | 38 | |
| | 102-40 List of stakeholder groups | 124,128 | |
| | 102-41 Collective bargaining agreements | 156,157 | |
| | 102-42 Identifying and selecting stakeholders | 124-128 | |
| | 102-43 Approach to stakeholder engagement | 124-128 | |
| | 102-44 Key topics and concerns raised | 124-128 | |
| | 102-45 Entities included in the consolidated financial statements | 68 | |
| | 102-46 Defining report content and topic boundary | 3,14 | |
| | 102-47 Material topics | 168 | |
| | 102-48 Restatement of information | 115 | |
| | 102-49 Changes in reporting | 115 | |
| | 102-50 Reporting period | 3,114 | |
| | 102-51 Date of most recent report | 3,114 | |
| | 102-52 Reporting cycle | 3,114 | |
| | 102-53 Contact point for questions regarding Report | 3,114 | |
| | 102-54 Claims of reporting in accordance with GRI Standards | 114 | |
| | 102-55 GRI context index | 168 | |
| | 102-56 External assurance | 107 | |
| Material Topics | | | |
| Economic Performance | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 8,12 | |
| | 103-3 Evaluation of the Management Approach | 8,12 | |
| GRI 201: Economic Performance 2016 | 201-3 Defined benefit plan obligations and other retirement plans | 73 | |

| GRI Standard | Disclosure | Page number | Omission |
|---|--|-------------|----------|
| Indirect Economic Impacts | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 142 | |
| | 103-3 Evaluation of the Management Approach | 142 | |
| GRI 203: Indirect Economic Impacts 2016 | 203-2 Significant indirect economic impacts | 142 | |
| Procurement Practices | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 124 | |
| | 103-3 Evaluation of the Management Approach | 124 | |
| GRI 204: Procurement practices | 204-1 Proportion of spending on local suppliers | 124 | |
| Materials | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 138,139 | |
| | 103-3 Evaluation of the Management Approach | 138,139 | |
| GRI 301: Raw materials (2016) | 301-1: Raw materials used by weight or volume | 138 | |
| Energy | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 131 | |
| | 103-2 Evaluation of the Management Approach | 132,133 | |
| GRI 302: Energy 2016 | 302-1 Energy consumption within the organisation | 132,133 | |
| | 302-4 Reduction of energy consumption | 132,133 | |
| Water and Effluence | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 136,137 | |
| | 103-3 Evaluation of the Management Approach | 136,137 | |
| | 303-1 Interactions with water as a shared resource | 136,137 | |
| | 303-2 Management of water discharge-related impact | 136,137 | |
| GRI 303: Water 2018 | 303-3 Water withdrawal | 137 | |
| | 303-4 Water discharge | 137 | |
| Emissions | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 131 | |
| | 103-3 Evaluation of the Management Approach | 131 | |
| GRI 305 Emissions: 2016 | 305-1 Direct greenhouse gas (GHG) emissions | 131 | |
| | 305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2) | 133 | |
| | 305-4 GHG emissions intensity | 133 | |
| | 305-5 Reduction of greenhouse gas emissions | 133 | |

GRI Context Index

| GRI Standard | Disclosure | Page number | Omission |
|--|---|-------------|----------|
| Waste | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 134 | |
| | 103-3 Evaluation of the Management Approach | 134 | |
| | 306-1 Waste generation and significant waste-related impacts | 135 | |
| | 306-2 Management of significant waste-related impacts | 134 | |
| GRI 306: Waste 2020 | 306-3 Waste generated | 135 | |
| Environmental Compliance | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 117 | |
| | 103-2 The Management Approach and its components | 130 | |
| | 103-2 Evaluation of the Management Approach | 130 | |
| GRI 307: Environmental Compliance 2016 | 307-1 Non-compliance with environmental laws and regulations | N/A | |
| Employment | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 154 | |
| | 103-2 The Management Approach and its components | 155 | |
| | 103-3 Evaluation of the Management Approach | 155 | |
| GRI 301: Raw materials (2016) | 401-1 Employee hires and turnover | 154 | |
| Occupational Health and Safety | | | |
| GRI 103: Management Approach | 403-1 Occupational health and safety management system | 152 | |
| | 403-2 Hazard identification, risk assessment and incident investigation | 153 | |
| | 403-3 Occupational health services | 152 | |
| | 403-4 Worker participation, consultation and communication on occupational health and safety | 153 | |
| | 403-5 Worker training on occupational health and safety | 153 | |
| | 403-6 Promotion of worker health | 153,155 | |
| | 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships | 153 | |
| GRI 403: Health and Safety 2016 | 403-9 Worker related injuries | 152 | |
| Training and Education | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 158,159 | |
| | 103-2 The Management Approach and its components | 158 | |
| | 103-2 Evaluation of the Management Approach | 158 | |
| GRI 404: Training and education | 404-1 Average hours of training per year per employee | 159 | |
| | 404-2 Programs for upgrading skills and transition assistance programmes | 125,158 | |

| GRI Standard | Disclosure | Page number | Omission |
|---|---|-------------|----------|
| Diversity and equal opportunity | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 154 | |
| | 103-2 The Management Approach and its components | 154 | |
| | 103-2 Evaluation of the Management Approach | 154 | |
| GRI 405: Diversity and equal opportunity 2016 | 405-1 Diversity of governance bodies and employees | 159 | |
| Child Labour | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 151 | |
| | 103-2 The Management Approach and its components | 121 | |
| | 103-2 Evaluation of the Management Approach | 121 | |
| GRI 408: Child Labour 2016 | 408-1 Operations and suppliers at significant risk for incidents of child labour | 151 | |
| Forced or Compulsory Labour | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 151 | |
| | 103-2 The Management Approach and its components | 121 | |
| | 103-2 Evaluation of the Management Approach | 121 | |
| GRI 408: Forced or Compulsory Labour | 408-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour | 127 | |
| Local Communities | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 128 | |
| | 103-2 The Management Approach and its components | 142 | |
| | 103-2 Evaluation of the Management Approach | 142 | |
| GRI 413: Local communities 2016 | 413-1 Operations with local community engagement, impact assessments and development programmes | 143,144 | |
| Marketing and labelling | | | |
| GRI 103: Management Approach | 103-1 Explanation of material topics and its boundaries | 166 | |
| | 103-2 The Management Approach and its components | 166 | |
| | 103-2 Evaluation of the Management Approach | 166 | |
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